

Annual Report

2008

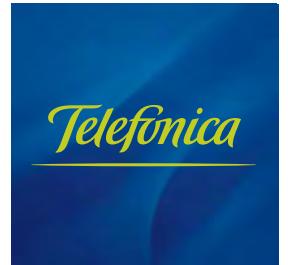
Telefónica

28

Telefónica

Annual Report

2008



Customers

259 million customers accesses

Presence in **25** countries

196 million mobile phone accesses

43 million landline accesses

More than **12** million retail accesses
to Broadband Internet

More than **2** million accesses
to paid television

A **6.92** (out of 10) Customer Satisfaction
rating at the end of 2008

Professionals

257,000 professionals

69% rating on the Employee
satisfaction index

Corporate Responsibility

60,219 employees with training
in Business Principles

More than **1,100** suppliers evaluated
by the Extension of Business Principles
to the Supply Chain

Results

57,946 million euros revenue

64% of revenue comes from
outside of Spain

A net profit of **7,592** million euros

1.63 euros per share of net profit

74,574 million euros of
share capitalization

Social and Cultural Activity

Close to **115** million euros in social and
cultural activities with **40** million people
benefiting from the 2008 initiatives

Some **22,000** employees are
Telefónica Volunteers

Thanks to Proniño **107,602** children have
access to school, contributing to the
eradication of child labour in Latin America

Investment

8,401 million euros of annual
investment (CapEx)

4,614 million euros invested in R+D+I

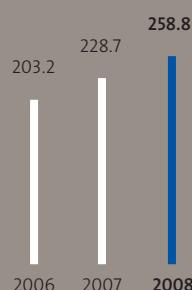
Environment

Commitment to reduce electricity usage
by **30%*** on their networks by 2015

* Kwh/equivalent access

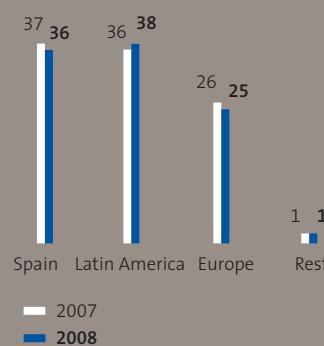
Total Accesses

Millions

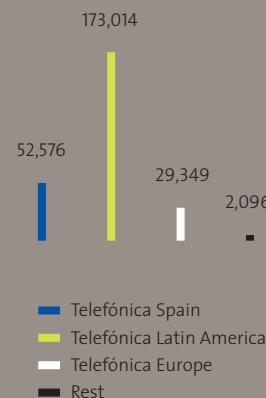


Revenue Distribution by Region

Percentage



Physical Staff by Region



Client satisfaction reaches 6.92 points

Telefónica ended 2008 with 259 million customer accesses

Its intense commercial activity allowed it to increase the number of accesses by 30 million, the equivalent of a year-on-year increase of 13.2%, thanks to advances obtained in mobile telephony, Broadband and pay TV.

The mobile accesses were close to 196 million by the end of 2008, that is 16.6% more than in 2007. Additionally in a mature market like that of fixed line telephony, the Company closed the financial year with 42.9 million accesses, compared to 43.4 million from the previous year. For their part, the wholesale accesses to Broadband Internet were at 12.5 million at the 31st of December 2008, with a year-on-year increase that is close to 21%, boosted by voice package services, ADSL and Pay TV. The TV pay accesses exceeded 2.3 million, which supposes an increase of close to 30%.

At the same time, the Telefónica Client Satisfaction Index (ISC) was at 6.92 out of 10 points at the close of the financial period, compared to 6.77 in 2007¹.

Share profit increased 41.4% in 2008

Telefónica achieved a net profit of 7,592 million euros

The net amount of the business figure (revenue) of Telefónica was at 57,946 million euros in 2008, with a year-on-year increase of 2.7%. The mobile business, with a growing contribution from data, fixed Broadband and Pay TV, is consolidated as the principal motivators of this organic growth.

The free cash flow generated increased to 9,145 million euros; and the net financial debt was reduced by 5.6% to 42,733 million euros. The net profit for Telefónica increased 38% more in comparable terms and the basic net profit per share increased 41.4%² to 1.63 euros.

In the 2008 financial year, 69% of the cash flow generated was allocated to shareholders, which is equivalent to 10% of the shareholding capitalisation of the Company. Furthermore, amongst the Group priorities, it is important to progressively increase the dividend per share.

Telefónica ended the year with a capitalisation of 74,574 million euros, occupying fourth place amongst companies in this sector worldwide.

The Employee Satisfaction Index increased to 69%

Telefónica gives direct employment to 257,000 professionals

Last year, the physical staff of the Company increased by 3.4%. The area of greatest growth, close to 5.3% was Latin America, which team already represents 67% of the total. Spain is, with 20%, the second region for the size of its team and Europe makes up 11%.

Atento was, with more than 132,000 employees, the company which has the greatest number of professionals in the Group.

To the direct jobs can be added about 330,000 indirect positions belonging to collaborating companies.

The Employee Satisfaction Index of Telefónica professionals during the last financial year improved 3 points, according to the survey on work environment in which 70.4% of employees participated.

The Company objective is to be the best place to work. For this they are supporting the project 'Promise to the Employee', with four pillars of action: improve employee satisfaction by offering them an optimal work environment; consolidate a culture of high performance; behave like an international company and share talent.

¹ The data of the global ISC have been adjusted as a consequence of the homogenisation project of the measurement methodology over the whole group. This project allowed the scale and the questions on satisfaction to be joined, amongst other things.

² Excludes the impact from share sales (Airwave, Endemol and Sogecable) in both periods, as well as the Grupo Telefónica shareholding in the reorganization of the Telco S.p.A. company, as well as on their shareholding in Telecom Italia.

² On 25/02/09.

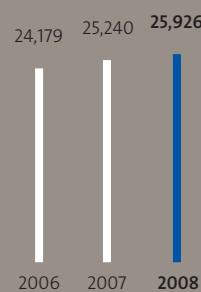
Investment in Technological Innovation (R+D+I)¹

Millions of euros

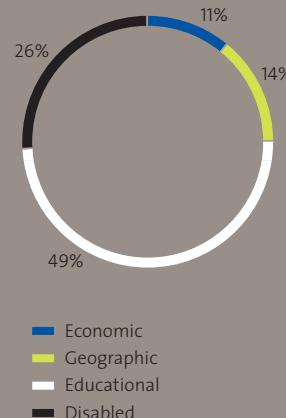


Sales volumes

Millions of euros



Inclusion incentives per type of divide



4,614 million dedicated to Technological Innovation, that is 5% more

Telefónica CapEx in 2008 increased to 8,401 million euros

In 2008, the Group emphasised the deployment of fibre, the development of mobile Broadband and transformation of the network to gain efficiency.

Their investment in R+D+I¹ was 4,614 million euros, 5% more than in 2007. Specifically, the effort in R+D increased to 668 million euros, an increase of 12.5%.

The Company pushed their innovation collaboration models: support to technological companies via Movilforum; the acquisition of minority shareholdings in innovative companies like Loomia; *Living Labs* to count on the experience of the users to carry out services, etc.

At the same time, the Business Divisions of Telefónica have been innovating in order to launch TV services, increase the possibilities of new Broadband networks, etc.

Telefónica Research and Development maintained itself as the most important R+D private company organisation in Spain, with over 211 million euros of activity in 2008. The company participates in more than 200 projects with nearly 1,000 organizations, including more than 150 Universities.

More than 30,000 suppliers awarded in 2008

Telefónica awarded more than 25,926 million euros to their suppliers

The Network infrastructures, Services and Works, Market Products (including customer devices, highlighting mobile terminals) represent 80% of the Company purchases.

The top ten main suppliers by amount spent were: Nokia, Sony Ericsson, Ericsson, Nokia Siemens, Huawei, Samsung, Apple, Alcatel Lucent, Motorola and LG.

In 2008 Telefónica promoted electronic dealings, which exceeded 18,000 million euros (34,410 deals). The electronic sales platform of the Company exceeded 18,000 providers – 12% more than the previous year – from 18 countries in Europe and Latin America.

Electronic processing operations amounted to 7,406 million euros in 2008, and advanced the deployment of the electronic invoice with suppliers (18,000 invoices were submitted in Spain).

On the other hand, in 2008, Telefónica intensified their collaboration with Telecom Italia and China Unicom interchanging the best practices in procurement processes and systems and carrying out purchases together with the relevant suppliers.

More than 60 initiatives carried out

Telefónica invested more than 370 million euros¹ to reduce the digital divide

The Company designated 275 million euros to Universal Service Funds; nearly 15 million to training in Information and Communication Technology and more than 80 million in projects to reduce the economic and geographic divide.

In total Telefónica carried out more than 60 digital inclusion projects in 2008. The ‘Extension Plan for Rural Broadband’ in Spain; the ‘2008 Coverage’ programme in Ecuador; or ‘Include me’ in Peru are some examples. Also in Spain, coverage of rural settlements was increased to 87% compared to an average of 70% in the European Union; and in Ecuador mobile coverage in suburban and rural areas and the road network reached 87.2%.

At the close of the financial year, Telefónica had more than 6 million prepaid fixed lines consumer controlled in Spain and Latin America; and in the latter region more than 82% of their 123 million clients for mobile services used prepaid products.

In 2008, more than 230,000 people benefited from Telefónica training programmes to reduce the educational divide.

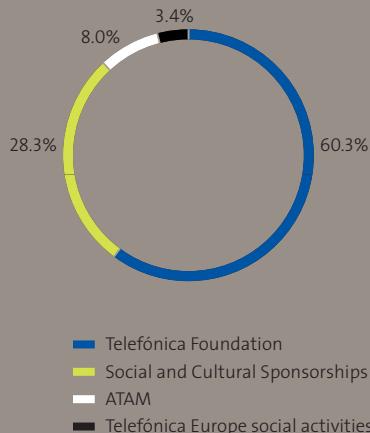
¹ Investment in technological innovation calculated in accordance the criteria established by the OCDE.

¹ 104 million euros correspond to the net cost for 2007 for the Universal Service by Telefónica Spain.

Employees trained in Business Principles¹



Investment in social and cultural activities



Telefónica's carbon footprint

Thousands of tonnes of CO₂



More than 1,100 suppliers assessed for CR during the last financial period

60,219 employees¹ received training in the Business Principles

By 1st March 2009, close to 50% of professionals had been trained in the ethics code, with the objective of reaching one hundred percent in 2011.

The Business Principles channels at the disposal of the employees, received a total of 169 communications in reference to their interpretation and application. Also as a consequence of investigations for possible deviations from the Principles, 358 interventions were carried out to ensure compliance.

As part of the application of their Extension of Business Principles to the Supply Chain, the Company carried out more than 1,100 evaluations of suppliers 10% over the objective planned for the first year, and 55 audits.

Additionally they approved internal policies on Data Protection and Risk Management, and defined the basic lines for the Promotion of Integration of Disabled people into the Workplace. The Company will deploy ten policies in full force over the next three years.

Fundación Telefónica benefited more than 40 million people

Telefónica allocated close to 115 million euros to social and cultural projects in 2008

Investment increased 23% compared to 2007, according to the LBG international methodology. A year later the initiatives centred on improving education and promoting equal opportunities.

The Fundación Telefónica, the pillar of social and cultural action of the Group, invested nearly 70 million euros in 3,565 projects. The Foundation carried out five large transnational programmes: EducaRed; Proniño; Telefónica Volunteers, with 21,807 employees; Debate and Understanding, as well as Art and Technology. They are present in 8 countries: Argentina, Brazil, Chile, Columbia, Spain, Mexico, Peru and Venezuela and it reaches 14 with some programs. Amongst the most notable milestones of 2008, the 107,602 children schooled by Proniño should be mentioned, 103% more than the previous year, to contribute to eradicating child labour in Latin America.

Other projects are being carried out via social and cultural sponsorship, with an investment of 32 million euros in 2008; ATAM, the Telefónica association aimed at increasing quality of life for disabled people, to which 58,226 employees belong; and the activities of Telefónica Europe.

In 2008 electric consumption decreased by 5%¹

Telefónica commits to reduce electricity consumption by 30%¹ on its networks by 2015

In 2008, the Company also announced that it would cut electrical consumption in its offices by 10% by 2015. This will considerably decrease Greenhouse Gas Emissions globally.

Telefónica created its Climate Change Office with a twin objective. The first, focused on the reduction of energy consumption in Group operations, by means of energy efficiency activities, and the second, directed at the development of business opportunities by means of products and services that allow other sectors to be more efficient.

The climate change strategy is based on 5 core activities: Operations, Suppliers, Employees, Customers and Society.

The Operation core is in charge of promoting energy efficiency on networks and systems, as well as promoting the use of renewable energies. The Suppliers core seeks to include energy efficiency requirements in the acquisition processes for products and services for the whole Group. The Employee core creates a culture that is focused on an adequate use of resources. The Customer core boosts the use of products and services which allow other sectors to reduce their energy consumption and greenhouse gas emissions. And the Society core works to position Telefónica as a telecommunications company that is a leader in the fight against climate change.

¹ Employees trained as of 1st March 2009. Teleoperation personnel are excluded.

² Includes container business, tgestiona and others.

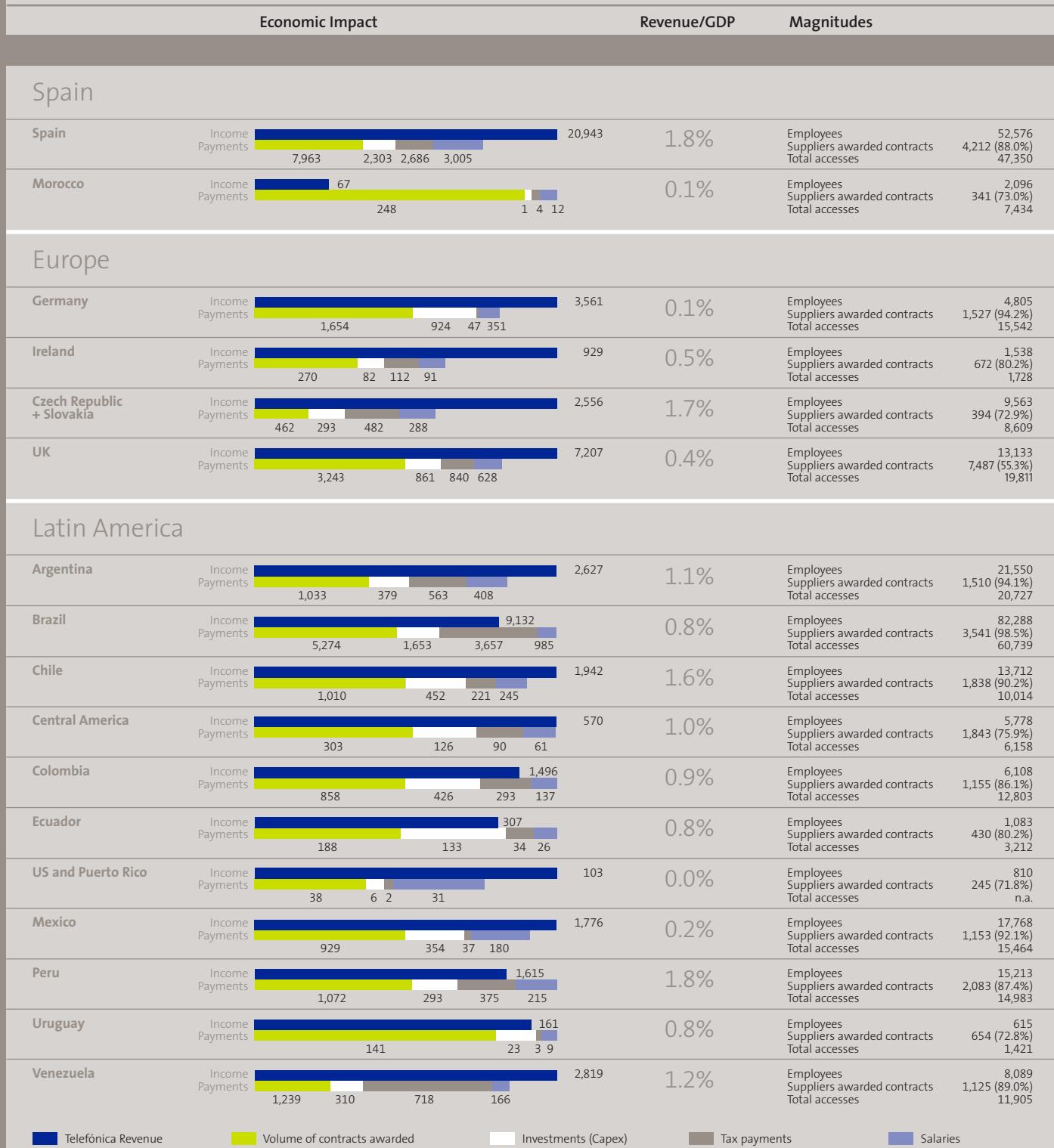
¹ Telefónica Europe counted on about 1,000 volunteer employees in 2008.

¹ Kwh/equivalent access.

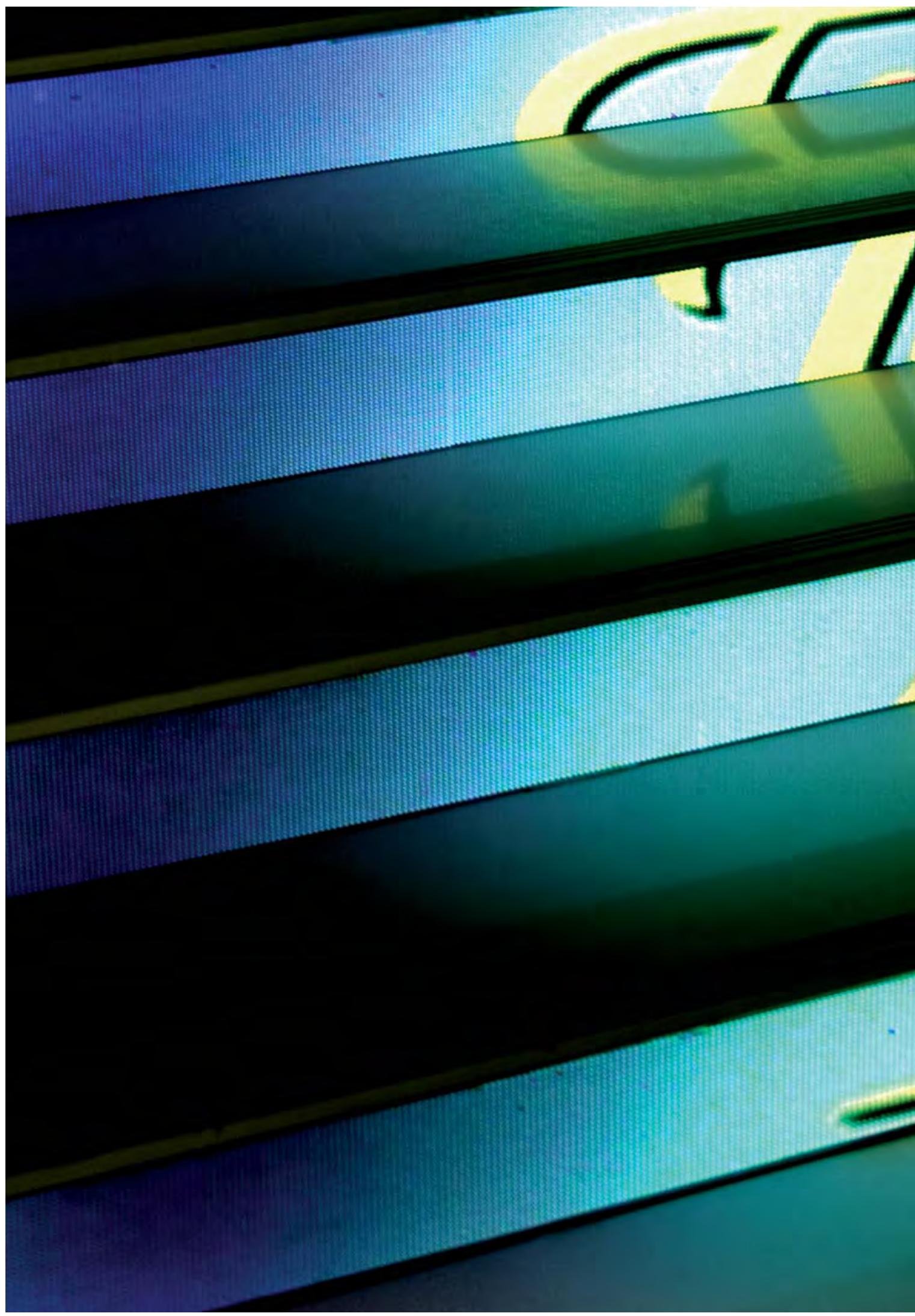
² Kwh/No. of employees.

Driving force for progress

Contribution towards progress



- Economic data in millions of euros (revenue, personnel costs, payment of taxes, purchases and investments (CapEx))
- Revenue amounts: consolidated revenue amounts corresponding to all the business units of Telefónica in the country.
- TEF/GDR Revenue: ration between Telefónica revenue (contribution from the country to the revenue consolidation of the Telefónica Group) and the estimated GDR for the country (Source: FMI).
- CapEx amounts in current euros.
- Employees: Direct employees of the Telefónica Group in the country (physical staff at 31st December 2008).
- Suppliers: Number of suppliers that were selected in the country in 2008. The % of local suppliers represents the % of the awards made to suppliers based in the country over the total volume awarded in the country.
- Accesses: equals the number of fixed + mobile + Broadband + Paid TV accesses (units in thousands).





Contents

04 Letter from the Chairman

08 International presence

10 Group description

11 Group structure

12 Board of Directors

13 Management team

14 Our current activities

Current panorama. ICT at the centre of the solution **16**

20 Telefónica, better placed than ever

For its economic impact

Customers* **22**

Satisfaction index **23**

Share value **24**

Results **26**

Products and services **28**

Innovation **30**

Infrastructures **32**

For its social impact*

Employees **34**

Employee satisfaction **35**

Suppliers **36**

Digital inclusion **38**

Driving force of progress **40**

Business Principles **42**

Social and cultural action **44**

For its environmental impact*

Climate change **46**

48 Strategy

56 Results

120 Risk management

126 History

130 Chronology

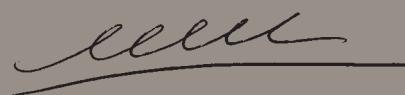
* These chapters extend the 2008 Annual Report for Corporate Responsibility for the Company. As such the information referring to social and cultural activities being carried out by the Telefónica Foundation appears in the Annual Report.

Letter from the Chairman



Telefónica also maintains a determined commitment for ensuring that its networks are efficient in terms of power consumption and that environmental aspects are managed responsibly in all its operations, creating a culture of sustainability within the Company. A clear example of this is that our own headquarters have the largest solar platform on the roof in all of Europe and one of the biggest in the world. Telefónica also works for increasing power efficiency in its customers' operations through ICT, a key tool in the reduction of polluting emissions.

Thank you again on behalf of Telefónica and its Board of Management for your support and confidence.



César Alierta Izuel
Chairman of Telefónica, S.A.

The Telefónica of the future

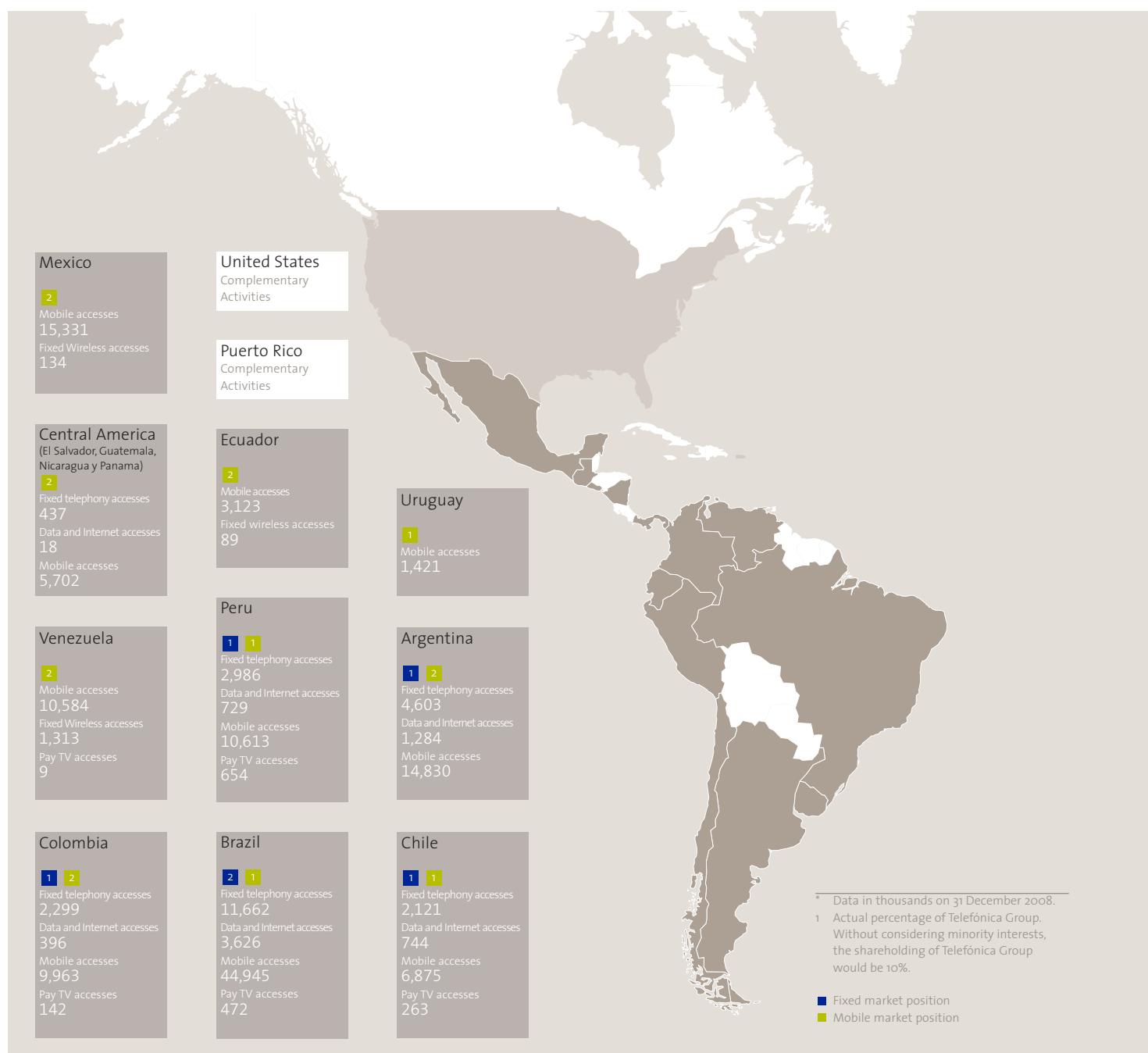
Nobody is better placed than Telefónica to face the challenges of the future. All in all, and with our recognized team of professionals, I am confident in telling you, certainly and with no arrogance, that we are certain to have, in the present context, the opportunity to emerge stronger. There is no doubt at all that Telefónica will have a more and more decisive role in the future of telecommunications and digital services, in particular, and of the global economy in general. This is a leadership responsibility that we welcome with enthusiasm and that we will meet with high standards and effort.

International Presence

Telefónica offer services in
21 countries and has an
additional presence in 4 others

Telefónica is present in 25 countries

In geographical terms, the Company possesses an ideal revenue distribution:
in 2008 they obtained 36% of revenue in Spain, 38% in Latin America, 25% in
Europe and 1% in the other markets.



Present in
25 countries

196 million

mobile
acceses

43 million

fixed telephony
acceses

Over
12 million

broadband
acceses

Over
2 million
pay TV
acceses

259 million

customer
acceses

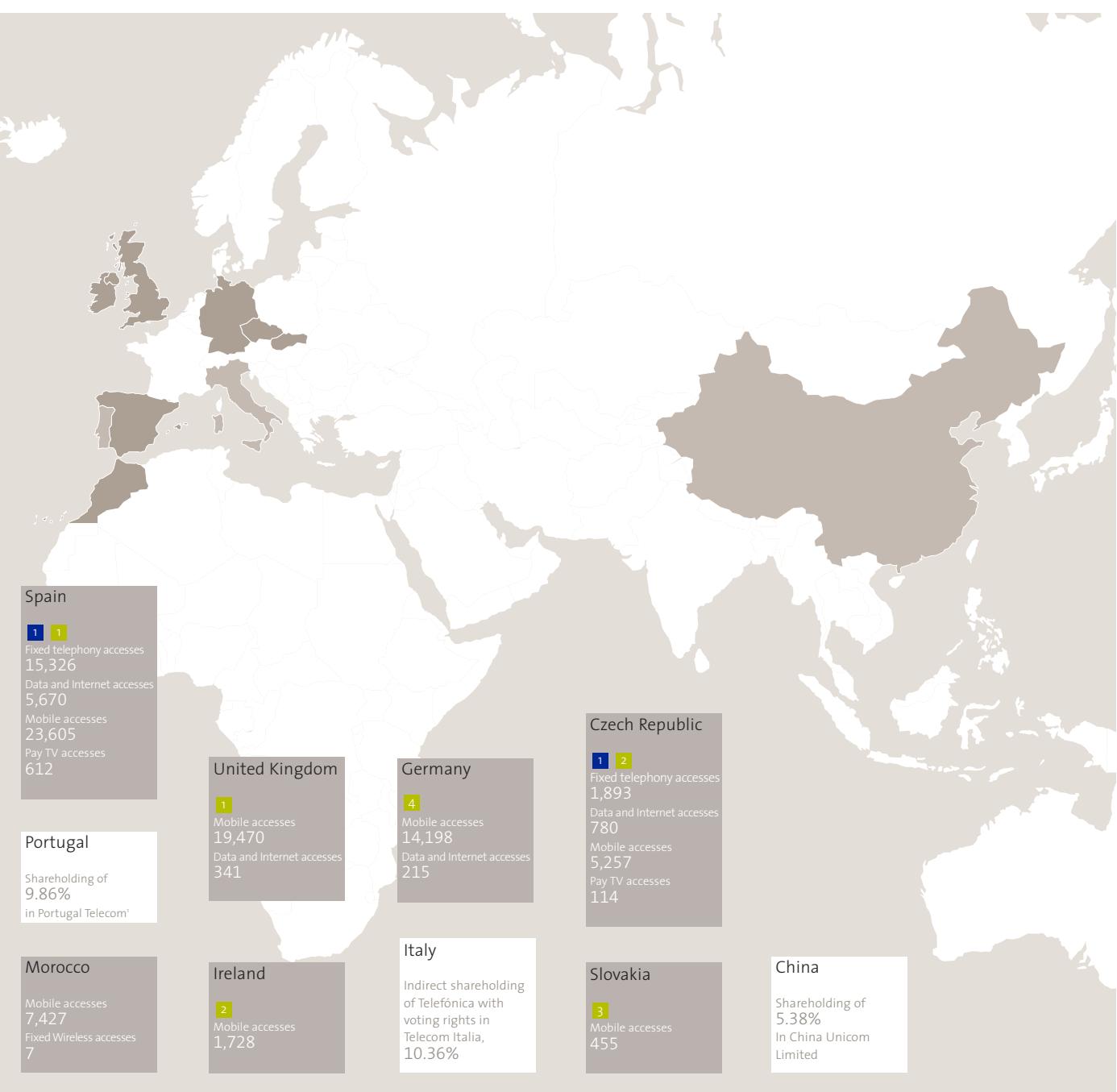
57,946 million

euros in revenue

64% of revenue
generated outside
Spain

4,614 million
euros invested
in R+D+I

Over
257,000
professionals



Group Description

The Company's organisational structure promotes its scale and diversity as competitive advantages in the sector

Telefónica is organised structurally in three geographical regions: Spain, Latin America and Europe

During 2008, the Group consolidated its Multilocal Management model to take maximum advantage of shared business models and differential capacities.

Organisational profile

Corporate Centre

Telefónica's Corporate Centre is responsible for defining global and organisational strategies, corporate policy, management of joint activities and coordinating the business units. During 2008, it reinforced its commitment to these units by carrying out a reorganisation that resulted in the creation of two business divisions: the first dedicated to innovation, with the aim of helping to increase revenues; the second dealing with transformation in order to increase efficiency.



Julio Linares, Chief Operating Officer of Telefónica S.A.

Telefónica España

The activity of Telefónica España, which is concentrated in maximum value sectors, extends to fixed telephony services (including pay TV), mobile telephony and Broadband and includes investments in Morocco (via Meditel).

Telefónica Latinoamérica

Telefónica Latinoamérica operates in 13 countries, offering fixed and mobile business telephony, internet, Broadband and pay TV: Argentina, Brazil, Chile, Colombia, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru, Uruguay and Venezuela. In addition, Telefónica International Wholesale Services provides wholesale telecommunications services worldwide. This catalogue of services includes Voice, Capacity, IP, Satellite, Corporate and mobile services, providing connectivity between Latin America, United States and Europe over an optical fibre network. Finally, Telefónica is carrying out complementary activities in Puerto Rico and United States.

Telefónica Europe

The activity of Telefónica Europe centres on fixed and mobile telephony and Broadband in Europe and it operates in the United Kingdom, Ireland, Germany, Czech Republic and Slovakia. In these markets Telefónica operates under the O2 brand.

Telefónica O2 Europe plc was renamed Telefónica Europe plc on 1 June 2008. Two years after its acquisition, this change is part of the natural process of integration into Telefónica. Thus, the name form of the companies operating in all regions now has the same structure - Telefónica España, Telefónica Latinoamérica and Telefónica Europe.

Partnerships and other shareholdings

Telefónica is present in China, Italy and Portugal, by means of shareholdings in China Unicom, Telecom Italia, and Portugal Telecom, respectively.

Other companies

Atento provides customer care services through contact centres. Its operating platforms are present in Spain, Argentina, Brazil, Central America, Chile, Colombia, US, Morocco, Mexico, Peru, Puerto Rico, Czech Republic, Uruguay and Venezuela.

tgestiona offers comprehensive management support services in the areas of financial administration, HR, property, logistics and distribution; process consultancy and ERP; and back office integration. It is present in Spain, Argentina, Brazil, Chile and Peru.

Telefónica R+D, which is dedicated to technological investigation, is the leading private R+D centre in Spain in terms of activities and resources. It leads Europe in participation in European research projects and in the ICT sector. It operates in Spain, Brazil and Mexico.

Integrated Multilocal Management model

Telefónica's structure aims to maximise the value of its different operating levels: global, regional and local. Its organisational model is focused on: allowing the customer to take centre-stage; promoting innovation to generate revenues; and maintaining the transformational path. All of these are aimed at making the Company more efficient and upholding excellence when carrying out its operations.

Group Structure

Above all, 2008 was characterised by the increased presence of the Company in Telefónica Chile

The Telefónica Group's main shareholdings

The Company, which is present in 25 countries, bases its organisational model on three regional business units and possesses strategic and industrial alliances in China, Italy and Portugal

Telefónica España

	% Part
Telefónica de España	100.00
Telefónica Móviles España	100.00
Telyco	100.00
Telefónica Telecomunic. Públicas	100.00
T. Soluciones de Informática y Comunicaciones de España	100.00
Iberbanda	58.94
Medi Telecom	32.18

Telefónica Europe

	% Part
Telefónica O2 United Kingdom	100.00
Telefónica O2 Germany ¹	100.00
Telefónica O2 Ireland	100.00
Manx	100.00
Be	100.00
Group 3G (Germany) ²	100.00
Telefónica O2 Czech Republic ¹	69.41
Telefónica O2 Slovakia ³	100.00

¹ Company owned through Telefónica S.A.

² Company owned through Telefónica O2 Germany.

³ Company owned through Telefónica O2 Czech Republic.

Telefónica Latinoamérica

	% Part
Telesp ¹	87.95
Telefónica del Perú	98.18
Telefónica de Argentina	98.20
TLD Puerto Rico	98.00
Telefónica Chile ²	96.75
Telefónica Telecom	52.03
Telefónica USA	100.00
T. Intern. Wholesale Serv. (TIWS) ³	100.00
Brazilcel ⁴	50.00
T. Móviles Argentina	100.00
T. Móviles Perú	98.63
T. Móviles México	100.00
Telefónica Móviles Chile	100.00
T. Móviles El Salvador	99.08
T. Móviles Guatemala	100.00
Telcel (Venezuela)	100.00
T. Móviles Colombia	100.00
Otecel (Ecuador)	100.00
T. Móviles Panamá	100.00
T. Móviles Uruguay	100.00
Telefonía Celular Nicaragua	100.00
T. Móviles Soluciones y Aplicac. (Chile)	100.00

Other holdings

	% Part
3G Mobile AG (Switzerland)	100.00
Grupo Atento	100.00
Telefónica de Contenidos (Spain)	100.00
Mobipay Internacional	50.00
Telco SpA (Italy) ¹	42.30
IPSE 2000 (Italy) ²	39.92
Mobipay España ²	13.36
Lycos Europe	32.10
Hispasat	13.23
Portugal Telecom ³	9.86
China Unicorn Limited (Hong Kong, China)	5.38
ZON Multimedia ⁴	5.40
BBVA	0.97
Amper	6.10

¹ Telefónica holds an indirect stake of ordinary share capital (with voting rights) in Telecom Italia through Telco of 10.36%. If we take into account the saving shares (azioni di risparmio), which do not have voting rights, the indirect participation of Telefónica over Telecom Italia would be 7.15%.

² Ownership directly or indirectly held by Telefónica Móviles España.

³ Telefónica's Group effective stake Telefónica Group stake would be 10% if we exclude the minority interests.

⁴ Telefónica's Group effective holding. Telefónica Group holding would be 5.46% if we exclude minority interests.

¹ Effective participation 88.01%.

² Telefónica Internacional de Chile S.A. owns 44.89% and Inversiones Telefónica Internacional Holding Ltd. owns 51.86%. On 9 January 2009 the second takeover offer was completed increasing Telefónica Group participation over the Chilean company to 97.89%.

³ Telefónica, S.A. owns 92.51% and Telefónica DataCorp owns 7.49%.

⁴ Joint Venture which fully consolidates the subsidiary Vivo, S.A., through shareholding in at Vivo Participações, S.A. (63.73%).

Board of Directors

Their attention is focussed on two key areas for the Company: innovation and strategy

During 2008, Telefónica created two new consultation committees to reinforce its system of corporate governance

The Board of Directors of Telefónica, S.A. has set up eight Consultation or Control Committees, in support of its functions and fields of responsibility and which are charged with examining and monitoring key areas.

The Board of Directors of Telefónica, made up of 17 Directors*, is the Company's supervisory body, monitors its activities and has exclusive responsibility in matters concerning policy and general strategies related to corporate governance, corporate social responsibility, salaries of Directors and senior managers and shareholder's

return; these responsibilities extend to strategic investments.

Similarly and in accordance with its regulations, the Board mandates the day-to-day management of the business to the executive bodies and management team of Telefónica.

The Company has more detailed information on this subject in the Annual Report on Corporate Governance and in the report on the Compensation Policy of the Board of Directors. These documents can be inspected at www.telefonica.com/shareholdersandinvestors

* January 2009

Composition of the Board of Directors and its Committees

	Type of Director	Executive Comission	Audit and Control Committee	Nominating, Compensation and Corporate Governance Committee	Human Resources, Corporate Reputation and Responsibility	Regulation Committee	Service Quality and Customer Service Committee	International affairs Committee	Innovation Committee	Strategy Committee
César Alierta Izuel (Chairman)	●	●								
Isidro Fainé Casas (Vice Chairman)	●	●								
Vitalino Manuel Nafría Aznar (Vice Chairman)	●		●		●	●		●		
Julio Linares López (Chief Operating Officer)	●	●							●	
José María Abril Pérez	●	●						●		
José Fernando de Almansa Moreno-Barreda	●				●	●	●	●		●
José María Álvarez-Pallete López	●									
David Arculus	●				●		●			
Maria Eva Castillo Sanz	●								●	
Carlos Colomer Casellas	●	●		●			●		●	
Peter Erskine	●	●		●	●			●	●	●
Alfonso Ferrari Herrero	●	●	●	●	●	●	●	●		
Luiz Fernando Furlán	●							●		
Gonzalo Hinojosa Fernández de Angulo	●	●	●	●	●		●	●		●
Pablo Isla Álvarez de Tejera	●			●	●	●	●	●		●
Antonio Massanell Lavilla	●		●		●	●	●	●		●
Francisco Javier de Paz Mancho	●	●			●	●	●	●		
Non Director Secretary										
Ramiro Sánchez de Lerín García-Ovies										
Non Director Vice Secretary										
Maria Luz Medrano Aranguren										

● Executive

● Director representing major shareholders

● Independent

● Other external directors

Management Team

It has specific managers for the fixed and mobile businesses in each region

The Company consolidated its organisational structure in order to concentrate on the customer and efficiency

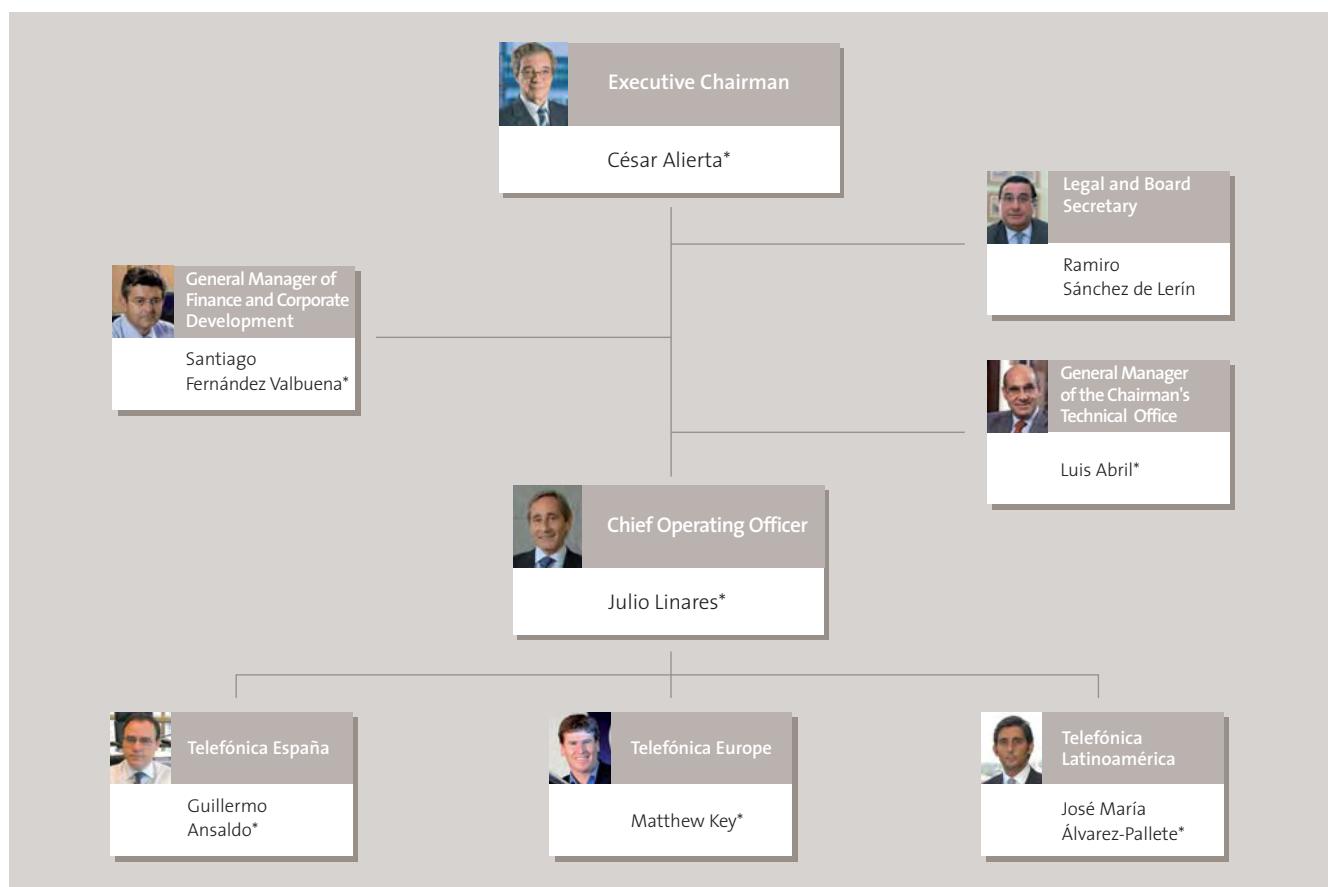
In order to stimulate evolution of the business and to improve aspects such as quality, Telefónica has created the Innovation and Transformation Business Divisions.

The organisational strategy of Telefónica seeks to take advantage of economies of scale and to focus more on customers: it includes three regional business divisions (Telefónica España, Telefónica Europe and Telefónica Latinoamérica) which report

directly to the Chief Operating Officer; whom in turn reports to the Executive Chairman of Telefónica.

In addition to the COO, the General Manager for Finance and Corporate

Development and the two General Secretariats: the Legal and Board Secretariat and the Technical Secretariat attached to the Chairman's office, which in 2008 became a part of the Executive Committee, report to the Executive Chairman.



* Members of the Executive Committee

In 2008, in order to spur growth and the transformation of the Company, two new divisions were created: the Innovation division, in order to contribute to business development and as a consequence,

increase the revenue; and the Transformation division that will increase management efficiency. These divisions are integrated within the Operative Committee which is made

up of the Chief Executive; General Regional Directors; Director of Transformation and Director of Innovation.

Our current activities

16 Current panorama. ICT at the core of the solution



Current panorama. ICT at the core of the solution

Information and Communications Technologies are an economic and social driving force

The world is changing rapidly: new challenges are coming to the fore; people's habits and company needs are changing; new opportunities are emerging for companies in the telecommunication sector...

Information and Communication Technologies are a daily part of our lives...

The use of the mobile telephone has become widespread. In developed countries, customer penetration already exceeds one hundred percent^{1,2}, and users are demanding new functions: mobile video, mobile television, instant messaging etc. In all countries, current and expected growth in the next few years is significant. Even though only one in every two people has a mobile phone, there are now more than 600 million Chinese citizens who use them on their daily basis³.

In Spain, 95% of companies have Broadband Internet access and over a half have their own corporate website (2008). Over 25% of income tax returns in 2008 were filed online. 87% of educational centres already have Broadband access to Internet⁴.

Users are quick to assimilate new habits.
Many current users have already acquired a habit which is becoming more and more common: remaining connected at all times. They do this by using multiple means: telephone, computer, smartphone, etc and other technologies.

Many of them, especially the younger ones, naturally take for granted and exercise their innate multitasking capacity: for example they can answer the telephone while navigating the Internet or writing an email.

They are also aware of the great offers available on the Internet at the click of a mouse and they demand and select tailor-made quality solutions.

Devices are becoming ever more powerful and offer new functions.

Devices for individual and family use are much more powerful than those offered only a few years ago. Smartphones such as the iPhone and similar devices, netbooks or Connected TV offer an increasing array of functions to users and new possibilities for operators.

From a pocket device such as the iPhone, a user may simply and safely carry out purchases and electronic transactions or connect and converse with other members on social networking sites while they are receiving personalised media messages.

...These ensure that the world is ever more interconnected...

The user is no longer just a consumer; s/he is also a content creator. The number of blogs has grown exponentially over recent years to reach a figure of 130 million by the end of 2008.

Users of social networks are increasing rapidly. The number of Facebook users multiplied by 8 in 2 years reaching more than 100 million in December 2008. In Spain 83% of young Spaniards use social networks⁵.

China, with only 18% penetration, is now the country with the largest amount of Internet users in the world. India with a 5.4% penetration is fourth⁶.

The quantity of digital contents will continue to increase and it will be possible to store them in their entirety.

People's digital lives will continue to be ever more intense. Digital contents are expected to increase tenfold between now and 2011 and will reach the figure of two zettabytes (two billion gigabytes) in 2016. The cost and size of storage media will significantly decrease over the next few years (they will become fifty times smaller between 2007 and 2015) and it will be possible to store everything that we hear, see, say and do.

In Europe the information carried by operators multiplied six fold in the period 2002-07 and has reached 16 Exabytes (1 Exabyte = 1,000 million Gigabytes)⁷.

...and that communication services will be ever more essential...

Electronic mail is an essential work tool for most people. Young people, however, prefer instant messaging and social networks. Nearly all of us require rapid and simple access to search engines as well as Internet applications to cover our information needs.

For many users it is natural to have access and listen to any version of any song that has ever been composed, instantly. Television is also evolving thanks to new ICT applications and services. Not only high definition and 3D television, but also personalised TV by which users who are connected will also be able to contact each other.

However, the company still has some challenges left to tackle, which ICT could help to solve...

...education

The options to develop business models based on ICT for education and the social impact that this involves are evident. The following data shows this:

- In Nordic countries, 90% of educational centres have a Broadband Internet connection. On the other hand, Greece, Poland, Cyprus and Lithuania have the lowest penetration of the European Union 25 (less than half of the average 70%)⁸.
- The European average is 1 computer for every 9 students. In Denmark, Holland, the United Kingdom and Luxembourg 4 or 5 students share a computer; and in Latvia, Lithuania, Poland, Portugal and Greece each computer is shared by 17 students⁸.
- 74% of the 4,475,000 European teachers have used ICT in the classroom over the past year. In Lithuania and Greece this is around 35% of teachers, while the United Kingdom has a use of 96% and Denmark has 95%⁸.
- Between 2009 and 2010 there will be an investment of 69 billion euros in digital libraries in the European Union⁹.

Thanks to ICT, teachers do not need to physically be with their students, creating opportunities for rural areas.

E-learning favours personalised teaching. Also ICT are aids so that the concept of '*Long Life Learning*' (LLL) can become ever more established.

...health

E-health, defined as the application of ICT to public healthcare, is an instrument that can help to provide a better quality of care for sick people and greater efficiency in public health systems.

The global *e-health* market is estimated as having a potential value of 60 billion euros, of which a third would correspond to Europe. With these figures, *e-health* can be considered as the third largest medical industry in Europe, after pharmaceuticals (205 billion euros) and medical equipment (64 billion euros). The potential of business with social impact is enormous¹⁰.

Telemedicine, telemonitoring, videoassistance, remote patient care and distance learning for doctors and patients are instruments that could be used to improve the efficiency of medical care processes. Also, appropriate use of ICT will provide greater coverage, better interaction between doctors and patients and better management of waiting lists.

...environment and climate change

The use of ICT could help to rationalise the consumption of resources and available energy. For example the establishment of new forms of work such as telework, videoconference or electronic invoicing which can facilitate the improvement of energy efficiency, and generate energy savings that are equivalent to 0.8% of electrical consumption in the European Union in 2020. This equates to a 0.6% reduction of CO₂ emissions for this same year¹¹.

ICT contribute to approximately 2% of Greenhouse Gas Emissions, but their services could save in other sectors at least 5 times this 2%. Specifically they could reduce up to 15% of world emissions, which are estimated to be produced in 2020, thus becoming part of the climate change solution. This energy efficiency would transform into economic savings that could reach 600 billion euros¹².

1 <http://www.itu.int/itunews/manager/display.asp?lang=en&year=2008&issue=10&ipage=30&ext=html>

2 Yankee Group – Global Connected View Activity Forecast. Diciembre 2008

3 Yankee Group. Link data Asia-Pacific Connected View Forecast. 2009

4 Informe 'La Sociedad de la Información en España 2008'. Colección Fundación Telefónica / Ariel

5 http://www.elpais.com/articulo/portada/REDES/SOCIALES/GUERRA/elppor/20080822elppor_2/Tes

6 http://en.wikipedia.org/wiki/Demographics_of_the_internet

7 Company estimates

8 http://www.n-economia.com/notas_alerta/pdf/ALERTA_NE_02-2008.PDF

9 <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1747&format=HTML&aged=0&language=EN&guiLanguage=en>

10 UE. Speech. Viviane Reding. http://ec.europa.eu/information_society/activities/health/docs/events/whitz2008/whitz2008-reding-speech.pdf

11 Impacts of Information and Communication Technologies on Energy Efficiency EU, 2008.

12 SMART 2020 report.

Current panorama. ICT at the core of the solution

The ICT sector is experiencing an intensive and constant transformation...

In Europe, 20% of investment in R+D and 40% of productivity growth come from ICT sector companies.

...digital inclusion

In 2020, one in four Europeans will be over 65. In 2050, it is expected that there will be 2,000 million people in the world over the age of 60. At the current rate and within a generation, the number of people of retirement age and dependent on their pensions will exceed the number of young people².

Migratory movements are changing the population make-up. In 2006, the number of people of foreign origin constituted 12% of the total population of the OECD countries. It is significant though that, after a period of five years, between 20% and 50% of immigrants return to their countries of origin³.

About 10% of the world population suffers some sort of disability. If the families of those afflicted with disabilities are taken into consideration, the number of people affected worldwide is 2,000 million, i.e. almost one in three⁴.

For older people, the disabled and all those at risk of exclusion, the help that ICT can give them, can in many cases mean the difference between working and not working; being able to communicate with friends and family members or being isolated, receiving medical assistance without leaving the house or not having it; in short, being a dependent or an independent people.

Barriers are falling and new opportunities emerging

Globally revenue in the ICT sector grew 4.8% in 2008. In Europe, the sector contributes to 6% of employment, accounts for 8% of GDP and generates 25% of its growth⁵. In Latin America investments in the ICT sector have contributed to nearly 20% of the economic growth in the region, with a growing trend over the last few years⁶.

ICT are contained within a sector that is in constant evolution. Barriers within the sector are falling: internet companies, content generators, *software* and *hardware* companies, telecommunications operators... coincide with one or more of their products at one or more points on the value chain. In some cases, they collaborate and elsewhere, they compete.

New technology and innovative business models appear frequently. Some of them will probably change the current scenario. Thus, for example, many analysts of the sector agree on the fact that information technologies will transform into an immense cloud, that is accessible from any place: it is *cloud computing*.

Thanks to *cloud computing* the computing power of computers will be decentralised via a large network that is accessible from the Internet over the whole planet. But not only computing power will be distributed; services, applications and infrastructures will also be distributed. They will be utilised where people need them and only what is needed will be used. The success of its

establishment will ensure that people are able to work more efficiently and that companies are more productive.

Currently, the Internet mainly connects people and computers. However, each time there are more and more things connected to the Net: electrical appliances, cars, houses, music players, photo and video cameras, sensors of all kinds etc. Soon there will be billions of devices connected to the Internet. It is the *Internet of Things* that brings with it new challenges and great opportunities for ICT.

So many people and things connected to the internet; such a wealth of information and digital content available in an instant; so many possibilities to buy and sell products and services on the Internet... Never until now has the user had so many possibilities so close. This is why the personalisation of services and offers of all kinds will make the difference. Users are king more than ever before and they are demanding a full and personal experience of service and quality products that are differentiated from the competition.

ICT are an agent of socio-economic change

	The ICT sector...	...and its potential
Economy	<ul style="list-style-type: none"> Market worth 2.9 billion euros worldwide in 2008 8% of GDP and 40% of the increase in productivity in the EU Employing 13 million people in the EU, 6% of the total 25% of the total amount invested in R+D in the EU 	<ul style="list-style-type: none"> Making ICT services universally available in emerging economies will create two billion potential customers
Health	<ul style="list-style-type: none"> E-health is one of Europe's major industries, the third largest in the sector behind the pharmaceutical sector (205 billion euros) and the medical equipment sector (64 billion euros) 	<ul style="list-style-type: none"> The e-Health market is potentially worth 60 billion euros
Education	<ul style="list-style-type: none"> The EU average is one computer per nine pupils 74% of teachers in Europe have used ICT during class time By 2010, 69 million euros will have been invested in digital libraries in the EU 	<ul style="list-style-type: none"> The EU will soon attain a penetration rate close to one hundred percent in Broadband in the education sector Investments in digital libraries continue to grow New programmes are being created to facilitate and promote the access of teachers to ICT
Climate change	<ul style="list-style-type: none"> ICT represent 2% of global emissions. OK 	<ul style="list-style-type: none"> The ICT sector has the potential of reducing worldwide CO₂ emissions by 15% in 2020 The energy efficiency obtainable by employing ICT represents savings of approximately 600 billion euros
Disabilities	<ul style="list-style-type: none"> There are about 650 million people with disabilities worldwide Less than 5% of public sector websites are accessible 10% of the world population suffers some sort of disability 	<ul style="list-style-type: none"> Remote care services will increase fourfold by 2050
Inclusion	<ul style="list-style-type: none"> 16% of the population in Europe is over 65 	<ul style="list-style-type: none"> In 2020, one in every four Europeans will be over 65 years old and the consumption capacity of this age group will have multiplied
Government - regulation	<ul style="list-style-type: none"> Public procurement, using conventional procurement systems, amounts to 16% of GDP in the EU 	<ul style="list-style-type: none"> ICT are crucial when it comes to electronic invoicing within the public sector. Its use will give rise to estimated savings of approximately 300 billion euros.

ICT are an agent of socio-economic progress

Information and Communication Technologies are a driving force for the socio-economic progress of countries. They help to improve productivity and competition of companies and as such contributed to economic growth.

At the current time of the global credit crisis, the ITC sector shows a more favourable performance than other sectors. According to the IDC consultancy in 2009, global investment in technology will grow by 2.9% and Gartner Inc. estimates that the sale of mobile telephones will grow by 6%.⁷ The results of a study presented by Telefónica indicate that at times of crisis, spend on telecommunications is less affected than other sectors⁸.

There are two main reasons for which in this period, the ICT sector is better off than others. In the first place it should be remembered that ICT continue to evolve and incorporate innovation at a greater speed than other sectors: new technologies appear, prices of services and devices decrease, new countries and emerging markets join in, etc. In the second place, both the public and private sectors assume that the use of the ICT provides a stimulus for the improvement of productivity and as a consequence economic growth⁹.

Important investments in infrastructures being carried out by companies in the ICT sector have a direct impact in GDP growth

of countries and the generation of employment, which is an important lever for the creation of a production model that is more efficient, and therefore accelerate the economic recovery⁹.

All this generates a series of opportunities in the different markets that companies in the sector are able to cultivate.

Consumers are looking for confidence and value in the services being offered to them, companies need to increase their productivity to continue to be competitive, and public authorities have to improve their efficiency and the use of ICT in sectors such as Health, Education and Justice.

¹ EC 2010 annual report for 2007. DG Information Society. European Commission.

² http://www.etno.be/Portals/34/ETNO%20Documents/Sustainability/Telefonica_aging.pdf

³ 'A sustainable future in our hands'. European Commission. November 2007.

⁴ http://portal.unesco.org/ci/en/ev.php?URL_ID=26751&URL_DO=DO_TOPIC&URL_SECTION=201.html

⁵ EITO and IDATE - Jan 09

⁶ <http://www.itu.int/itu-d/opb/ind/D-IND-WTDR-2006-SUM-PDF-E.pdf>

⁷ The Global Information Technology Report 2008-2009

⁸ IV Directors Summit. Madrid, March 2009

⁹ LEGG for ETNO and MICUS for EC.

Telefónica, better placed than ever

22 For its economic impact

Customers* **22**
Satisfaction index **23**
Share value **24**
Results **26**
Products and services **28**
Innovation **30**
Infrastructures **32**

34 For its social impact*

Employees **34**
Employee Satisfaction Index **35**
Suppliers **36**
Digital inclusion **38**
Driving force of progress **40**
Business principles **42**
Social and cultural action **44**

46 For its environmental impact*

Climate change **46**

* These chapters in detail can be found in the 2008 CSR Annual Report. Likewise, referred information on social and cultural action developed by Fundación Telefónica can be found on their Annual Report.



Plaza Norte

Plaza Oeste

Plaza Sur

Plaza Este

Edificio Central

Área Comercial izquierda
Centro de Formación

Sala de Convenciones, Centro para
Centro de Convenciones



Customers

This figure reflects the proper diversification of the business.
It is 3.8 times larger than in 2000

Telefónica ended 2008 with 259 million customer accesses, the leading integrated operator in terms of growth

Its extensive commercial activities allowed it to increase the number of accesses by 30 million, equivalent to a year-on-year increase of 13.2%, thanks to advances obtained in mobile telephony (+16.6%), Broadband (+20.9%) and pay TV (+29.7%).

When considered in terms of geographical areas, the increasing contribution of Telefónica Latinoamérica with over 158 million accesses at the end of 2008 (a year-on-year increase of 18%) is what stands out most; along with the competitive strength of Telefónica España (+2%) with 47.3 million accesses and Telefónica Europe with 45.8 million (+9%).

Mobile telephony

The number of mobile telephony accesses of Telefónica Group had almost reached 196 million at the end of 2008, an increase of 16.6%:

- The number of mobile accesses for Telefónica España was over 23.6 million, an increase of 3.4%, mainly based on the growth of contract lines.
- Latin America notched up a figure of 123.4 million mobile accesses, a year-on-year increase of 22.7% (+18.1% organic) thanks to advances in all business operations.
- In Europe, the Company achieved a figure of 41.2 million lines, an increase of 7.6%. The net increase of 1.7 million customers in Germany stands out.

Fixed telephony

In the mature market of fixed telephony, Telefónica ended 2008 with 42.9 million accesses as opposed to 43.4 million in 2007:

- In Spain, the number of accesses was over 15.3 million at the end of 2008, a fall of 3.7%; however, 83% of the losses in fixed lines correspond to migrations to wholesale lines which, naturally, continue to generate revenues for the Company.
- In Latin America, the number of accesses was 25.6 million at the end of the year, an increase of 1.0%. The fixed-wireless joint project in Peru and the growth in the number of fixed wireless accesses in Venezuela are both worthy of mention.
- In the Czech Republic, the number of accesses at the end of 2008 was 1.9 million, representing a year-on-year drop of 8.3%.

Telefónica Group: evolution of accesses

Unaudited data (per thousand)	January - December 2008	January - December 2007	% variation
Final customer accesses	255,451.4	226,119.4	13.0
Fixed telephony accesses ¹	42,930.8	43,433.6	(1.2)
Internet and data accesses	14,654.3	13,156.6	11.4
Mobile accesses ²	195,598.9	167,781.1	16.6
Pay TV	2,267.5	1,748.1	29.7
Wholesale accesses	3,433.0	2,624.2	30.8
Total accesses	258,884.4	228,743.6	13.2

1 RTB (including TUP) x1; Basic Access RDSI x1; Primary Access RDSI Digital Accesses 2/6 x30. Including personal use. Includes all 'fixed wireless' accesses.

2 Since April 2008 includes customers from Telemig.

Note: from 1 January 2008, TUPs with wireless technology are included in the 'fixed wireless' category within fixed telephony accesses.

Broadband

At the end of 2008, the number of retail accesses to the Internet via Broadband approached 12.5 million with a year-on-year growth of almost 21%, spurred by bundled voice, ADSL and pay TV services:

- In Spain, Telefónica ended the business year with 5.2 million accesses, an increase of 13.7%.
- In Latin America, the number of accesses exceeded 6 million, an increase of 20.5%.
- In Europe accesses increased by 72.9%, up to 1.2 million, split between Germany, the United Kingdom and the Czech Republic.

Pay TV

At the end of 2008, accesses to pay TV exceeded 2.3 million representing an increase of 29.7%:

- Telefónica España won 101,407 new customers during the last business year, taking the total to 612,494 customers (+19.8% year-on-year).
- In Latin America, the Company achieved a figure of 1.5 million customers in Peru, Chile, Colombia, Brazil and Venezuela as opposed to 1.2 million in December 2007.
- Telefónica O2 Czech Republic reached a total of 114,496 customers.

¹ Includes Telemig accesses in December 2007.

Note: For a detailed analysis of the financial statements of the Telefónica Group, please refer to the audited information contained in the annual statements.

...customer satisfaction

Telefónica Europe achieved 7.50 points; and the greatest increase in the Group, 7.7%, was seen in Latin America

Customer satisfaction in 2008 reached 6.92¹ points compared to 6.77² the previous year

The Company worked to improve the management of complaints and telephone support amongst other aspects.

It is predicted that this figure will rise to 7.24³ in 2009 by means of local plans inspired by the 'Customer Experience' methodology.

In 2008 at the close of the fourth quarter, the Telefónica global Customer Satisfaction Index (CSI) reached 6.92 out of 10 points as opposed to 6.77 in 2007.

Evolution of global customer satisfaction*

2008	6.92 ¹
2007	6.77 ²

* Scale of 0 to 10 where 0 means not at all satisfied and 10 means completely satisfied.

The evolution of this indicator, which represents the degree of satisfaction of users with the Company in general and is related both to their expectations and to their ideal company image, was closely monitored by the Quality and Customer Service Committee of Telefónica S.A., a consultation committee attached to the Board of Directors.

The improvement in the Customer Satisfaction Index (CSI) is the result of the quality control plans implemented by each company within the Group. Once again as in previous years, the reference methodology was 'Experiencia Cliente' (Customer Experience). This methodology, which has been successfully applied in Europe for many years, is used as a basis by different countries from other regions for designing their own improvement programmes, which are naturally adapted to take into account particular local needs.

Priorities

In general and in addition to launching new products and attractive tariffs, Telefónica sought to improve aspects which are considered as priorities by customers such as the customer support provided through different channels and the reduction in and management of complaints related above all to invoicing. The constant modernization and extension of networks was another priority in various countries. The number of faults per 100 lines⁴ stood at 4.6 at the end of 2008.

The common objective of all the local quality plans was to achieve progress directed towards winning or consolidating the leadership of the Company vis-à-vis its customers, and in so doing, obtain a better Customer Satisfaction Index than its competitors.

In fact, Telefónica ended 2008 as leader in the mobile telephony markets in Ecuador, Spain, Mexico, Nicaragua, United Kingdom and Uruguay.

Regional evolution

The Customer Satisfaction Index of Telefónica España in 2008 stood at 6.32. The index as evaluated by Major Customers evolved favourably (6.35) and in addition, its position in wireless telephony fared better than its competitors.

Telefónica Latinamérica also continued to progress in terms of customer satisfaction. The Customer Satisfaction Index went from 6.62 in 2007 to 7.13⁵ in 2008 thanks to the better showing of the index in the fixed and mobile telephony business sectors, attaining scores of 7.96⁶ and 6.24 respectively.

In turn, Telefónica Europe continued to improve its degree of customer satisfaction: it attained an index of 7.50 as opposed to 7.37 in 2007. Once again this year, mention should be made of Telefónica O2 United Kingdom which ended the business year as the company that was best rated by users in a market characterised by its extreme competitiveness.



Exchanging better practices

In 2008 Telefónica took advantage of Commercial Wings (CW), the programme for the exchange of commercial and marketing knowledge participated in by 5,400 users, with the objective of promoting interregional collaboration and improving the experience of users, amongst other aspects. This was one of the subjects dealt with in its more than 65 communities of experts and will receive more attention in 2009. The Customer Defence Service of Telefónica España or the online channel in the United Kingdom, (www.o2.co.uk) are just two examples of experiences that could be shared.

1. The target does not include Vivo. With Vivo, it rises to 6.97.

2. The global ISC data from 2007 has been adjusted as a consequence of the homogenisation of the measurement methodology over the whole Group. This project allowed us to unify the scale and questions in relation to satisfaction, amongst other aspects. The unadjusted ISC for 2007 was 6.84.

3. The target does not include Vivo. With Vivo it rises to 7.27.

4. Includes fixed lines and ADSL for Spain, Argentina, Brazil, Chile, Colombia and Peru.

5. The data does not include Vivo. With Vivo it rises to 7.27.

6. The data does not include Vivo. With Vivo it rises to 8.01.

Share value

Profit per share rose by 41.4%¹, reaching 1.63 euros

The Company confirms its commitment to prioritise shareholder return when considering how to use the cash flow generated and to gradually increase the dividend per share.

The Board of Directors, in their meeting of the 29th of April 2009, reiterated the commitment they announced in January to raise the dividend for the 2009 financial year, up to 1.15 euros per share, the payment of which will be split into two parts. The proposed dividend assumes a year-on-year increase of 15%.

Shareholder remuneration

Telefónica maintained its commitment to gradually increase the dividend per share. 69% of the cash flow generated in the 2008 business year was set aside for shareholders, which represents 10% of the Company's market² capitalization.

This remuneration was achieved by a combination of paying out dividends and repurchasing its own shares (126.7 million shares for the whole of the 2008 business year). In this respect, it is worth pointing out that on 31st March 2009 the Company completed the repurchase programme that was put in motion in February 2008, for a total amount of 150 million shares.

Payment of dividends in 2008

- On 13th May 2008, the Company paid out an extra dividend, financed by the profits of 2007, worth 0.40 euros gross per share, which was added to the dividend of 0.35 euros gross per share paid out on 14th November 2007.

- Likewise, a dividend financed by the profits earned in the 2008 business year was paid out on 12 November 2008 amounting to 0.50 euros gross per share. This dividend was completed with the payment on the 12th of May 2009, of 0.50 euros gross per share from the 2009 profits. With these two payments, the Company has fulfilled the commitment announced to remunerate the shareholder with a 1 euro dividend per share before the end of the first quarter of 2009.

Policy on dividends improvements

The Company Board of Directors, in their meeting of 29th April 2009, reiterated the commitment they announced in January to increase the dividend up to 1.15 euros per share for the 2009 financial year, the payment of which will be divided into two parts. The dividend that has been proposed would entail a year-on-year increase of 15%.

In this regard, the Board of Directors has proposed to the next Shareholders General

At the end of 2008, Telefónica occupied the fourth place amongst telecommunications operators in terms of market capitalization

Meeting, the distribution of a dividend charged to unrestricted reserves for a fixed amount of 0.50 euros gross per share, in the second quarter of 2009.

Since Telefónica reinstated its dividend policy in 2003, it has progressively improved its shareholder remuneration policy and is now one of the best companies in this regard aspect.

Shareholder profit

In 2008, Telefónica obtained net profits of 7,592 million euros with a year-on-year increase of 38% on a comparative basis¹. Similarly, the net basic profit per share was 1.63 euros, 41.4% higher than 2007 in comparable terms¹.

The Company maintains its objective of attaining a Net Profit per Share (NPS) of 2.304 euros and Cash Flow per Share (CFS) of 2.87 euros in 2010.

If an analysis were carried out examining sensitivity to changes in the operating climate and assuming an extreme scenario for the Company in 2010 (extrapolating the sharp depreciation of some currencies with respect to the euro and the current deterioration in the economic climate), the NPS would be at 2.10 euros and the CFS would fall to 2.50 euros.

Evolution of share price

Following five years of consecutive increases, Telefónica's share price was not immune to the negative evolution of the equity markets during the 2008 business year and registered a fall of 28.7% during the year, taking its value to 15.85 euros per

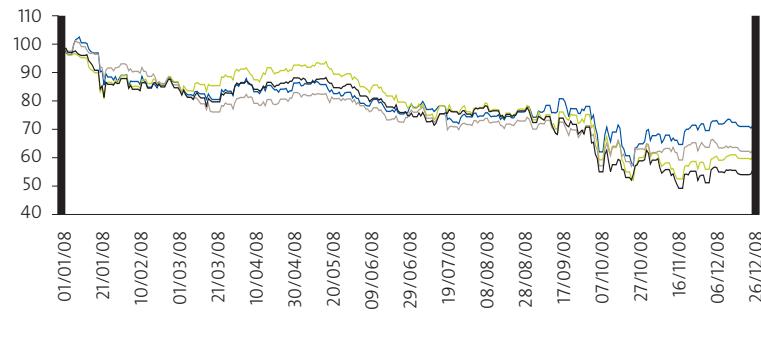
Return per share 2008

	No. of shares	Gross value euros
Value of 100 shares on 1 January 2008	100	2,222
Cash dividend (13 May 2008)	100	40
Cash dividend (12 November 2008)	100	50
Value of 100 shares on 1 January 2009	100	1,585
Total value of a portfolio consisting of 100 shares		1,675
Return		-24.62%

¹ Excludes the impact of the sale of assets (Airwave, Endemo and Sogecable) in both periods and the participation of the Telefónica Group in the restructuring carried out in turn by Telco, S.p.A. for its participation in Telecom Italia.

² Effective date, 25/02/09.

Evolution of share price 2008



Source: Bloomberg

share. Nevertheless, the Company's differential profile was reflected in its better performance when compared to its reference sector in Europe (DJ Stoxx Telecommunications -37.0%) and the general indices Ibex-35 and Eurostoxx-50 (-39.4% and -44.3% respectively).

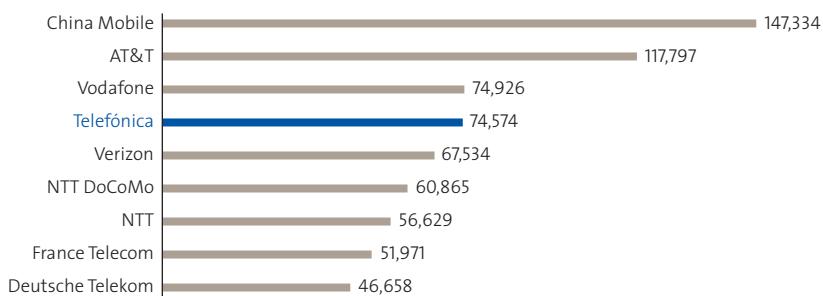
In relative terms, Telefónica also fared better than the other European operators Telecom Italia (-45.9%) and Portugal Telecom (-32.0%) and its evolution was similar to those of Vodafone (-26.0%) and Deutsche Telekom (-28.4%).

The main reason for the fall in the price of Telefónica shares was the negative evolution of the equity markets in general, since the company's high liquidity and its considerable weight in the benchmark indices such as the Ibex-35 or the Eurostoxx-50 meant that Telefónica was particularly affected by the flight of capital from the equity markets. Other factors affecting the share price were the negative sentiment of investors with regards to the evolution of the Spanish economy and the negative evolution of some Latin-American currencies.

Despite this, Telefónica performed better in 2008 than the main indices thanks both to the solid quarterly results it published throughout the business year and to the fact that it was perceived as a defensive

Ranking of the telecommunications sector by market share capitalization

Millions of euros



Source: Bloomberg. Data at the end of 2008

stock because of its growth profile, its solid financial situation, its very selective expansion strategy and its extremely attractive shareholder remuneration policy.

In this context, Telefónica closed the 2009 business year with a market capitalization of 74,574 million euros, coming in fourth amongst the companies in its sector worldwide.

The average daily trading volume of Telefónica shares in 2008 on the Spanish continuous market was 57.2 million shares (compared to 61.8 million shares in 2007).

Other data of interest

Stock markets

Telefónica shares are quoted on the Spanish continuous market (in the benchmark Ibex-35 index) and in four other Spanish stock exchanges (Madrid, Barcelona, Bilbao and Valencia) as well as the NYSE, the LSE and the Tokyo Stock Exchange plus the Buenos Aires, Sao Paolo and Lima stock exchanges. The process of delisting Telefónica shares from the Paris and Frankfurt stock exchanges, which began in the 2007 business year, was completed in the first quarter of 2008.

Share capital

On 18th July 2008, the Company reduced its share capital by 68,500,000 euros by cancelling 68,500,000 of its treasury shares.

As a result of this, the subscribed and full paid-up share capital amounts to 4,704,996.485 euros and is divided up into 4,704,996,485 ordinary shares, each of the same class and series with a nominal value of one euro per share and which are represented by book entries.

Number of shareholders

Telefónica had 1.5 million shareholders at 1st April 2008 according to itemised investor registries for natural or legal people and based on Iberclear (the Spanish securities registration, clearing and settlement system) data.

Significant shareholdings

According to the information available to the Company, there is no natural or legal people which, directly or indirectly, by itself or jointly, either controls or is capable of controlling Telefónica.

The Caja de Ahorros y Pensiones de Barcelona (la Caixa) and the Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) possessed - either directly or indirectly - 5.013% and 5.170% of the share capital of Telefónica respectively on 31st December 2008.

Results

Total revenues amounted to 57,946 million euros thanks to proper business diversification

Telefónica fulfilled its objectives for 2008 and obtained a net profit of 7,592 million euros

The Company closed last year with solid results based on the important organic growth of its operations and high management capacity. Another year in which Telefónica maintained its aim of fulfilling its commitments.

Operating cash flow (OIBDA-CapEx) amounted to 14,519 million euros, 20.2% more than in 2007; net financial debt fell 5.6% to 42,733 million euros.

In 2008 Telefónica once again demonstrated superior growth capacity when compared to its main rivals. It achieved this thanks to the diversified profile it has built up over this decade.

Revenues¹

The expansion in its customer base and the initiatives designed to encourage consumption allowed the Company to obtain total revenues of 57,946 million euros in the 2008 business year, a year-on-year increase of 2.7%. This growth was affected negatively by exchange rates and by changes in consolidation scope, which reduced the final figure by 3 and 1.2 percentage points respectively.

In organic terms minus capital gains², revenues rose by 6.9% mainly due to: the strong growth of Telefónica Latinoamérica, which contributed 4.6 percentage points and, to a lesser degree, for Telefónica Europe, which contributed 1.5 percentage points during the period. When the Company's activities are examined individually, the revenues generated by the mobile business, with an increasing contribution from data, Broadband and pay TV, stood out as the main driving forces behind the organic growth in revenues.

In terms of regions, total revenues from Telefónica Latinoamérica were responsible for 38.3% of the Group's total revenues and the figures for Telefónica España and Telefónica Europe were 36.0% and 24.7% respectively.

Profitability of the business¹

The positive evolution of revenues together with cost containment were reflected in the evolution of operating revenue before depreciation and amortization (OIBDA) which increased 0.4% with respect to 2007, reaching 22,919 million euros for the whole of 2008.

In organic terms minus capital gains², OIBDA increased by 14.7% while the OIBDA margin had climbed to 38.7% at the end of 2008, reflecting improvements in efficiency and economies of scale, all within a business environment characterised by the Group's high level of commercial activities and the transformation of the fixed telephony business in Latin America.

On a region-by-region basis, the OIBDA of Telefónica España represents almost 45 % of the Group's total OIBDA as compared to 36.8% for Telefónica Latinoamérica and 18.2% for Telefónica Europe.

Cash generation¹

The efforts made by the Company in managing operating costs and investments were borne out in a significant increase in operating cash flow (OIBDA-CapEx) which stood at 14,519 million euros at the end of last year and which represents a year-on-year increase of 20.2% in organic terms minus capital gains². Considering each region separately, Telefónica España contributed 8,077 million euros; Telefónica Latinoamérica 4,410 million euros; and Telefónica Europe, 2,108 million euros.

The cash flow generated in 2008 amounted to 9,145 million euros, of which 2,224 million euros were set aside for buying up treasury shares, 4,165 million euros were used to distribute Telefónica S.A. dividends, 920 million euros were used to finance commitments undertaken by the Group (consisting mainly of personnel reduction programmes) and 1,327 million euros were earmarked for net financial and property investments during the period.

This means that net financial debt was reduced by 508 million euros. In addition, debt also fell by 2,043 million euros due to fluctuations in exchange rates, changes in consolidation scope and other factors affecting the financial statements. This represents a total reduction in debt of 2,551 million euros with respect to the net consolidated debt at the end of 2007, which means that the net financial debt of the Telefónica Group in December 2008 amounted to 42,733 million euros.

Telefónica Group: results per business unit

Non-audited data (per million euros) January - December	Net turnover			OIBDA			Operating result		
	2008	2007	% Var	2008	2007	% Var	2008	2007	% Var
Telefónica España ¹	20,838	20,683	0.7	10,285	9,448	8.9	8,046	7,067	13.9
Telefónica Latinoamérica ²	22,174	20,078	10.4	8,445	7,121	18.6	4,800	3,562	34.8
Telefónica Europe ³	14,308	14,458	(1.0)	4,180	4,977	(16.0)	1,144	1,591	(28.1)
Other companies ⁴	625	1,221	(48.8)	9	1,278	(99.3)	(117)	1,168	c.s.
Total Group^{1 2 3 4}	57,946	56,441	2.7	22,919	22,825	0.4	13,873	13,388	3.6

Notes:

OIBDA and OI figures include management costs and those arising from the use of the trademark.

- 1 The figures for 2008 reflect the new model that applies to public use telephony service (net revenues). The data for 2007 has not varied with respect to what was originally published (net revenues and expenses) and consequently, the figures for variation of 2008 with respect to 2007 are not homogeneous comparisons.
 - 2 From April 2008, the consolidation scope of Vivo includes Telemig.
 - 3 From the second quarter of 2007 onwards, Airwave is no longer included within the consolidation scope (the sale of Airwave generated capital gains of 1,296 million euros, which were recorded in the second quarter of 2007). The 2008 figures include 174 million euros in provisions originally set aside to meet possible obligations arising from the disposal of share participations in the past, since these risks have in the meantime either disappeared or not come to fruition.
 - 4 From the third quarter of 2007 onwards, Endemol is no longer included within the consolidation scope (the sale of Endemol generated capital gains of 1,368 million euros).
- The second quarter of 2008 includes the capital gains corresponding to the sale of the share participation in Sogecable (143 million euros).

Promises to investors¹

Once again this year, Telefónica maintained its track record of fulfilling its promises. In this respect and despite the current economic climate, the Company fulfilled all its objectives thanks to excellent management and its ability to maximise the benefits afforded by diversifying its operations.

The Group's strategy for 2009³ centres on maintaining high cash generation in the markets against the backdrop of a more complicated economic scenario while at the same time taking advantage of the growth potential in expanding markets. In particular, Telefónica predicts:

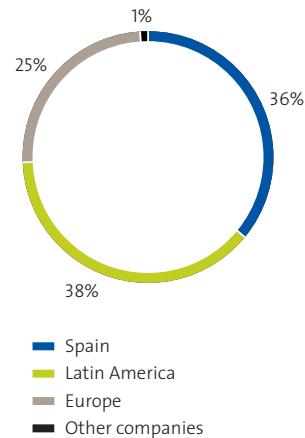
- A year-on-year increase in consolidated operating cash flow (OIBDA-CapEx): 8% / 11%.

- A year-on year increase in consolidated OIBDA: 1% / 3%.
- An increase in consolidated revenues.
- Investment below 7,500 million euros.

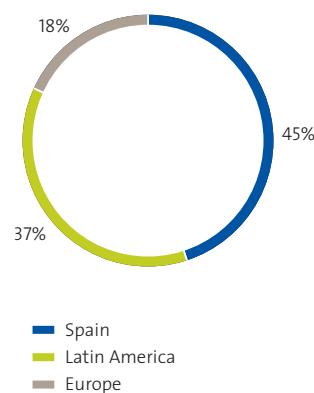
Similarly, the Company confirmed the following objectives for 2010⁴:

- Net profit per share: 2.304 euros (NPS).
- Cash flow per share: 2.87 euros (CFS).

Revenue distribution per segment



OIBDA distribution per segment



¹ For a detailed analysis of the consolidated financial statements of the Telefónica Group, please refer to the audited information contained in the annual financial statements.

² Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and of Telemig in April-December 2007. The consolidations of Airwave in January-March 2007 and of Endemol in January-June 2007 have been excluded. Revenues include the impact on Telefónica España deriving from the new business model of the public voice telephony service (-147.4 million euros in 2007). The OIBDA excludes the effects of the sale of assets (Airwave, Endemol and Sogecable) in both periods.

³ The base figures for 2008 exclude the effects of the sale of assets (143 million euros in capital gains deriving from the sale of Sogecable and 174 million euros set aside in provisions to meet possible obligations deriving from the disposal of share participations in the past, since these risks have in the meantime either disappeared or failed to transpire) and includes 9 months of consolidation of Telemig. The 2009 base for guidance assume constant exchange rates for 2008 (average during 2008). For the purposes of calculating guidance, the OIBDA excludes capital gains and losses stemming from the sale of companies and restructuring of companies. The CapEx of the Telefónica Group excludes the Real Estate Efficiency Programmes and investments in prospect. The base for the financial objectives: operating cash flow (OIBDA-CapEx): € 14,201 M; consolidated: € 22,602 M; consolidated revenues: € 57,946 M; CapEx consolidated: € 8,401 M.

⁴ If an analysis were carried out examining sensitivity to changes in the operating climate, the BPA would be 2.10 euros and the CFCA, 2.50 euros.

Products and services

These pages contain just a sample
of 2008's new offers

In 2008, Telefónica launched the first service for its optical fibre network, launched a multi-device social network and made new wireless solutions available...

These were just some of the products and services launched by the Company in a year that was marked by its exclusive right to market advanced mobile phones.

Optical fibre

In 2008, *Futura* was the name given by Telefónica to the new optical fibre network which is now being rolled out in Spain, and for which investments will exceed 1,000 million euros up to 2010. The new information highway offers transmission speeds of 30 Mb and is capable of attaining speeds of up to 100 Mb. Thanks to *Futura*, the whole range of advanced services, both fixed and wireless, of the Information Society will become available to Spanish homes, including home automation solutions and up to two simultaneous high definition television signals.

Trio Futura

Trio Futura is the 3-Play service (telephone, internet and television) offered by Telefónica over the above mentioned network, with navigation speeds of up to 30 Mb, advanced television functions, integral maintenance and flat-rate voice services.

Wireless Broadband

Response to Employees

In 2008, Telefónica incorporated mobile connectivity into '*Response to Employees*'. This product was designed to meet integral management needs of ICT used by small and medium-sized companies and professionals. This connectivity solution makes it possible to work and access the Internet from any location and at any moment using Telefónica's 3G technologies. At present, over two million workstations in Spain are managed by the Company through '*Response to Employees*'.

ASUS EeePC

Last year, Telefónica launched an exclusive completely integrated solution allowing access to Broadband via the ASUS EeePC computer, a device especially designed for those who need mobile working.

Social networks

Keteke

In 2008, Telefónica launched *Keteke* in Spain, a social network with a high multimedia content that facilitates entertainment for young people and allows them to interact with one another. This new community is



Trio Futura has a specific web address www.triofutura.es

The keteke social network, www.keteke.com

characterised by the fact that it is a multi-device social network: users can access and interact with one another using a computer, their mobile phone or a television, via *Imagenio*.

Facebook

Telefónica concluded a global agreement with *Facebook* to incorporate direct access to the utility using its mobile portals. The agreement enables mobile Telefónica users to maintain contact with their friends via *Facebook* and to participate in one or several social networks according to their interests.



iPhone™ 3G by Apple®.

New handsets

iPhone™

In 2008, Telefónica exclusively launched the *iPhone™ 3G* in 16 European and Latin American countries. The *iPhone™ 3G* combines all the advantages of the first generation *iPhone™* with high-speed access via Telefónica mobile Broadband employing 3G-HSDPA technology and includes a GPS.

The Company also exclusively marketed the Nokia N78 on the Spanish market, allowing customers to access the Internet thanks to OVI, the Nokia portal for Internet services for mobiles.

Other important launches were those of the mobile with the largest screen on the market, the *HTC Touch HD*; the *Blackberry Pearl Flip*, the first folding device; or the ecological *Nokia 3110 Evolve*, a phone with biological cases that have been manufactured using 50% of renewable materials. They were also the first in Spain to market the *Nokia 5800 XpressMusic* to popularise access to touch screens and music.

Television

Imagenio 3D

Over the past few years, Telefónica has been developing Spain's first ADSL television platform: *Imagenio*. At present, the Company is continuing its work with the new technologies that will permit it to offer the next generation of services: 3D television. In 2008, Telefónica developed a prototype of an on-demand 3D video platform for *Imagenio*. This prototype is compatible with *Imagenio*'s current characteristics and incorporates an autostereoscopic display that allows the user to experience 3D.



Image from the Movistar Christmas campaign

Terra TV and Mobile TV

Following an agreement reached with the International Olympic Committee (IOC), Terra became the only portal in 2008 with the exclusive right to transmit the Olympic Games over the Internet and via cell phone in Latin America. In total, over 300 hours were transmitted from all competitions with 24-hour coverage, including the best moments, photos in real time, videos, news, etc. Terra TV used the multibitrate technology, which adapts the quality of videos to the bandwidth and speed available on the user's connection.

In 2008, Terra TV expanded its presence to 19 countries (Spain, Latin America and the USA) and reached the figure of 58 million individual visitors per month, becoming one of the first portals in Latin America with more than 8 million users. In addition, television via mobile phone (Mobile TV) was launched in over 15 countries and agreements were concluded with the main television channels: Fox, MTV and Turner, amongst others.

Business productivity

Deutsche Post World Net, which operates under the trademark DHL, and Telefónica signed a pan-European communications agreement in January 2009 under the terms of which Telefónica will provide fixed and mobile voice and data services to 2,400 workplaces in 28 European countries. In so doing, DHL hopes to substantially improve the efficiency of its telecommunications services and save costs.

In 2008, Telefónica and SAP collaborated with the objective of offering network solutions to companies in Spain. The alliance between the two companies will facilitate the outsourcing of SAP management system to a data processing centre, thus reducing infrastructure costs and improving productivity.

New challenges

Education

In 2008, Telefónica O2 United Kingdom and the company Learning Possibilities Group announced the launch of the *LP+ Mobile*. This product provides a universal e-learning service through mobiles for schools in the United Kingdom. Amongst its features, the product offers unlimited connectivity to Internet and to the distance-learning platform LP, electronic mail and messaging services and collaboration tools.

During 2008, Telefónica and Microsoft joined forces with the aim of developing distance-learning applications for teachers and students from Latin America. This agreement will lead to the establishment of an *on line* learning network providing contents and services to teachers from Latin America.

Health

In Spain, the Health Department of the Autonomous Community of Castile and León gave Telefónica the task of automating the primary health care appointments system. From now on, patients will be able to arrange appointments using different channels: telephone, SMS and Internet.

USP Hospitals and Telefónica signed a strategic alliance to cooperate in the development of eHealth, telemedicine and teleradiology solutions.

Government

In 2008, the Royal Spanish Mint (FNMT) signed an agreement with Telefónica to launch the mobile digital signature service onto the market. The combination of the new mobile digital certificates provided by the Royal Spanish Mint together with the new secure encryption cards produced by Movistar guarantee a signature that is both legally valid and indecipherable. This means that Telefónica is now able to offer a comprehensive range of electronic signature services on the Spanish market that operate both on fixed and mobile networks.

Innovation

The Company increased its investment in R+D by 12.5%

In 2008, Telefónica committed itself to the use of innovation as a driving force for transformation by investing 4,614 million euros¹

The Company did work 'opening' collaboration models
and creating one of the largest networks for innovation within the global ICT sector.

Telefónica's scientific and technological groups continued to define the technologies that will revolutionise aspects such as the digital home, communication between people and machines, the world of Internet, business administration and electronic government.

Information and Communication Technologies (ICT) are a basic instrument for promoting economic and social development. In this respect, Telefónica is one of the driving forces in the countries where it is present.

Developing new R+D+I capacities

Telefónica, conscious of the fact that technological innovation is essential in developing its business, increased its investment in this area in 2008 by 5% compared to 2007, taking it up to 4,614 million euros¹.

This investment capacity, which will be maintained over the next few years, means that Telefónica will be in an excellent position to transform new technologies into innovative services for its customers. Taking into account that this goal cannot be reached on its own, the Company is working towards

creating one of the largest networks for innovation within the ICT sector worldwide.

With this objective, various 'Open Innovation' initiatives were consolidated in 2008 which meant the opening up of the Company's platforms to collaborate with partners and customers with the aim of setting up joint activities:

- Support programmes for technological firms through Telefónica's Risk Capital Fund by acquiring minority shareholdings in innovative companies such as Loomia.
- Collaboration with Universities on projects or by promoting these projects through the Telefónica Cátedras.
- *Living Labs* to receive user feedback while developing services.
- Participation in programmes and technological platforms that promote R+D on a national and international scale.

- Innovation in collaboration with leading companies in each sector - highlighting the agreements with 'internet players' (Facebook, Google, YouTube, MSN, etc.) - and alliances regarding contents (e.g. the transmission of minority sports during the Beijing Olympics).

New proposals were added to these initiatives in 2008 as part of the strategic plan to develop services with other players such as the free software platform Morfeo or two new proposals within Movilforum:

- **Open Movilforum:** a new community of developers of mobile applications - 900 at present - who can try their ideas using Telefónica's services.
- **Movilforum-Apple:** the first time that Apple collaborates with an operator to make available to companies, Apple's platforms and technologies. At present, about 200 products are being adapted for use with the iPhone.

Telefónica's open network for innovations

Telefónica R + D + Telefónica S.A.

Business Units

Research

- Applied research activities
- Participation in public R+D programs and in technological platforms
- Collaboration with Universities

Research: 62 million euros

Development

- Development of new products & services
- *Living Labs*
- Collaboration with leading companies

Development: 606 million euros

Total: 4,614 million euros¹

Innovation

- Launch of new products & services
- Corporate Innovation: Capital Risk; Program of Corporate Innovation; Employee ideas and strategic alliances
- Purchase of technology

Innovation : 3,946 million euros

Plans were also implemented to take advantage of the internal potential of employees. An example is provided by the following initiatives launched in Spain by Human Resources with the support of business units:

- **Patenta Idealab:** an annual award scheme that rewards individual proposals submitted by employees that improve efficiency within the company through cost reduction or revenue generation.
- **Patenta Entrepreneurs** held twice a year, which rewards the best package of innovative projects capable of identifying commercial opportunities that might represent new sources of revenue.

In other regions, other programmes were implemented like: 'Bright Sparks' in Europe and 'Carrera de Campeones' (Champions Race) and 'Desafío del Emprendedor' (Entrepreneur's Challenge) in Latin America.

Innovation promoted by the Group's business operations

During 2008 Telefónica's business areas continued coordinating efforts to develop innovation initiatives with a global focus, adapted to regional needs.

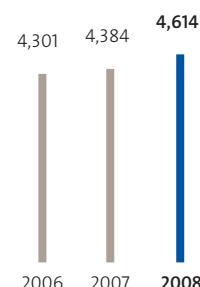
Many of these initiatives were aimed at creating new TV, financial and advertising services using mobile telephony; analysing and broadening the possibilities of new Broadband networks, new IPTV services (*Imagenio*), health applications, etc.

In Spain, the most significant development was *Movistar Mobile Media*, a pilot service developed in collaboration with Microsoft, which will allow users to access multimedia contents stored on their personal computers using their mobile phones (photos, music and video)- amongst many options.

In Telefónica Europe, the most interesting developments concerned trials of wireless electronic payment applications (electronic wallet), applications that can be used to pay for theatre, cinema or public transport tickets and electronic identification applications (ID documents or electronic driving licences) that have been carried out

Investment in technological innovation (R+D+I)¹

Expressed per million euros



in the United Kingdom or new Broadband developments in Germany.

In Argentina, Brazil and Peru, an innovative pilot project was inaugurated called *TECTOTAL*, an integral support service for 'Digital Home' (at home installation, maintenance and support provided for any type of electronic device or for the purpose of resolving any kind of connectivity problem).

Next year's technological challenges include ultra-rapid networks, telepresence, the Internet of the Future and the development of more advanced services aimed at facilitating the evolution of the information society.

¹ Investment in technological innovation determined using criteria established by the OECD.

Lines of action

Internet & Multimedia	End user services	Network management systems & business support systems	Networks & platforms
	Individual, home, enterprise		
Web 3.0 Evolution of Imagenio Distribution of P2P contents Wireless wifi Recommended systems Multiplatform interfaces	Recording user feedback Home automation Telemedicine Remote surveillance Virtual communities New services for companies	Integrated network management and services Management of optical fibre networks Network security Process optimisation, real-time charging Service quality	'Ultra rapid' Broadband networks New generation IP networks New access networks (optical fibre) Wireless connectivity Platform of services

Telefónica R+D

Telefónica Research and Development (TID) is the Group's main instrument of technological innovation and continues to be the most important private commercial R+D organisation in Spain. In 2008, the year of its twentieth anniversary, its activities were valued at over 211 million euros.

In keeping with the 'Open Innovation' model previously mentioned, TID participates in over 200 projects in collaboration with almost 1,000 organisations, including more than 150 universities. A Scientific Advisory Council, made up of people of international renown, helps in defining its strategy.

Infrastructures

25% of the Company's capital expenditure was used to maintain its business activities while 75% was invested in growth

Telefónica rolled out new networks and strengthened its infrastructures thanks to capital expenditure worth 8,401 million euros

Priorities that should be highlighted the fibre network deployment, the development of wireless broadband and the transformations aimed at increasing efficiency and improving cost structures.

The Company's objective is to continue leading the digital transformation in those countries where it is already present by developing its networks and improving its service coverage.

In 2008, Telefónica continued the task of transforming its network with the aim of both guaranteeing its differential service offer - with an increased role being played by Broadband and mobile telephone data services - as well as ensuring the commercial rollout of optical fibre in the home.

This meant concentrating on the following objectives: exploiting economies of scale and synergies between Group operators, increasing quality and efficiency when executing projects and reducing the time required to launch new services. In order to achieve all this, two key factors were identified: transforming networks both rapidly and as uniformly as possible and standardising components.

Fixed high-speed access

During 2008, Telefónica continued the drive towards fixed access via optical fibre using GPON technology (*Gigabit Passive Optical Network*), which is a collection of protocols and standards enabling the deployment of voice, data and Internet. In particular and despite being conditioned by the regulatory environment, pre-commercial rollouts of optical fibre took place in Spain. Developments in other European countries also began. This technology, which enables speeds of 100 Mbps to be reached depending on the customer's configuration, will make it possible to improve the existing commercial offers Dúo/Trió by incorporating Broadband and TV services, including HD TV (High Definition Television).

On the other hand, the Company increased the coverage of *Imagenio* in Spain and made it available in other European markets such as the Czech Republic. The TV services are also available in fixed telephony operations in Latin America while *Imagenio* will be extended alongside the deployment of optical fibre.

Mobile Broadband

Telefónica extended 3G technology in Latin America and Germany in order to offer increased capacity in mobile data connections. In addition, it sped up deployment of HSPA technology (which offers increased functionality in the 3G network) throughout Europe, especially in Spain and the United Kingdom. This allowed the Company to increase its coverage to 75% in Spain, 90% in Ireland, 89% in Venezuela and as much as 91% in Argentina.

4G technology

In 2008, Telefónica began a detailed evaluation of the opportunities afforded by the mobile technology 4G, LTE (*Long Term Evolution*), in collaboration with the main suppliers in the sector and through an exchange of experiences with other operators. The objective is to carry out the first pilot trials in 2009. LTE technology enables the deployment of a mobile Broadband network that complements the existing network, has a larger capacity and has lower relative costs per user/traffic unit. This means that customers will have access to better functionality and new services and applications that require higher data traffic rates.

'All IP' Network

The Company worked to improve the functions offered by its transport network 'All IP' (a network that enables all communication services to be supplied using the IP protocol), with the aim of increasing its capacity and allowing it to meet heightened traffic capacity requirements for services and applications of increasing sophistication. At the same time, the Company concentrated on improving network resilience and redundancy in order to guarantee service quality and reduce incidents.

IMS Network Control System

Last year, Telefónica implemented IMS (Internet Multimedia Subsystem), which has been operating in Spain since 2005, in the Czech Republic, Mexico, Colombia and Argentina. IMS is an architectural framework that simplifies network control and facilitates the creation and launch of new services by employing standard protocols.

Intelligence in the network

Apart from carrying out the usual network analyses in order to adjust it according to traffic requirements, last year the Company also began to endow it with more intelligence, allowing it to 'characterise' its contents. This will allow the network to be managed better, avoid saturation and fraud and identify new business opportunities.

'Service Delivery Platform'

In 2008, Telefónica defined the specifications of the *Service Delivery Platform* (SDP). The platform, implementation of which is due to start on 2009, will allow the Company to incorporate any service, either its own or those provided by other operators, into any Group network and operator without the need for specific developments. This will result in a broader provision of services.

Digital Home

Last year, Telefónica worked together with industry to find a common solution for standardising gateway interfaces for homes in order to ensure compatibility between the electronic devices usually found in the 'digital home'. In spite of the complexities involved, the first products designed for the home and employing this technology will come onto the market in 2009.

More efficient procurement and collaboration

Elsewhere during 2008, Telefónica increased the number of technology selection processes and drew up a single map of technology suppliers with the aim of rendering procurement processes more efficient.

At the same time, the Company, together with Telefónica R+D and all the operators in the Group, intensified collaboration with other operators such as NTT, Verizon, Telecom Italia and China Unicom and the main suppliers: Microsoft, Intel, NSN, Ericsson, NEC, Huawei, Motorola, Sony...

Looking to the future, Telefónica's main priorities are the deployment of optical fibre, the development of mobile Broadband and the transformations that will have to be carried out in order to render its networks as efficient as possible, thus improving cost efficiency.

Complete mobile coverage in Germany with GSM and more data speed with 3G (HSUPA)

Since the end of 2008, Telefónica O2 Germany's own network covers over 99% of the population¹. Thanks to this milestone, the Company is now able to offer its customers high-speed voice and data services. In the same way, HSDPA coverage, which enables downloads of up to 7.2 Mbit to be obtained, is now available in almost 100% of the third generation network (3G).

Alongside this, in March 2009, Telefónica O2 Germany launched O2 Surfstick, a product based on HSUPA, the 3G communications



The O2 SurfStick, device offering maximum speed with HSDPA technology

protocol that will enable all users to attain upload speeds of up to 5.76 Mbit - as soon as the existing infrastructure allows this to occur. This is the first step in the planned rollout in 2009 of the HSPA+ protocols which will enable download speeds of 28 Mbit and upload speeds of 5.76 Mbit.

¹ Coverage outdoors. 99% of indoor coverage will be reached at the end of March 2009.

Network infrastructures in mobile telephony

Base stations and nodes B-2008	3G	2G
Telefónica España	9,100	14,136
Telefónica Latinoamérica	2,767	18,481
Telefónica Europe	15,840	30,016
Telefónica Group	27,707	62,633

CapEx by regions

Unaudited data (millions of euros)	January - December		
	2008	2007	% variation
Telefónica España	2,208	2,381	(7.3)
Telefónica Latinoamérica ²	4,035	3,343	20.7
Telefónica Europe ³	2,072	2,125	(2.5)
Other companies ⁴	85	178	(52.1)
Total Telefónica Group¹²³⁴	8,401	8,027	4.7

¹ The figures for 2008 take into account the new public voice telephony services business model (net revenues). The figures for 2007 have not changed with respect to what was published originally (gross revenues and expenses) and therefore the comparison of the changes 2007/2008 is not homogeneous.

² From April 2008 onwards, the consolidation scope includes Telemig.

³ From the second quarter of 2007 onwards, Airwave is no longer included within the consolidation scope (the sale of Airwave generated capital gains of 1,296 million euros, which were recorded in the second quarter of 2007). 2008 includes 174 million euros set aside in provisions to meet possible obligations deriving from the disposal of share holdings in the past, since these risks have in the meantime either disappeared or failed to transpire).

⁴ Since the third quarter of 2007, Endemol is no longer included in the consolidation scope (the sale of Endemol generated capital gains of 1,368 million euros). The second quarter of 2008 includes the capital gains generated by the sale of the Company's shareholding in Sogecable (143 million euros).

Note: Capex calculated using accumulated average exchange rates.

Employees

In 2008, the number of employees working for the Company increased in 8,500 people

Telefónica directly employs 257,000 people and indirectly employs an additional 330,000 people

Telefónica Latinoamérica experienced the largest increase in employee numbers, 5.3%, and it now accounts for 67% of the total. Spain is the second region in terms of headcount numbers with 20% while Europe represents 11%.

Partner companies involved in installing and maintaining public telephone equipment and in the provision and maintenance of telecommunications products and services account for the indirect job numbers.

At the end of 2008, 257,000 people were employed by the Telefónica Group, an increase of 3.4% with respect to the previous year. Latin America, where employee numbers rose by about 5.3%, was the region with the largest increase in comparison with 2007.

Atento, employing over 132,000 people, was the company that made the largest contribution to the Group in terms of employee numbers.

Headcount trend

The most important factors affecting the size of Telefónica's workforce were the following:

- The creation of new jobs at Atento (+7%) and *tgestiona* (+16%) accounted for the increase in the total number of employees at the Company
- During 2008, Telefónica took over the Brazilian companies Telemig (1,280) and TVA (253) in Latin America and Atento Czech Republic (456) in Europe.
- In Spain, the workforce fell by 1.4% as part of the ongoing redundancy programme initiated by Telefónica Móviles España, Telefónica Soluciones and TID.
- In Europe, employee numbers rose by 0.1%.

Professional profiles

Excluding Atento, 41% of our workforce is employed in sales, 46% in service provision and 13% in support services.

On average, employees of the Telefónica Group have been with the Company for 6.1 years and the average age is 35.6 years.¹ At Atento, where these figures are lower due to natural turnover, employees have been with the company for an average

of 1.8 years and the average age is 28. 49% of the Company's employees are women and this figure rises to 61% in the case of Atento.

Within the Telefónica Group, 97% of the workforce either has a permanent or indefinite employment contract (84% in the case of Atento). The proportion holding management or executive posts in the Group is 7.1%² (4.1% in the case of Atento).

Employee indicators 2008

	Excluding Atento	Including Atento
Total number of employees	125,022	257,035
Spain	40,201	52,576
Latin America	55,928	173,014
Europe	28,893	29,349
Rest of the world	-	2,096
Employment evolution		
Number of new hires	14,477	148,519
Voluntary redundancies	6,696	93,508
Mandatory redundancies and severances	9,297	48,579
Incorporations following acquisition of companies	1,643	2,099
External rotation	12.8%	55.3%

Workforce per region

	2008	2007	2006	Change 08/07
Spain	52,576	53,300	57,058	-1.4
Latin America	173,014	164,231	142,983	5.3
Europe	29,349	29,310	33,818	0.1
Rest of the world	2,096	1,646	1,041	27.3
Total Group	257,035	248,487	234,900	3.4

¹ This figure does not include Atento.

² This refers to the proportion in percentage terms of managers and middle management staff compared to the total workforce. The 2008 figure does not include Telefónica Europe.

...Index of Employee Satisfaction and Commitment

Last year, this indicator stood at 66%¹

The Index of Employee Satisfaction and Commitment was 69%, 3 percentage points higher than 2007

The greatest degree of satisfaction in the Employee Satisfaction Survey last year was registered by employees in Latin America and Europe, where it exceeded 75%. In Spain, this perception improved by five percentage points.

In order to continue improving its performance, the Company will deploy a tool in 2009 designed to manage the degree of commitment of its employees: detailed measurements will be taken that will then be used to monitor improvement plans.

Telefónica's vision of its employees consists of 'encouraging their professional growth, development and well being; fostering their talent; recognising diversity, initiative and innovation and remunerating them in a way that is both fair and transparent'.

Strategy

In order to achieve this goal and become the best place to work, in 2007 the Company launched the 'Employee Promise' initiative based on four cornerstones:

- Improving employee satisfaction by providing employees with the best possible workplace. Progress towards this goal was achieved by realising the promises made to employees at the Group's various operators. Just one example of the success obtained with this initiative is Telefónica O2 Germany, recognised as a 'Great Place To Work®' in 2009, which drew up a series of promises on subjects such as remote work, time optimisation and reconciling family life with work based on the opinions of its employees.

Other global activities were aimed at optimising the relationship between employees and managers and using 360° feedback as a tool for management and junior management levels aimed to improve team confidence.

- Constructing a high-commitment culture, by highlighting individual commitment and recognising the best contributions to innovation and efficiency. This pillar was developed through online training initiatives and which idea programmes encourage and reward the contribution of employees.

- Operating as an international company that understands and manages diversity through policies and processes that promote internal movement and exchange of experiences worldwide. With this in mind, a new model for managing international job rotation was launched in 2008 with the aim of reaching over 300 people in the programmes, an increase of 67.5% compared to 2007. In addition, maximum advantage was taken of Universitas Telefónica, the Company's corporate university, which received students from all regions.
- Sharing talent, by placing the best people in the best jobs, and establishing a stream of talent throughout the organisation. This was achieved in 2008 through the implantation of a new leadership model, based on global growth; exchange of knowledge was encouraged through the collaborative tools e-kiss, which recorded 250,000 document downloads and 'Commercial Wings' (CW), centred on sales and marketing experiences and used by 5,400 people.

Evolution of employee satisfaction

The initiatives that were put into place resulted in an improvement in the Employee Satisfaction and Commitment Index in 2008, which reached 69%, three percentage points higher than in 2007 and with a participation rate in the survey of 70.4%.

The main improvement was registered by the relationship with colleagues; here, the satisfaction index was 68.9%, 4.8 percentage points higher than in 2007. In general, the aspects that were most appreciated were the Company's image, the pride of belonging to the Company and the leadership qualities of immediate superiors.



Telefónica Ecuador. GPTW presentation.

Goal: the best place to work



In 2008, after examining workplace ambience and the management methods applied to people, Telefónica Móviles Ecuador and Telefónica Móviles Uruguay were singled out as the best places to work in their respective countries. Likewise, the companies in Colombia, Chile, Argentina, Peru and Mexico stood out in the 'Great Place to Work®' (GPTW) ranking. In 2009, Telefónica O2 Germany had already secured the third place in the GPTW ranking.

Elsewhere, Telefónica was designated one of the TOP employers to work for in Spain according to the international organisation CRF.

In spite of the progress registered in career development (+3.7 points), the Company nevertheless still sees room for improvement in this area.

A further step in monitoring employee commitment

The challenge for the coming years is that of progressing from simply measuring employee satisfaction ratings towards the goal of comprehensively managing their degree of commitment. With this aim in mind, in 2008, 14 Telefónica companies implemented the tool Measurecom, which incorporates all those aspects concerned with employee commitment (measurement, communication of results, recording and monitoring action plans).

This system, based on a successful experience at Telefónica Europe, will increase response levels at all stages of the cycle and will facilitate the participation of the whole organisation in the process of transformation and improvement.

¹ The figures correspond to the new Satisfaction and Commitment model. The results for 2007 have been adjusted to reflect the change with respect to 2008. The ICC Index records the average number of favourable replies ('I agree' and 'I completely agree') to the 33 questions contained in the annual survey of Employee Satisfaction and Commitment in which all Telefónica employees participate.

Suppliers

In 2008, a total of more than 30,000 suppliers were awarded business

Telefónica awarded over 25,926 million euros worth of contracts, consolidating electronic sourcing with its suppliers

The ten most important suppliers in terms of contract amount awarded were the following: Nokia, Sony Ericsson, Nokia Siemens, Huawei, Samsung, Apple, Alcatel Lucent, Motorola and LG.

In 2008, electronic sourcing accounted for over 18.000 million euros of which 3,750 million euros were placed by electronic auction.

Telefónica's procurement model

Telefónica employs a global procurement model that, in turn, takes into account the particular features of the markets where it operates. This model, developed over the last eleven years, has continued to incorporate important innovations. It is based on the principles of transparency; competitiveness and equality of opportunities; objectivity and unanimity when awarding contracts; aimed at internal and external customers and meeting commitments on both sides with the suppliers.

In 2008 the Company intensified the use of electronic commerce when negotiating with suppliers, the application of the principles of Social Responsibility in the purchase and supply chain and collaboration with partner firms: Telecom Italia and China Unicom.

Last year was also characterised by an increase in purchases in new Asiatic markets, thus stimulating competition and giving new suppliers from emerging markets the chance to participate. In particular, the negotiations between Asiatic suppliers/manufacturers reached over 4.8 million euros.

Product lines

Telefónica divides its purchases into six Product Lines: Network Infrastructures (which represents 16% of the Company's total purchase volume), Services and Works (31%), Market Products (including customer devices, in particular mobile handsets, representing the 33%), IT Systems (10%), Publicity and Marketing (8%) and Contents (2%).

Electronic commerce

Telefónica has for many years now been engaged in a profound transformation of the Purchase function through the use of a single electronic commerce platform for all the operations it performs involving its suppliers within the purchase and supply chain: invitation to tender, acceptance and negotiation of offers, contract, order, delivery note, receipt and invoicing.

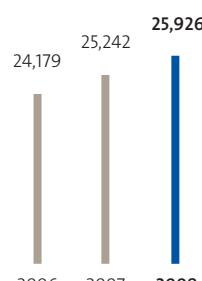
In 2008, the Company continued to promote the use of electronic sourcing in order to benefit from the advantages this affords both for the supplier and for Telefónica. Sourcing spurs competition, provides suppliers with transparency and equal opportunities and leads to increased operating efficiency and savings in administrative costs. Electronic sourcing exceeded 18 billion euros (34,410 transactions) from which 3,750 million euros were realised using the electronic auction method (6,002 in total).

This sourcing model is employed in practically all the countries where Telefónica operates. Last year, it was implemented in Germany, Ecuador, the United States, the United Kingdom and Uruguay. These countries joined those which already used the system: Spain, Argentina, Brazil, Chile, Colombia, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru, Czech Republic and Venezuela. In 2009, there are plans to implement it in Ireland and Morocco.

Telefónica is also promoting the use of electronic methods when completing order formalities with suppliers (award of tender letters, contracts and orders) given the considerable advantages of completing all purchase and supply operations - including

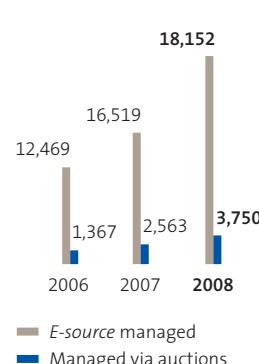
Purchase volume

Millions of euros



Evolution of electronic sourcing

Millions of euros



invoicing - via electronic means. It allows all operations to be linked in a sequence and in terms of data: contracts, orders, deliveries, receipt of goods and invoices, emphasising the integrity of these operations.

E-commerce operations totalled 7,406 million euros in 2008 and these operations included award of tender letters, electronic orders and contracts. Likewise, in 2008, the implementation of electronic invoicing continued and this method was also used for suppliers within the Telefónica Group (18,000 invoices were completed in Spain).

Telefónica has a Supplier Portal on its web page (<http://www.telefonica.com/suppliers>) which is used by suppliers when registering as suppliers of Telefónica. This page can also be used by those wishing to obtain details on topics of particular interest such as the products and services acquired by Telefónica, the countries where it operates and further information regarding its Procurement Model and Corporate Responsibility.

The number of active suppliers using Telefónica's e-commerce platform has surpassed 18,000 -an increase of over 12% when compared with the previous year- and the platform is already used in 18 countries in Europe and Latin America (as mentioned previously).

Telefónica 'Compras Electrónicas'

2008 saw the consolidation of the activities of Telefónica Compras Electrónicas (TCE), a company created by Telefónica at the end of 2007 in order to provide e-commerce services to Telefónica companies via a single, universal platform. TCE continued to implement new functions throughout the Purchase and Supply chain and made progress in adjusting the system's performance and availability and in improving the service provided to users. All of this helped to improve user satisfaction - purchasers and suppliers alike - and led to an increase in the number of electronic operations carried out.

On average, the platform's availability rating exceeded 99.5% for all modules in 2008 and it responded to 18,066 service requests (including incidents, consultations and user requests). The average support time was gradually reduced during 2008 and stood at less than one day in December.

Other external Telefónica customers (purchasers) also began to be incorporated onto the platform in 2008.

Telefónica also forms part of Adquira's Electronic Market (e-Marketplace) in which other large companies such as Repsol, Iberia and BBVA also participate as well as many smaller firms. Both purchasing companies and suppliers derive numerous benefits from this marketplace - the former through sharing infrastructures while the latter gain access to a broad market of purchasers.

Collaboration with partners

In 2008, Telefónica intensified its collaboration with Telecom Italia and China Unicom (formerly known as China Netcom) and adopted a two-pronged approach in doing so: through exchanging information on applying better practices in procurement processes and systems and by carrying out joint purchases with relevant suppliers, something which is advantageous both for the companies involved and for their suppliers.

Implementing Corporate Social Responsibility

In 2008, the Telefónica Group achieved progress in the implementation of its policy of Corporate Social Responsibility throughout the Purchase and Supply Chain. The most significant projects concerned the risk associated with suppliers in terms of Corporate Social Responsibility and the actions to be taken in response, encouraging responsible purchases from socially responsible suppliers and collaboration in the projects that have been launched globally by Telefónica dealing with energy efficiency. These initiatives will be described in detail in the chapter Business Principles contained in this report.

Suppliers satisfaction

Every two years, Telefónica carries out a survey of its main suppliers in order to determine their degree of satisfaction and identify which aspects have been positively valued and where there is room for improvement. This survey was compiled at the end of 2007 and in 2008 various initiatives were put into place based on the three aspects that were found that could be improved:

- Reduction in the time required to manage purchase processes, which was optimised in 2008 by reducing the average time required to manage purchases to 14 days (as opposed to 15.5 days in 2007) and in addition, more intensive use of electronic means when formalising orders with the aim of notifying suppliers about order confirmations in a more efficient and flexible manner.

- Notification in all cases of results to those not awarded a tender. This was achieved internally by intensifying monitoring of Purchase Areas with the aim of ensuring fulfilment of this commitment.

- More attention paid by Telefónica to aspects related to the degree of compliance by suppliers with environmental standards. With this in mind, in 2008 the Company evaluated those suppliers which were most at risk of failing to comply with environmental standards (as well as other aspects of Corporate Social Responsibility).

Digital inclusion

More than 60 initiatives in Spain,
Europe and Latin America

Telefónica invested more than 370 million euros¹ as part of its commitment to bridge the digital divide

Part of the strategy of Corporate Responsibility 2.0 defined by the Company in 2008 concerns the contribution that can be made in creating an inclusive society through the use of ICT.

The Group allocated 275 million to the Universal Service Funds; close to 15 million, to ICT training activities; and more than 80 million in projects to reduce the economic and geographic divide.

Universal Service

The Company regards the obligation to provide a Universal Service as synonymous with equality, solidarity and social cohesion.

- In Spain, Telefónica Spain's obligation to provide a Universal Service was renewed until 2010 for connection services to the public telephony network from a fixed location and access to the telephone service, public telephone kiosks, directories ('white pages') and special services for specific user groups (people with disabilities, pensioners...). During 2007, the net cost for the Company of providing the Universal Service was 104 million euros.
- In Latin America, Telefónica companies collaborate with various public initiatives aimed at extending service provision to all parts of the population. In 2008, Telefónica made a net contribution of 162 million euros to the Universalisation Funds set up in Argentina, Brazil, Colombia, Peru and Venezuela.
- In the Czech Republic, Telefónica O2 offered the following services derived from the Universal Service: telephone directories, directory enquiry services, public phone boxes and special offers for disadvantaged groups. During 2007, the net cost for these services was more than 8 million euros.

Geographic divide

The geographical divide is the barrier that prevents telephony services from being established in rural areas due to the extra costs associated with doing so. In 2008, Telefónica worked to extend telephony to rural areas through the following projects:

- 'Cobertura 2008' (Coverage 2008) (Ecuador):** initiative aimed at improving mobile coverage in suburban and rural areas and main roads. During 2008, 87.2% of the population received coverage.
- 'Intégrame' (Integrate Me) (Peru):** a public-private alliance for developing telecommunication services in rural areas with high rates of poverty. The use of wireless technology enables mobile and fixed services to be provided as well as access to Internet and television. Around 20,000 people benefited from the programme 'Intégrame' in 2008 distributed in 61 different population centres.
- 'Second Biannual Plan to extend and replace social telecommunication networks with wireless solutions' (Colombia):** replacement and extension of telecommunication networks in 1,400 localities located in 330 municipalities using funds provided by the Communications Fund. 25,000 families will benefit from this project, which will create over 200 call centres in 2009.
- 'Plan to Extend Rural Broadband' (Spain):** a programmed sponsored by the Ministry for Industry, Tourism and Commerce and supported by the autonomous communities and Telefónica España. In October 2008, the number of customers amounted to 110,470.

Economic divide

Revenue inequality is a barrier for access to ICT solutions. For this reason, Telefónica offers fixed and mobile telephony services to everybody, including those who are less well off or those who have problems paying their bills.

At the end of 2008, over 82% of Telefónica's 123 million mobile customers in Latin America used prepay products that allow consumers to control their expenditure effectively. In addition, the deployment of GSM networks contributed to driving down the cost of handsets.

At the end of the year, the number of prepay fixed lines with controlled usage amounted to over 6 million in Spain and Latin America. This programme is based on prepay fixed lines that help customers on low incomes who would otherwise have difficulties in meeting the costs of installing a telephone in their homes. This is the case in Chile where 14,000 customers have access to Broadband thanks to the prepay Broadband plan.

Similarly, Telefónica continued to innovate in the creation of products and services that are accessible for less privileged members of society:

- 'Fonoya' (Peru):** a service that offers the possibility of obtaining access to the fixed telephony network by acquiring a handset that only has to be connected to the mains electricity supply and paying a sum equal to one sol per day (0.30 dollars).
- 'Microrecargas' (Microtop-up) (Latin America):** a service that offers prepay customers the possibility of topping up their account balances with amounts ranging from 0.5 to 5 dollars.

¹ 104 million euros correspond to the net cost for 2007 for Telefónica España's provision of the Universal Service.



'Fonoya' project, Peru.

Training divide

Even where Information and Communication Technologies are available, some people are incapable of using them, due to a lack of training. According to the Centre for Sociological Research (CIS)¹, 91.9% of people over the age of 65 do not use the Internet, and of these, 58.1% admit that they don't use it because they don't know how to.

Telefónica is carrying out a number of initiatives aimed at teaching people how to use and derive benefits from new technologies. During 2008, over 230,000 people took advantage of these educational programmes. Similarly, the Company possesses information centres in Latin America that offer low-cost Internet access financed by subsidies provided by various education ministries to community areas or districts with the aim of supporting education, employability and the entrepreneurial spirit of citizens.

Telefónica also invests in programmes aimed at improving the technological skills of the youngest people, together with their parents and teachers. For example, last year in Spain and Latin America, on-site educational activities, both online and mixed, were developed as part of the EducaRed programme, amounting to 606,787 hours for teachers, pupils, parents and other people from eight that is 53% more than in 2007.

Health and disability divide

During 2008, Telefónica continued working in the areas of health and disability:

- The Company developed a tele-assistance platform which allows remote care of dependent people and that, in the future, will be able to incorporate numerous services, like rehabilitation, monitoring, leisure, company, etc. The platform started working last year, as a pilot.
- In 2008, Telefónica signed an agreement with the State's Confederation of Deaf people (Confederacion Estatal de Personas Sordas, CNSE), to collaborate in the start up of a sign language tele-interpreting service, at a national level. The collaboration started by checking the technical feasibility of the platform developed by the R+D centre in Granada, and hopes to have the service take shape in 2009.
- In Spain, the Company launched a voice SMS service (converts the text of an SMS to voice); and 6 new models of adapted landline telephones.
- In the rest of Europe, it is worth mentioning that Telefónica O2 Germany successfully marketed Motorola's 'easy and practical' Einfach-Handy W220. In the Czech Republic and Ireland, we offered the Emporia Life, specially designed for older people or people with disabilities,

and in the Czech Republic we also promoted discounts and special offers tariffs for older people or vulnerable people. In the United Kingdom, there is a special text-relay service and we launched a special website with recommendation for choosing a mobile phone.

- In Latin America it is worth mentioning, the mediation centres for the deaf in Argentina, Brazil and Colombia, with 360,000, 45,000 and 15,000 calls answered, respectively, in 2008.

In 2009, the Company will initiate a strategic project on e-health (health and well being), aimed at designing an offer of services related to health and well being, which will include specific proposals for people with disabilities.

Social awareness

In 2008, the Company decided to launch the 'Ability Awards' prizes in Spain, already put in place by Telefónica O2 Ireland in order to recognise companies or institutions with sustainable business models that are aimed at people with disabilities.

For this reason, Telefónica will create a board on which the business associations and most important disability organisations in Spain will be included.

¹ Source: Barometer Survey CIS No. 2754. Data from February 2008.

Anti credit crisis plan for SME's and those out of work

In March 2009 the Company initiated an anti credit crisis plan for SME's and those out of work, measures including discounts of up to 50% on invoices for customers who are unemployed, with a limit of 20 euros per invoice. Up to half a million invoices could benefit from this help, this year.

The Telefónica announcement initiated a rapid response to the customer services lines (1004, SME's, Internet) registering around 10,000 calls over the previous days from clients interested in the plan

requesting a cost-control assessment of their telecommunication needs.

Due to this commercial success, a new office of Commercial Assessors was set-up, the objective being that each customer of the Company should get the best offers as well as products that are best adapted to their needs. This office is open 24 hours a day, from Monday to Sunday, on the freephone number 900 380 390. Up to the publication date of this Report, this service had registered more than 4,500 calls and more than 100,000 unemployed customers had completed applications to receive discounts on their bills.



On this basis the website www.telefonica.es/teayudamos was set up to process customer requests. There have been more than 200,000 downloads of the subscription forms. Additionally some 3,000 new businesses have also shown an interest in help and discounts tailored for them.

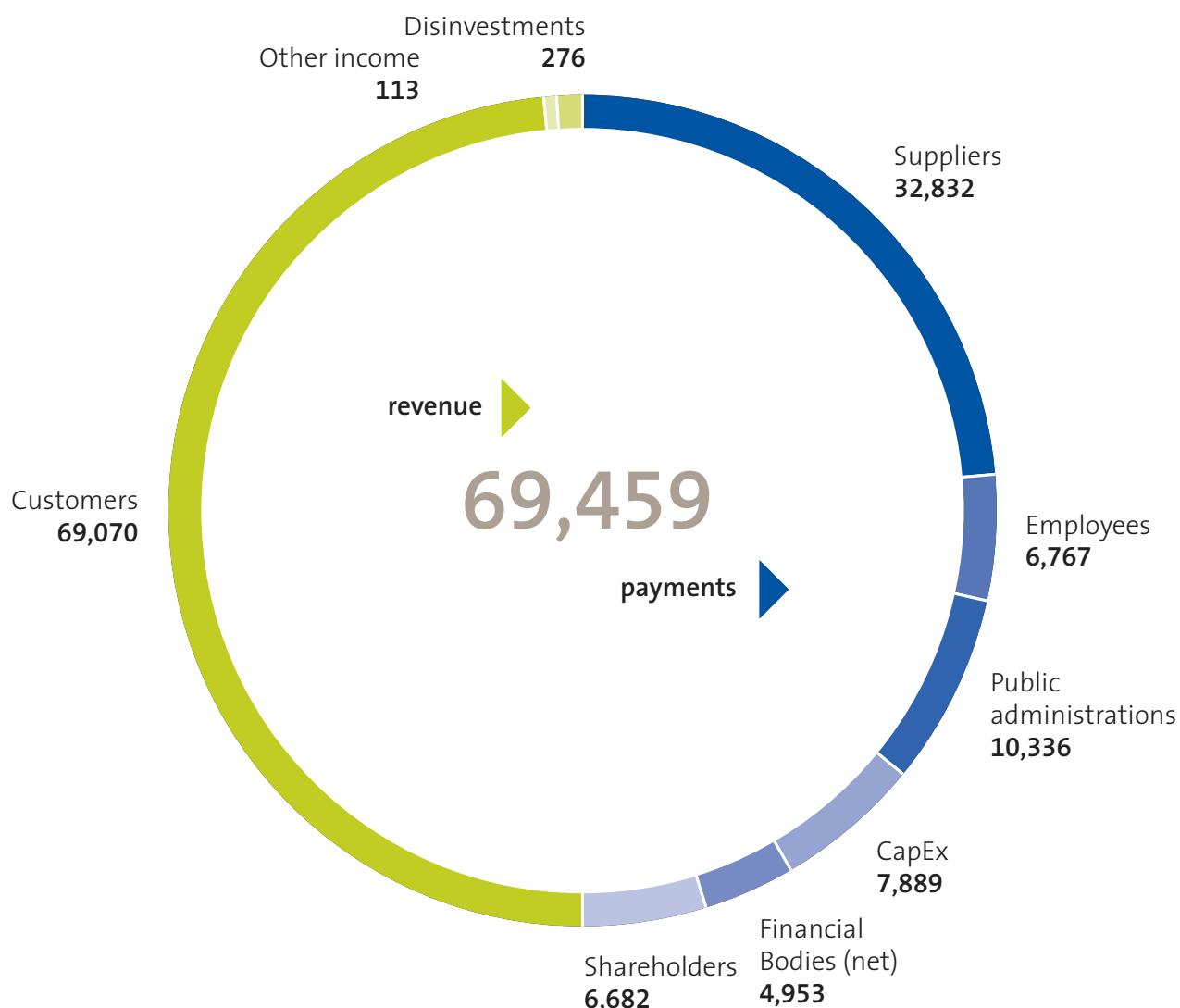
Driving force for progress

In 2008, the Company created wealth valued at 69,459 million euros

Telefónica is a driving force for economic, technological and social development in the countries where it operates¹

In 2008, the Company earned more than 69,000 million euros in revenues. These revenues allowed it to pay out 6,767 million euros to its employees (5% more than in 2007); 10,336 million euros to Public Administrations (4% more than in 2007); 32,832 million euros to its suppliers (2% more than in 2007); and about 6,700 million euros to its shareholders (22% more than in 2007).

In 2008, Telefónica set aside over 4,600 million euros for technological innovation, which represents an increase of 6% with respect to 2007. 668 million euros of this amount was invested in Research and Development (R+D), making Telefónica the sixth largest company worldwide in this category and the first amongst Spanish companies, with an amount dedicated to investment that is 4 times that of the runner-up in this ranking².



¹ Data in millions of euros.

² Source: 'The 2008 EU Industrial R+D Investment Scoreboard'.

Note:

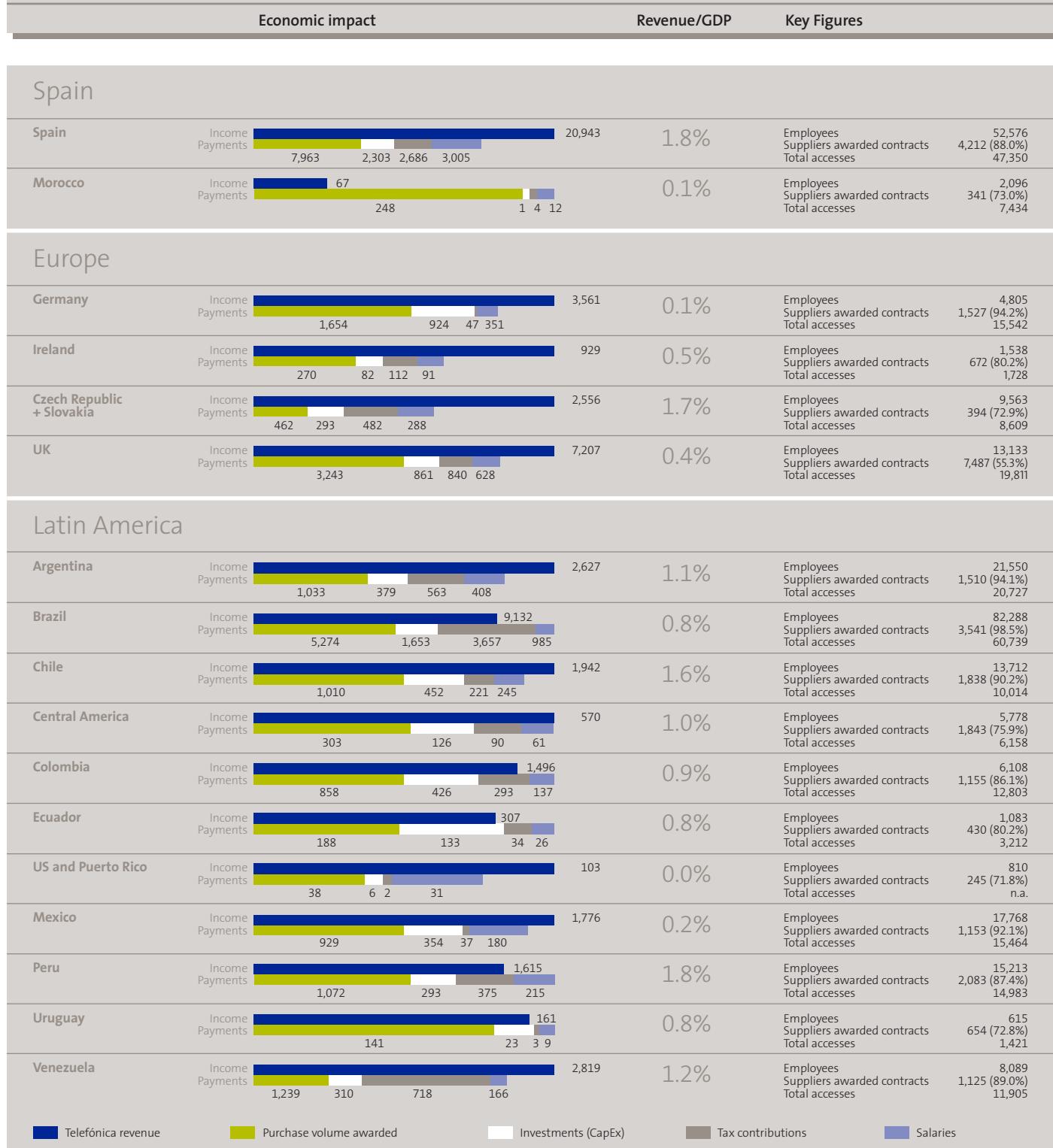
This information has been calculated on a payments basis, whereas the information on the following page has been calculated on an accruals basis.

The information published on this page has been obtained from internal cash flow evolution sources of the Telefónica Group and verified by the auditor of the CR report.

The data that has been recorded could be affected by variations caused by subsequent events and evolutionary effects that might cause changes in its content. For a detailed analysis of the consolidated financial statements of Telefónica Group, the audited information is included in the annual accounts report.

Driving force for progress

Contribution to progress



- Economic data expressed per million euros (revenue, personnel expenses, payment of taxes, purchases and investments (Capex))
- Revenue, consolidated revenue corresponding to all of Telefónica's business units in the country.
- Revenue TEF/GDP: ratio between Telefónica revenue (contribution made by country to consolidated revenue of the Telefónica Group) and the country's estimated GDP (Source IMF).
- Capex figures are in euros.
- Employees: directly employed by the Telefónica Group in the country (total number employed on 31 December 2008).
- Suppliers: number of suppliers awarded contracts in the country in 2008. The % in brackets refers to the % awarded to local suppliers (proportion of contracts awarded to suppliers based in the country with respect to total volume of contracts awarded, expressed as a percentage).
- Accesses: represents the number of fixed line accesses + mobile + Broadband + pay TV (expressed per thousand).

Business Principles

The goal is to provide training to 100% of employees by 2011

Telefónica approved the new rules that will be used to implement its Business Principles, and training in these was provided for 60,219 employees¹

During the year, the Business Principles Office approved two policies on Data Protection and Risk Management; and agreed on basic measures for the development of regulations aimed at encouraging the workplace integration of people with disabilities.

In 2008, Business Principles channels received 169 notifications from employees. Additionally as a consequence of the investigations carried out for possible breaches of the Principles, 358 disciplinary actions were carried out.

Culture and management

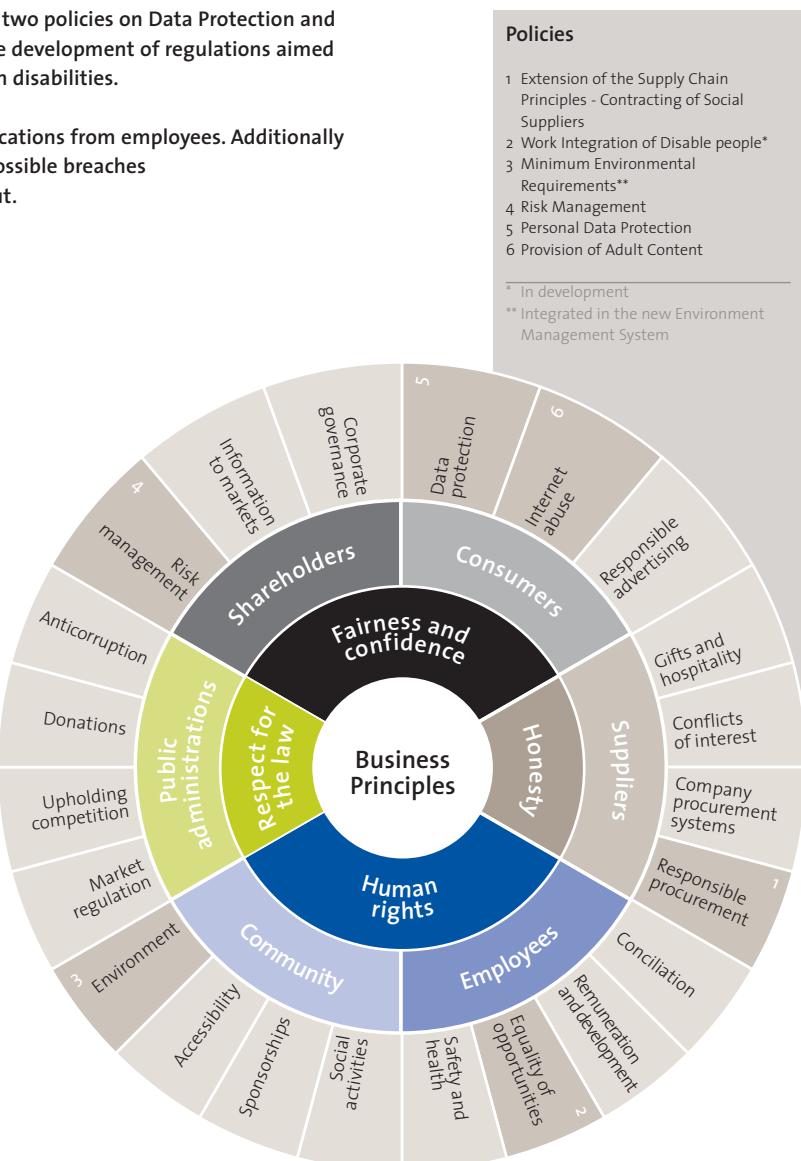
Telefónica is seeking to consolidate a new internal corporate culture based on making maximum use of its Business Principles.

The Business Principles are the code of ethics that lay down the guidelines governing the relation between its various interest groups (employees, clients, suppliers, shareholders, public administrations and society as a whole).

In order to put its Principles into practice on a daily basis, the Company is developing internal regulations aimed at:

- Defining the general day-to-day guidelines and criteria to be activated.
- Providing support to those areas directly involved in the fulfilment of the commitments entered into with its interest groups;
- Manage reputation risk by identifying areas where action should be concentrated.

In seeking to integrate management models, the Company is seeking to ensure the coherence of all of its actions, both its more visible initiatives - social and cultural activities, or products and services with considerable social impact amongst others - such as those concerned with aspects of internal management - including the task of apprising employees of its Business Principles and developing the policies and regulations required to implement these principles - all with the goal of establishing a clear link between the Company's public and social aspects and its business results.



Business Principles Office

Telefónica relies on its Business Principles Office when it comes to: supervising implementation and compliance with its code of ethics throughout the organisation; identifying and developing regulatory policies and providing support both to employees and to suppliers in matters relating to queries, complaints and claims as to the Business Principles.

The Office, which reports directly to the Board of Directors via the HR, Corporate

Responsibility and Reputation Committee, is made up of the following departments: Human Resources, Internal Audit, the General and Legal Counsel and the General Technical Secretariat attached to the Chairman's office. It also contains a representative from each of the regions where the Company is present: Spain, Latin America and Europe.

The web page dedicated to the Business Principles was also used as a tool for disseminating the principles within the company; it received 1,430 visits in 2008 and the information brochure was downloaded 16,500 times.

Drawing up regulations

Last year, the Office identified new areas that were in need of a regulatory base and together with the different areas in the Company, it pushed ahead with the development of policies designed to ensure the proper application of and compliance with the code of ethics. In drawing up these rules, Telefónica is laying down standards that in some cases go further than existing legislation

In particular, in 2008, regulations were approved dealing with Risk Management and Data Protection and the basis was laid for the development of a regulatory framework governing the workplace integration of disabled people.

Risk management

This policy contemplates a new risk management model in line with the best practices contained in Internal Control (Report COSO II and Draft BS³ 311002 Code of Practice for Risk Management). This model involves adapting the Company's existing model, in place since 2000, and will establish a common approach for identifying, evaluating, managing and reporting risks in a consistent and effective manner within the Group. This will include a classification of the risks, which, in addition

to the usual financial, credit or operating risks, will include reputational risk.

Data protection

Corporate Policy on Personal Data

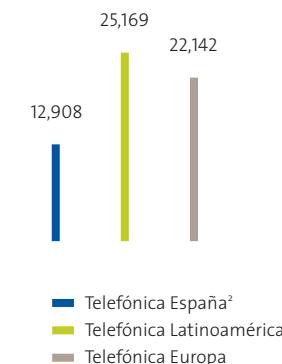
Protection allows the Company to establish the basics to guarantee an adequate level of protection of personal data in all of its companies, in whichever country they are operating and independent of the local legislation on this subject matter.

Future Policies

Telefónica has scheduled to fully deploy ten policies over the next three years: Protection of Children and Teenagers and Responsible Use of ICT; Data Protection Policy; Environmental Management System; Climate Change and Energy Efficiency; Digital Inclusion of Disadvantaged Groups (older people and disabled people); Diversity; Chain of Supply Responsibility; Human Rights; Dialogue with Interest Groups and International Social Dialogue; Social and Environmental Reporting

Training

In 2008, the Company continued to make use of the on line course launched in 2007 in order to transmit its Business Principles to



its employees. The cooperation offered by the regional and local Business Principles offices in Europe and Latin America proved crucial in carrying out this task. Approximately 50% of employees had received training on 1 March 2009.

Confidential mailbox

The Business Principles mailbox received a total of 169 communications during 2008, either anonymously or by named individuals. Most of the queries were related on how to interpret the Principles. As a result of the investigations carried out for possible breaches, 358 interventions were carried out in order to ensure compliance.

¹ All figures referring to employees who have received training are dated 1 March 2000. Telemarketing personnel have been excluded.

1 All figures relating to employees who have received
2 Includes Contents business, *taestiona* and others

² Includes Contents business, *gestion* and others
³ BS: British Standards. Draft of the document 'Code of practice for Risk Management' issued by the British Standards Institution.



New communication initiatives for 2009

In March 2009, together with the internal magazine 'SOMOS', Telefónica distributed copies of its Code of Ethics. This edition also includes a report on the Business Principles Office aimed at reminding employees what its tasks are. The magazine was dispatched to 45,000 employees and an on line version of the magazine was also made available to all those interested.

'Every small decision we make can affect all of us'. This was the message selected by Telefónica Latinoamérica at the beginning of the year in order to heighten the awareness among its management team of the importance of disseminating the Business Principles through training.

Social and Cultural Action

The Company's strategy was founded on Information and Communication Technologies

Telefónica devoted 115 million euros to social and cultural projects during 2008

Fundación Telefónica continues to be the driving force behind these initiatives: it invested 70 million euros in 3,565 projects from which 40 million people benefited.

Proniño provided schooling for 107,602 children, 103% more than the previous year, freeing them from the risk of being recruited as child labour in Latin America.

Telefónica is convinced of the role that can be played by Information and Communication Technologies in improving the standard of education and promoting equality of opportunities. These are precisely the aims of its social and cultural initiatives, for which it set aside 115 million euros in 2008, 23% more than the previous year according to the international methodology LBG, which was adopted by the Company in 2007 to measure and evaluate its contribution to the community.

The projects are implemented as follows:

- Fundación Telefónica, the cornerstone of the Company's social and cultural activities. Created in 1998, it is present in eight countries: Argentina, Brazil, Chile, Colombia, Spain, Mexico, Peru and Venezuela although some programmes are developed in as many as 14 countries including Ecuador, El Salvador, Guatemala, Nicaragua, Panama and Uruguay.
- Social and cultural sponsorships that have a positive influence on society, the arts and culture. In 2008, the Company spent 32 million euros on a total of 170 initiatives.
- ATAM, the Telefónica association aimed at improving the quality of life of disabled people. Its integrated care model includes advisory services, direct financial aid and services designed to promote the workplace integration of its members, totalling 58,226 employees.
- Telefónica Europe carries out social activities that are mainly centred on young people and education. Every year, it adds other initiatives dealing with health/disability and the environment.

Fundación Telefónica*, in support of education

Fundación Telefónica aims to contribute to social well being through quality education. In order to fulfil its goals, it collaborates with educational, social and cultural bodies, both public and private: last year, it collaborated with nearly 270 organisations.

Fundación Telefónica has five large-scale action programmes:

- **EducaRed**, designed to improve education standards through the use of new technologies. Its website EducaRed.net includes tools, content and educational programmes as well as collaboration tools. With 32.3 million visits, it is a reference point in the Spanish-speaking

107,602 children have received schooling and avoided being recruited as child labour thanks to Proniño

I received my high school diploma last year; I was one of the first batch of graduates who received support from the Proniño programme. (...) I think that the support of my parents, with all its limitations, was my greatest stimulus since there are five brothers in all in our family; I'm the oldest and my youngest sister is only eighteen months old...I want a better life for her. I want to fulfil my goal of becoming an industrial engineer; for the moment, due to my lack of funds, I have begun studying technical engineering and I have applied for a grant in order to stay on at university (...).

world and is present in Argentina, Brazil, Chile, Colombia, Spain, Mexico and Peru and, since 2008 in Venezuela. The programme also develops on-site educational activities, forums and debates. Last year, it extended its scope by concluding agreements with international organisations and by collaborating with Proniño in the 13 countries where this programme has been implemented.

- **Proniño**. The goal of this programme is to contribute to the eradication of child labour through schooling. In 2008, it provided schooling for 107,602 children, doubling the number of children benefiting from this programme in Latin American for the third year running. During the year, the experience of the EducaRed model was drawn upon to provide teachers, pupils and families with the technological tools required to



David Ernesto Carías Hernández

David Ernesto is 17 and in 2008, he received his general high school diploma at the school Cantón San Lucas, Cuisnahuat, Department of Sonsonate (El Salvador).

Telefónica's Social and Cultural Action (investment)

LBG methodology since 2007 - data expressed per million euros	2008	2007	2006
Fundación Telefónica	69,205	51,054	33,015
Social and cultural sponsorships	32,422	28,988	1,608
ATAM	9,174	9,069	8,911
Social activities Europe	3,898	4,228	2,493
Total	114,700	93,339	46,027

Note: 2007 was the first year of accounting for ATAM amounts according to LBG criteria. For this Telefónica used a conservative criterion, publishing contributions of 4.5 million euros for 2007. However in 2008 the criteria was extended and it has been verified that the amounts published in this table are in agreement with LBG methodology.

guarantee access to quality learning and education. This comprised the installation of 74 'Aulas Fundación Telefónica' in Proniño educational centres, fully-equipped and connected; the launch of Canal EducaRed del Educador Proniño in which 25 learning modules were developed and the implementation of the Consultancy Service on Educational Technology, which provides teachers with qualified and personalised support.

For 2009, Proniño has set itself the task of helping 120,000 children, both boys and girls, and teenagers through its integral protection initiative and a further 127,500 new beneficiaries through socio-educational initiatives.

- **Telefónica Volunteers:** In 2008, 21,807 employees participated in the Corporate Volunteer Programme. Once again, most of the volunteers' time, amounting to 341,109 hours in total, was dedicated to Proniño and people at risk of social exclusion. In 2009, the synergies with Proniño and EducaRed will be strengthened with projects such as Solidarity Holidays and Friend Schools; the latter is an initiative that will enable schools to share experiences over the Internet. In addition, older former employees will join the programme and the Volunteer Programme for Telefónica Europe will be created, in which close to 1,000 volunteer employees dedicated nearly 6,000 hours of support work in 2008.

- **Debate and Awareness,** which is dedicated to creating knowledge about the Information Society and studying its social impact. Its studies and investigative projects foster a better understanding of important aspects of

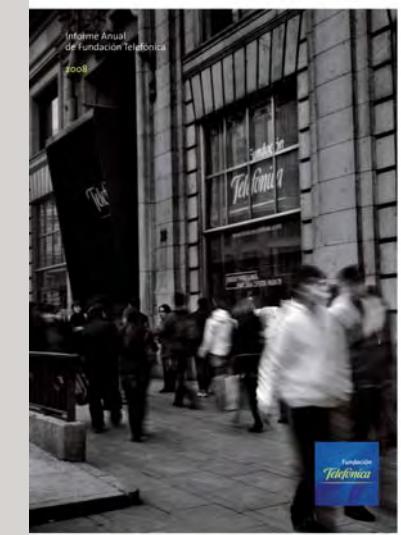
People directly benefiting from the Fundación Telefónica

Área	Number of people 2008 Participants/beneficiaries
EducaRed	32,514,635
Proniño*	127,655
Volunteers	246,273
Forum	766,065
Arts and Technology	4,748,375
Other programmes	1,845,628
Total	40,248,631

* Children benefited adding teachers, educators and social agents trained.

ICT today. It also carries out analyses and debates as well as extensive publication activities: during 2008, it published 14 new titles as part of the Telefónica/Ariel Foundation Collection. During the year, it also improved its website and gradually changed it into an interactive forum as well as bolstering the magazine TELOS, with a 22 year history.

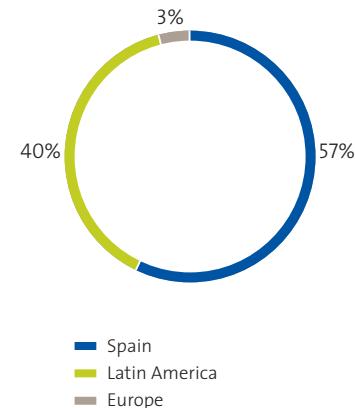
- **Art and technology:** the Fundación Telefónica promotes culture and contemporary art, establishing a link between technological innovation and the avant-garde through collections, exhibitions, the VIDA competition and arsVirtual. It also manages Telefónica's artistic, historical and technological heritage. In 2008, it organised 31 temporary exhibitions and travelling exhibitions in Spain and Latin America. In total, 4.7 million people benefited from the Foundation's artistic and technological activities, 125% more than in 2007.



Fundación Telefónica published an annual memorandum containing a description of its programmes and the most significant advances during the year. The electronic version of the Annual Report 2008 can be found on the following web page: www.fundacion.telefonica.com

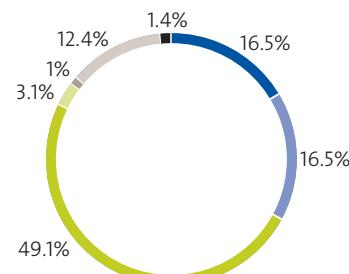
Social and Cultural Action by region

Methodology LBG - data expressed in percentages



Social and Cultural Action by activity

Methodology LBG - data expressed in percentages



- Socioeconomic development
- Art and Culture
- Education and youth
- Social welfare
- Environment
- Health and disability
- Others

Climate Change and Energy

The Company set up an Office to manage the global Climate Change and Energy Efficiency project

Telefónica has committed itself to reducing electricity consumption in its networks by 30%¹ before 2015

One of the main tasks of the Company's new Office for Climate Change is to promote the development of services designed to improve energy efficiency in other sectors.

In 2008, the Group reduced its CO₂ emissions by 5%.

Telefónica publishes a special supplement for 2008 on Environment and Climate Change. The electronic version is at www.telefonica.com/cro8/climatechange

Strategy, management and organisation

From Telefónica's point of view, the battle against climate change is not just another element of its environmental policies or of Corporate Responsibility, it is also a challenge that it intends to meet for economic reasons and for the sake of efficiency as well as being a new source of business opportunities that will allow it to reinforce its competitive position on a global scale.

In this respect, 2008 was a key year for Telefónica: on 26th June, the Company's Chairman, César Alierta, announced the creation of a Climate Change Office at the Zaragoza International Exhibition and established its goal of reducing the Group's energy consumption.

This office, promoted by the Directorate of Transformation and the General Secretariat of the Chairman's Office, will be charged with the task of overseeing the reduction in energy consumption and in the greenhouse gases (GHG) generated by the Company's activities; to promote the development of services that enable customers and other sectors to be more efficient; and placing Information and Communication Technologies (ICT) at the heart of the solution in the fight against climate change.

Given the global and transversal nature of the Climate Change project, the Office has five lines of action, each led by the head of the corresponding area: Operations, Suppliers, Employees, Customers and Society. This functional structure means that it will be possible to implement projects more quickly, as well as naturally pooling institutional, operating and business strategies.

Goal: reduction in consumption and emission levels

In 2008, Telefónica committed itself to reducing electricity consumption in its networks by 30%¹ before 2015 and by 10%² in its offices. This will considerably reduce the Company's direct and indirect emission levels worldwide. In order to determine emission levels, from 2007 onwards, Telefónica has used an internal methodology based on the Greenhouse Gas Protocol and ISO 14064 which is applied to the entire Company.

In this way Telefónica knows the GHG emissions that are directly controlled by the company, named as Scope 1; also those emissions that are due to their activity but are generated by other entities (electrical energy), denominated Scope 2; and lastly as a new introduction in 2008, they also measure the emissions associated with business trips, called Scope 3.

Last year, Telefónica's electricity consumption was 4,828³ GWh, being reduced approximately from 41.7³ to 39.1³ Kwh/equivalent access⁴.

At the time this report was published, over 70 initiatives were under way and they will continue to be developed during 2009 in the various lines of action.

Line of Action Operations: Green Technology

This line of action is concerned with making Telefónica a driving force for innovation and in the development of projects aimed at

fostering energy efficiency and reductions in emissions of greenhouse gases in networks and systems, as well as promoting the use of renewable energies throughout the Company's operations.

In 2008, a Manual detailing Good Practices for Energy Efficiency in networks was compiled which lists about fifty initiatives that have been evaluated and tested and are capable of being rapidly implemented. Amongst these the following should be noted: the revision of threshold temperature settings on air-conditioning systems, optimisation of electricity demand and the selection of suitable power settings. Likewise, other activities have been included in the development plans for the coming years.

In addition, a 'Green IT' working team was set up charged with the task of reducing energy consumption levels in Telefónica workplaces and in data processing centres (CPDs). This team is working on various projects, the most interesting example concerns the replacement of IT equipment with more energy efficient models.

Renewable Energies

Kwh

Auto-generation on fixed and mobile networks	6,523,362
Purchase of renewable energy	530,839,323
Sale to the electrical market	3,300,000
Number of installations with renewable energies	1,636
Tonnes of CO ₂ avoided	217,073

Energy and emission of CO₂

Greenhouse gasses	Indicator	Consumption		Tonnes of CO ₂	
		2007	2008	2007	2008
Scope -1 (Direct Emissions)					
Buildings and Network	Consumption of natural gas (thousands of Nm ³) ¹	25,936	11,036	47,531	20,225
Car fleets	Diesel consumption generators and air conditioning (m ³) Fleet fuel consumption (m ³) ²	12,016 68,524	13,633 28,637	32,406 164,589	36,766 65,641
Scope -2 (Indirect Emissions)					
Office Buildings Network	Electrical consumption in office buildings (MWh) ³ Electrical consumption in fixed networks (MWh)	998,020 3,375,908	754,621 4,074,166	346,438 1,081,944	288,822 1,379,446
Scope -3 (Other Indirect Emissions)					
Travel	Business travel by airplane, train and car (No. of trips)	-	131,558	-	27,909
Total tonnes CO₂					
				1,672,907	1,818,809

1 This variation is due to operations by Telefónica O2 United Kingdom.

2 The reduction in consumption could be due to the externalisation of services or because of a lack of availability of information in some countries.

3 Electrical consumption in offices and networks shows significant variations due to the fact that there exists shared energy accounting in buildings combining fixed operations. Most of the data reported by the countries for this consumption is made on the basis of estimations that are due to be further defined in 2009.

Note: The energy data will be audited specifically during 2009.

Line of Action Suppliers: Sustainable Purchasing

The aim of this line of action is to implement policies and procedures that encourage the Company to take into account energy efficiency and carbon content criteria when acquiring products and services.

With this in mind, in 2008, the energy variable was implemented on a mandatory basis in purchasing processes, based on the compilation of energetic information files on some product lines (network equipment, air-conditioning systems, IT products and products designed for customers) and throughout 2009, all Telefónica suppliers will be required to apply this system. Its attributes include average energy consumption levels in stand-by or at maximum power.

Line of Action Employees: Awareness and Commitment

In drawing up this line of action, the Office had two goals in mind, linked to one another: reduction of the energy consumed during the daily activities of Telefónica employees and the promotion of a culture of awareness of climate change and in favour of energy efficiency.

To this end, last year, Telefónica continued to promote new mobile work methods, such as distance working.

In fact, at the end of 2008, 2,849⁶ employees used teleworking methods and 5,420⁶ worked under other mobility schemes. In 2009, these contributions will be assessed in terms of CO₂ emissions.

Line of Action Customers: An Efficient Economy

This line of action centres on commercialising ICT solutions that reduce the greenhouse gas emissions associated with Telefónica products and services. Its direct link with the Company's business activities makes it one of the most important tasks of the Climate Change Office. It suffices to say that the greatest achievement of ICT would be to increase energy efficiency in other sectors, something that could result in carbon savings five times greater than the total amount of emissions predicted for the entire ICT sector for 2020⁵.

In 2008, Telefónica developed various initiatives in order to offer its customers efficient solutions such as Telepresence, the *Connected Home*, a solution that aims to facilitate distance working, the *Building Automation for Energy Efficiency* service and other tools aimed at preventing and monitoring climate disasters.

At the same time, the Company promoted the bringing to market of more efficient equipment: it brought out the *Nokia 3110 Evolve* in Spain, the first telephone made from recycled materials and with a low energy consumption; 17,262 units were sold in five months. It also unveiled the *Universal Charger*, which has been acquired by 5,000 customers in the United Kingdom and boasts an individual energy saving of

2.8 kWh per year. In 2009, the goal is to widen the offer of such products in order to continue contributing to the battle against climate change.

Line of Action Society: Positioning

The main aim of this line of action is to reinforce Telefónica's position and that of the sector as key in the fight against climate change. With this mind, during 2008, various initiatives were pursued with different associations such as the ITU, GeSI or ETNO. A significant event was the publication of the report 'Smart 2020: towards an economy with low carbon levels in the information era' by GeSI and Climate Group which highlighted the potential importance of the ICT industry in reducing greenhouse gas emissions.

In 2008, Telefónica also actively participated in the campaign 'Plant for the Planet' sponsored by the United Nations Environment Programme and devoted 1% of all revenues generated during the musical careers of groups that came into being and were promoted under the Espacio Movistar brand. Furthermore, at the end of the year, the Company signed a collaboration agreement with WWF aimed at raising the awareness of and providing information to customers and employees about the importance of saving energy and combating climate change.

1 Kwh / access equivalent

2 Kwh / no. of employees

3 Energy data will be specifically audited during 2009.

4 Equivalent Access: handset for fixed and wireless access on the basis of their relative energy consumption.

5 Climate Group and GeSI (2008): 'SMART 2020: towards an economy with low carbon levels in the information age'.

6 This data do not include Atento.

Strategy





Telefónica's objective is to be the sector leader in the new digital environment

For the Group, leadership means they must be the company that grows the most; a reference point in operative excellence; a multinational that offers the shareholder competitive remuneration; the Company that offers greatest customer satisfaction in all markets; the best place to work and a company that contributes to sustainability and development in countries in which it is present.

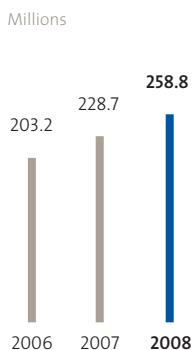
Communications have become an essential element in peoples' lives and demand continues to grow. It is estimated that data traffic flow will increase exponentially, which implies important opportunities to increase revenue by making the most of the strengths and capacities of the Company.

Strengths and competitive advantages

Capacity for solid growth in a difficult environment

In the 2008 financial year, Telefónica revenue was 57.946 million euros, which in organic terms minus equity market capital¹ amounts to an increase of 6.9%. This growth also included a one point efficiency improvement.

Telefónica access evolution



Commitment fulfilment

The Company once again fulfilled its objectives for 2008 for the sixth consecutive year, increasing OIBDA by 10.6%, reaching 22.919 million euros and improving the operative result by 20.4%, reaching 13.873 million euros².

Roll out of their commercial offer:

- Increase of access and packages: Telefónica ended 2008 with 259 million customer accesses, compared to 228 million in 2007. This evolution highlights the growing adoption of packaged service offers.
- Promotion of services (TV and TI): amongst the 2008 milestones in this sphere, the launch in Venezuela of the pay television service *Movistar TV* digital should be noted; the increase, up to 70, of the *Cable Mágico* (*Magical Cable*) channels in Peru; and the creation of the Media Networks company offering services to wholesale operators of Satellite TV. As such, Telefónica developed a prototype of an on-demand 3-D video platform for *Imagenio*; it promoted the expansion of Terra TV and television for the mobile phone; and it continued to gain clients for Pay TV in the Czech Republic.
- Advance in the multinational segment: the Telefónica contract with Deutsche Post World Net, which operates under the DHL brand, represents an important step forward for the Company in the

multinational business sector and shows that it has the capacity to offer integrated communications for leading companies at a worldwide level. To make the most of this, Telefónica has created an area that will be in charge of designing the global solution strategy for this segment.

More collaboration with third parties

The content alliances and agreements with companies such as Nokia; with 'Internet players' (Facebook, Google, YouTube, MSN, etc.); with Microsoft to strengthen their combined global commercial offer or with Huawei, leading supplier in next generation networks, to create a centre of innovation in Spain, are only a few of the collaboration examples from 2008.

Greater level of integration

In the past financial period, significant advances were made in the integration of mobile and fixed businesses, both in the organizational planning and in the business sphere, thus making the most of synergies.

Scale and diversity

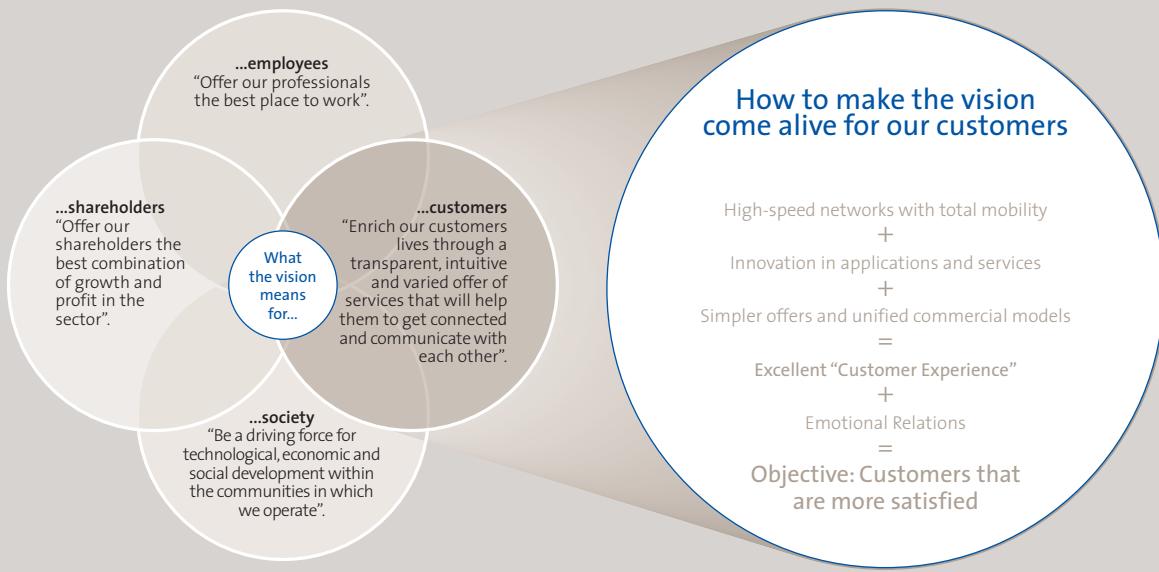
Its presence in 25 countries with 257,000 employees of different nationalities and cultures, and the diversified profile of its business (36% of revenue is obtained in Spain; 38% in Latin America and 25% in Europe) are differential competitive advantages for Telefónica.

¹ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007. The consolidation of Airwave in January-March 2007 and Endemol in January-June 2007 are excluded. Included within the revenues, is the impact of T.España due to the new model that is applicable for public telephone services use (-147.4 million euros in 2007). - The impact from the sale of shares is excluded from the OIBDA (Airwave, Endemol and Sogecable) in both periods.

² The basis of the 2007 figures excludes Airwave and Endemol and includes the consolidation of TVA in October-December 2007. The revenue of T. Spain is set by the new business model for public use telephony services. As a result, the group's earnings are adjusted according to this new model. The 2008 figures include TVA, DeltaX and Telemig (from April 2008). The Telefónica Capex excludes the Real Estate Efficiency Programme. Growth reported for 2008 targets assumes constant exchange rates in 2007. In terms of calculating targets, OIBDA and OI exclude exceptional revenues and expenses not forecast in 2007.

The Company vision:

'We want to improve people's lives, facilitate business development and contribute to the progress of communities where we operate, offering innovative services, based on Information and Communication Technologies'.



Single vision for the whole Group

Over the next few years, Telefónica will continue to make the most of its strengths and capacities to reach a vision that is specifically aimed at customers, employees, the company and shareholders, with the aim of giving adequate responses to each of these interest groups by means of the strategy that has been set in place up to 2011.

The pillars of this strategy are innovation, transformation and sustainability. The Business Principles guide Company activities to guarantee an overall management of the process.

Six aims as leaders

The Company has defined six aims, the achievement of which they will work on over the next years in order to be the sector leader in the new digital environment:

1. Greater customer satisfaction
2. Best place to work
3. More growth
4. Reference point for operative excellence
5. Competitive remuneration to the shareholder
6. Contribution to sustainability

To achieve these aims, Telefónica is deploying its new strategy by means of regional plans adapted to its particular business features - Spain, Latin America and Europe - and with the focus placed on these objectives for 2011:

1. To be leader in customer satisfaction in all countries and regions.
2. Continue to improve employee satisfaction within the Group

3. More growth.

4. Be a reference point of operative excellence.

5. Increase shareholder return by 1 euro (profit per share and cash flow per share)¹.

6. Be the number one in the rankings² as the company with the best reputation in each country.

In the same way in 2009 the Company will focus on achieving its investor promises and will once again have the best results in the sector. Telefónica forecasts a year-on-year growth of consolidated working capital (OIBDA-CaEx) of 8% / 11%; and a year-on-year increase of the OIBDA consolidated from 1% / 3%³.

¹ Forecast increase 2006-2010.

² According to RepTrak™, a reputation study based on the methodology developed by the Reputation Institute and the Corporate Reputation Forum.

³ The base figures for the 2009 guidance assumes constant exchange rates in 2008 (average for 2008). Due to the guidance calculations, the OIBDA excludes capital gains and capital losses due to the sale of companies and consolidations.

Strategy

This will be established between 2009 and 2011 with regional plans according to business characteristics

Telefónica's strategy pillars: innovation, transformation and sustainability

Innovation should allow the Group to offer complete communication, information and entertainment solutions.

Continuous transformation of the business is aimed at increasing efficiency and maximising cash flow.

To increase value over the long-term, as well as maximising results, the Company will be emphasising its sustainable development, also based on employee and customer satisfaction, and its reputation in the countries in which it is present.

Innovation

The Company strategy between 2009 and 2011 includes innovation as a lever to increase business volumes, in a context in which its customers are constantly changing and increasing their requirements.

All technologies

Telefónica reaffirms itself as an operator that uses all technologies to reach the customer in the best possible way. The aim is to make the most of new sources of growth, for a totally digital life.

Focus on applications

The multinational strategy is contemplating the increase of its revenue sources to be able to compete with greater intensity in equipping customers and above all in

applications, making the most of mobile phone capacity as an Internet device, as a product which has ears (microphone), mouth (loudspeaker), sight (camera), touch (tactile screen) and intelligence (operative systems); it is reachable and personal.

To reinforce the offer, the following priorities will be centred upon:

1. Simplification of focus, placing an emphasis on services based on communities and communication services.
2. Create new services based on the convergence of the three screens (television, PC and mobile).
3. Have a personal user interface to facilitate the management of developments.

4. Open up platforms and place them at the disposal of other companies, exploiting the possibilities of joint collaboration to the maximum.

All this will be based on the network, platforms and information systems.

Innovation in collaboration

The Company will establish new collaborations with other operators, with other device and Internet companies, especially for innovation. The idea is to continue to multiply partners so that they may develop new applications that could be incorporated into the Telefónica offer.

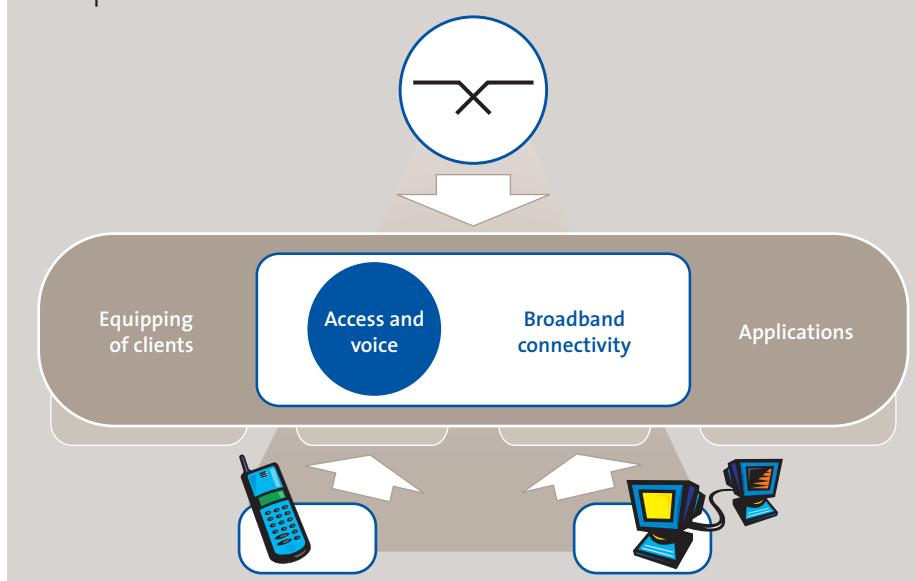
The customer as a source of inspiration

To steer the innovation correctly, Telefónica will use a common method, the 'Customer Experience', adapting to the characteristics of each country, this will allow better understanding of customers, people with lifestyles that are ever more digital, ever-more demanding and with new needs - today's consumers like to always be connected, share information with others, multitask, be selective... As such it will continue to incorporate the experiences of users into the development phase of services.

All areas can have innovation

The Company will continue to pursue innovation amongst its professionals by means of different initiatives that allow it to make the most of the experience within the organisation.

Scope of innovation



Transformation

In the next few years, Telefónica forecasts that it will accelerate its process of transformation to be more efficient in processes and activities. For this, the following keys have been identified: speed up the launch of products and services, make the most of the global scale and reduce unnecessary complexity.

Specifically, in 2009, it wishes to improve efficiency, to help achieve the objective of a year-on-year operative cash flow growth (8% / 11%). The scheduled lines of action to achieve this are as follows:

- **Improve efficiency rate:** the Company will reduce its Opex (operative expenses) and CapEx (capital expenses) in order to increase efficiency. As such, its strategy for 2009 is to preserve the high cash flow generation in the markets with a more complex economic scene, at the same time capturing growth potential within expanding markets. Its commitment for the financial year is that investment should be less than 7,500 million euros (the Consolidated CapEx increased to 8,401 million euros in 2008).

- **Consolidate integrated multichannel management:** to boost the transformation process, the Company will rely on the Multi-local Management Model, which involves the following organizational profile:

1. Local operations will work more homogeneously. In reference to customers, they will use the 'Customer Experience' methodology, adapted to local specifications. In the business plan, they will move towards unified channels to make customers an integrated offer. And, as for production, integration will be total (shared services, co-investment, networks and single systems, etc.)
2. Regional units will reinforce their support work and will look for new synergies.
3. In 2008, it moved from being a coordinating Corporate Centre to a Corporate Centre that is more committed to the business units that will develop products and services, and the objective

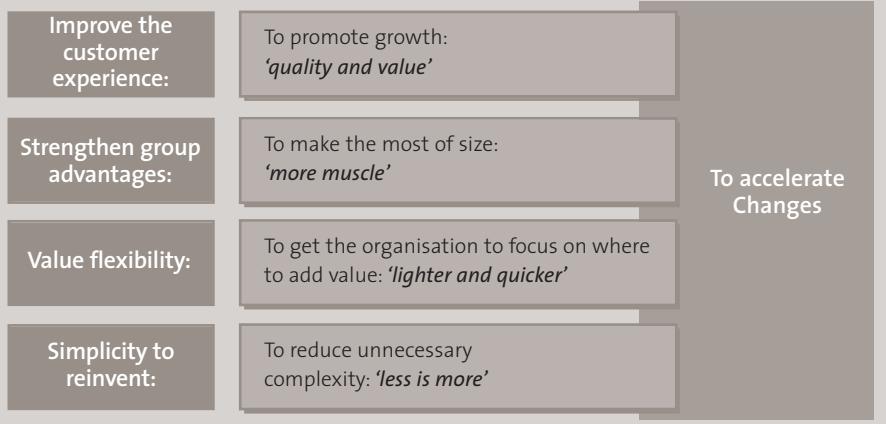
is to ensure cost reductions on two fronts: innovation (to contribute to the increase of revenues) and transformation (to increase efficiency).

- **Make the most of scale:** Telefónica together with its partners China Netcom and Italia Telecom, has more than 600 million accesses, which implies a powerful force with which to obtain synergies. In the next few years they will make the most of this area, in order to achieve savings in purchases, exchange better practices, form alliances with key 'players' and capture more global contract opportunities with multinationals.
- **High speed networks:** as well as supporting the service provided, an adequate network is perceived as the ideal tool to increase efficiency significantly. In this sense, the priority is to use CapEx intelligently in order to build, little by little but systematically, a network offering customers the bandwidth they require, dynamically adjusted to their needs and quality expectations. The idea is that the network should also have total mobility, indoors and outdoors, a large capacity for transport and storage in order to support virtualisation and *cloud computing* (technology that allows the provision of computer services via the internet).

Company positioning is to increase the number of customers connected to a mobile network and with access to Broadband and Internet by means of fibre optics. This will permit them to offer users a better quality experience.

- **Shared networks and collaboration agreements:** *network sharing* will be used to reduce CapEx, improve cost efficiency on the network and improve quality. This line of work will be ever more relevant as the costs incurred as a result of mobile data increase.
- **Less is more:** the new Telefónica strategy is contemplating the accelerated simplification of the product and services portfolio with the objective of having a single global offer and to rationalise the mix of channels with an integration to make more of the on line channel, for example. In the same way, new converging processes will be carried out to develop products, reducing the Time to Market. Network architecture will also be simplified.
- **Cultural transformation:** within the organisation work will be undertaken to promote a culture in which there is efficient management and where the quality and satisfaction of the customer are priorities.

Transformation keys



Strategy

Sustainability

Telefónica sees in sustainable management, the opportunity to differentiate itself and increase its long-term value (or value to perpetuity). Therefore, as well as offering its services to the best of its ability, it is also trying to contribute to the progress of countries in which it is present, improve its reputation, increase customer and employee satisfaction and look after the environment...

Leaders in customer satisfaction

Telefónica's objective is to be considered as the company that is best valued by its users by 2011 - in every market in which it is present.

In order to increase customer satisfaction, Telefónica proposes to offer adequate real quality, improve perceived quality and create emotional links with customers. For this they will use the 'Customer Experience' methodology that is adapted to the characteristics of each country. This means defining commitments to customers. A specific example is the case in Chile, where in 2008 they made the following offer to their fixed telephony customers: 'If we do not achieve our installation times, we will give you a month for free'.

In recent years the Company has made a notable effort to invest in networks and systems and has dedicated a considerable volume of Opex in improving customer service by means of maintenance processes, commercial awareness... As well as continuing along this line they have also initiated actions directed at:

- Identifying the causes of customer dissatisfaction, paying special attention to those who show their dissatisfaction with the attention they have received from the call centre and to be proactive in trying to resolve their complaint as soon as possible, keeping them informed as to the status of their request...
- Simplify relations with customers with clearer invoices; simple services, rapid responses from call centres and courteous and reliable treatment in shops...

- Promote cultural transformation of the organisation, involving all employees. For this, at different operation centres, rotation programs have been established for all employees between the back and front office in order to understand at first hand the needs of the customer.

The best place to work in all regions

There is a correlation between the success of companies and employee satisfaction. For this, to boost the work environment of its professionals, Telefónica has defined four priorities for 2011: offer employees an ideal work experience to convert them into 'ambassadors for the Company'; consolidate a culture of high performance; cultivate pride in belonging to an international company and share global talent.

In 2008, the Employee Satisfaction Index reached 69%. Towards 2011, the objective is to increase the index as a 'builder' of the following areas: leadership ('The leaders I work with motivate me'); talent ('I am in charge of my own development and career'); culture ('I am always thinking about my customers'); compensation ('I receive fair compensation and



Chile's teams on 'Inspira' workshops. They took place to develop the customer orientation's strategy.

recognition'); and commitment to the brand and promise ('I am proud to be a part of Telefónica'). The increase of this index will ensure that by 2011 Telefónica will be the best place to work in all regions in which it is present by following the 'Great Place to Work®' methodology.

The tools that the company established or consolidated in 2008 to contribute to this objective, are the following: the new leadership model, launched recently to give a common vision in Spain, Latin America

Indicators for sustainable management

Telefónica, as well as using traditional economic indicators (revenue per user, business numbers, profits etc.), uses the following parameters to measure and evaluate its performance:

- **Customers:** the Customer Satisfaction Index (CSI) shows, on a scale from 0 to 10, the level of user satisfaction with the Company in general and in relation both to their expectations as well as their company ideal.
- **Employees:** the Employee Satisfaction Index (CSI) is the average of favourable responses ('agree' and 'totally agree') to the 33 questions from the annual survey of employee satisfaction, aimed at all

Telefónica employees to measure their level of emotional and rational commitment to the Company. The model is based on the 5 areas with a major impact on employees commitment in different organisations according to studies carried out by the Corporate Leadership Council (CLC): leadership, image/pride, daily work, development and customer.

The 'Great Place to Work®' methodology which evaluates the quality of the work environment according to these points: credibility, respect, correct treatment, pride and comradeship.

- **Society:** the RepTrak™ Index explains what the Company's reputation is, according to 7 areas and 26 attributes considered, identifying strengths and weaknesses.

and Europe; the Corporate University, which opened its new campus in 2009; and the *a+ e-learning platform*, renewed in order to facilitate its use and offering 1,200 courses to all employees. Added to these are the new compensation, diversity, succession and international career initiatives amongst others.

The most admired telecommunications company

Telefónica is convinced that the perception that society has about the sector and about the Company (public reputation) impacts business and its development. For this reason they have established the following priorities:

- Improve perception of others:** Telefónica operates in a market that has close to 2,440 million people. In order to measure its public perception, they use the RepTrak™ methodology, developed by the Reputation Institute and the Corporate Reputation Forum¹.

This methodology has permitted it to identify the aspects which most impact upon it - 'Product Quality'; 'Citizenship';

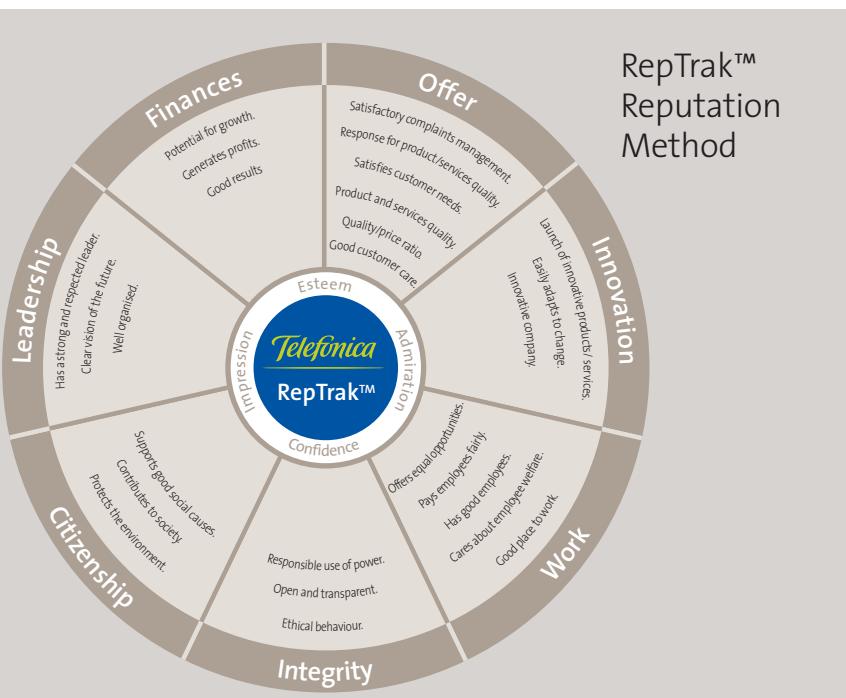
'Work' and 'Integrity' - and identify all the areas in which its efforts should be concentrated in 2009: the 'Offer' (all that concerns products and services and customer satisfaction) and 'Integrity' (integral and transparent management).

The Company objective is to be perceived as the most admired company in the sector or the second most admired within all the societies in which they are operating in 2011.

- Responsible management:** in 2008 Telefónica renewed its presence in the Dow Jones Sustainability Index with a score of 81.4 (their objective is to be the *best in class* in 2011 in the telecommunications sector); in the FTSE4Good and FTSE4GoodIbex; and obtained positive assessments by the main analysts of socially responsible investment (CRI): SAM (DJSI), Eiris (FTSE4Good), VIAGEO, KEPLER, F&C Investments and Citi Investment Research.
- 5 steps for the management of social impact:** the Company manages its impact in society by placing emphasis on 5 steps:

- Do its work as a telecommunications company, that is, strive for business excellence.
- Initiatives to ensure full and transparent management, using its Business Principles or ethics code. By the close of 2008, more than 62,000 professionals were trained in these principles; internal policies were launched during the year on the Protection of Data and Risk Management; and the basic lines for the development of a Standard to Encourage Integration for Disabled people in the Workplace were agreed.
- Maximise the positive impact of telecommunications, encouraging digital inclusion - in 2008, Telefónica carried out more than 60 projects aimed at reducing digital divides (geographic, economic and training) -, or with solutions to encourage energy efficiency and care of the environment.
- Maximise social and cultural action. In 2008, Telefónica invested nearly 115 million euros in this activity and more than 100,000 children were educated via the Proniño program.
- Transparency in communication. In 2008, the Company created groups for dialogue and published 14 reports on Corporate Responsibility in 17 countries.

¹ The 'Foro de Reputación Corporativa (fRC)' Corporate Reputation Forum is a meeting point, to analyze and share trends, tools and corporate reputation management models, founded in 2002. Presently, its members are Agbar, BBVA, Repsol YPF, Telefónica, Abertis, Ferrovial, Gas Natural, Iberdrola, Iberia, Renfe y Metro de Madrid.



Results





Financial Highlights

- **Telefónica ended 2008 with a solid set of results, underpinned by the strong organic growth reported by the businesses and the Company's high execution skills:**
 - Total accesses rose 13.2% year-on-year to around 259 million at the end of 2008, driven by the sharp increase in wireless (+16.6%), broadband (+20.9%) and pay TV (+29.7%) accesses.
 - In reported terms, revenues rose 2.7% while OIBDA and OI advanced 0.4% and 3.6% respectively.
 - In organic terms excluding capital gains¹ growth accelerated from revenue to operating income, with revenues rising by 6.9%, OIBDA by 14.7% and OI by 28.7%. Revenues continued to grow at a similar same pace as in the first nine months (+7.0%), while OIBDA and OI increased the gap in terms of growth rate vs. September by 4.9 percentage points and 10.7 percentage points, respectively.
- **Net income reached 7,592 million euros in 2008, up 38.0% from 2007 on a like-for-like basis². Basic earnings per share stood at 1.63 euros in 2008, 41.4% higher than in 2007 on a like-for-like basis².**
- **The Company's ongoing focus in 2008 on maximising efficiency and cash flow generation, in a context of increasing commercial activity and significant investment to expand its networks, resulted in an operating cash flow (OIBDA-CapEx) of 14,519 million euros:**
 - Operating cash flow grew 20.2% year-on-year in organic¹ terms excluding capital gains, outpacing revenue growth by 13.3 percentage points.
 - Free cash flow per share reached 1.97 euros in 2008, compared with 1.86 euros a year earlier.
- **In 2008 Telefónica devoted 69% of the Free cash flow generated over the year or 10% of the Company's market capitalisation³ to shareholder remuneration.**
- **Telefónica maintained its financial strength, with a ratio of net debt + commitments to OIBDA of 2.0x at the end of 2008, at the lower end of the target range set by the Company (2-2.5x).**
- **Once again Telefónica met Group guidance on all metrics, reflecting the value of its highly diversified portfolio of operations.** Under the criteria used to establish its financial targets for 2008⁴, all the metrics across the P&L were at the top end of, or exceeded the ranges announced to the market:
 - Revenue growth stood at 7.3% in a forecast range of 6%-8%;
 - OIBDA increased by 10.6% in a forecast range of 7.5%-11%;
 - OI advanced 20.4%, topping the announced range of 13%-19%;
 - CapEx totalled 8,544 million euros vs. a target of around 8,600 million euros.

¹ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. Revenues include the impact in Telefónica España of the new model for the public use telephone service (-147.4 million euros in 2007). In OIBDA and OI, the impact of asset disposals (Airwave, Endemol and Sogecable) is excluded from both periods.

² Excluding the impact of asset disposals (Airwave, Endemol y Sogecable) in both periods and the impact of the impairment charge taken by Telco, SpA's on its investment of Telecom Italia.

³ Market capitalisation as of 25 February 2009.

⁴ 2007 base figures exclude Airwave and Endemol and include the consolidation of TVA in October-December 2007. The revenues of T. España are adjusted to reflect the new business model for public telephony service revenues. As a result, Group revenues have been adjusted to reflect this new model. The 2008 figures include TVA, Deltax and Telemig (since April 2008). Telefónica's CapEx does not include the Real Estate Efficiency Programmes. The growth provided for 2008 guidance assumes constant exchange rates from 2007. In terms of guidance calculations, OIBDA and OI exclude exceptional revenues and expenses not foreseeable in 2007.

- The Company has announced its guidance for 2009⁵, which reflects the Company's ability to flexibly manage OpEx and CapEx in the current economic environment. In 2009 the focus will be on preserving strong cash flow generation in markets with a more complex economic outlook while at the same time exploiting the growth potential of growing markets.
- Telefónica expects:

- Significant year-on-year growth in consolidated operating cash flow (OIBDA-CapEx) in the range of +8%/+11%;
- Year-on-year consolidated OIBDA growth in the range of +1%/+3%;
- Consolidated revenue growth;
- CapEx is expected to be below 7,500 million euros.

• 2008 Base figures for financial targets:

- Operating cash flow (OIBDA-CapEx): 14,201 million euros;
 - Consolidated OIBDA: 22,602 million euros;
 - Consolidated revenues: 57,946 million euros;
 - Consolidated CapEx: 8,401 million euros.
- The strong cash flow generation expected for 2009 has permitted the Company to increase the dividend corresponding to 2009 fiscal year to a total amount of 1.15 euros per share, up 15% from the dividend of 1 euro per share to be paid against 2008 results. This proposal confirms Telefónica's commitment to prioritize shareholders**

returns for the use of its free cash flow and to progressively increase the dividend per share.

- The Company maintains its target to reach an EPS⁶ of 2.304 euros and a FCFS⁷ of 2.87 euros in 2010.

The Company has conducted a sensitivity analysis to assess the impact of the changes in the trading environment, reflecting an extreme scenario for 2010 (extrapolating the strong depreciation of some currencies versus the euro and current economic weakness). Under this extreme scenario, 2010 EPS⁶ would stand at 2.10 euros and 2010 FCFS⁷ would reach 2.50 euros.

Telefónica España:

- The Company maintained its competitive strength in the market, with 47.3 million accesses (an increase of +2.0% year-on-year):**
 - Telefónica maintained its leadership in the broadband market, with an estimated market share around 57%. Retail broadband Internet accesses stood at over 5.2 million (+13.7% year-on-year), with a solid performance in broadband ARPU (-3.9% year-on-year) over the year.**
 - The number of pay TV subscribers topped 612,000, up 19.8% on December 2007 and increasing the Company's estimated market share to 14%.**
 - In a market characterised by a high penetration rate, Telefónica achieved a noteworthy 6.8% year-on-year growth in its mobile contract customer base, driving the total customer base to more than 23.6 million lines (an increase of 3.4% from a year earlier).**

- In adverse economic conditions, the results achieved in 2008 underline the efficiency improvements attained and the Company's focus on maintaining margins and cash generation:

- Revenues grew 1.5% on like-for-like⁸ terms in 2008, compared with the 2008 target of 2.0% to 3.5% growth, reflecting the overall slowdown of the market and the lower usage in some segments. Particularly noteworthy were the sharp rise in wireline Internet and broadband revenues (+8.7%) and the jump in mobile connectivity data revenues (+65.2% versus 2007), which pushed up mobile data revenues by 14.8%.
- OIBDA increased by 8.9% from 2007, with the margin improving by 3.7 percentage points to 49.4%, meeting the announced growth targets despite the pressure on revenues. Thus, OIBDA growth, under the criteria used to establish the financial targets for 2008, stood at 7.0%, within the target range of 6% - 8%.
- Operating cash flow (OIBDA-CapEx) increased by 14.3% year-on-year in 2008 to 8,077 million euros, underlining the Company's ability to manage its investment.

Telefónica Latinoamérica:

- Telefónica Latinoamérica ended 2008 with a solid set of commercial results, underpinned by the dynamism of the telecommunications market in the region, which again registered strong growth in the fourth quarter:**

⁵ 2008 adjusted figures for guidance excludes Sogecable capital gain (143 million euros) and the application of provisions made in T. Europe in respect of potential contingencies deriving from the past disposal of shareholdings, one these risks had dissipated or had not materialized (174 million euros), includes 9 months of consolidation of Telemig in T. Latam. 2009 figures for guidance assume 2008 constant FX (average FX in 2008). In terms of guidance calculation, OIBDA exclude capital gains and losses from sale of companies and write-offs. Group CapEx excludes Real Estate Efficiency Program of T. España and spectrum licenses.

⁶ Reported EPS

⁷ FCF available to remunerate Telefonica S.A. shareholders, to protect solvency levels and to accommodate strategic flexibility.

⁸ Including the impact on Telefónica España of the new model for public use telephone service (147.4 million euros in the period from January to December 2007).

Financial Highlights

- Telefónica Latinoamérica increased its customer base by 18% from 2007 to over 158 million accesses in the region.
 - Strong levels of commercial activity in the wireless market led to 18.9 million organic net adds in 2008⁹, driven by the higher number of gross adds and by churn contention. The total wireless customer base increased by 18.1% in organic terms¹⁰, to 123.4 million accesses. Outgoing ARPU grew 0.9% in constant currency¹¹, despite the sharp rise in the customer base.
 - In broadband, net adds topped one million in 2008, bringing total accesses to more than 6 million (+20.5% year-on-year), while pay TV customers surpassed 1.5 million and wireline access increased by 1.0% from December 2007. Average revenue per fixed telephony access increased by a solid 6.4% in constant euros.
 - **Telefónica Latinoamérica consolidated its position as the Group's growth driver in 2008, exceeding the growth targets announced at the start of the year¹²:**
 - In accordance with the guidance criteria, year-on-year revenue growth stood at 14.2%, compared with a target of +11%/+14%, while OIBDA advanced 17.6%, well ahead of the +12%/+16% growth target.
 - The pace of organic revenue growth¹³ remained strong over the year (+12.9%), with organic OIBDA growth¹⁴ accelerating sharply in the fourth quarter (+21.5% in 2008, +15.6% in the first nine months).
- Telefónica Latinoamérica reported operating cash flow (OIBDA-CapEx) of 4,415 million euros in 2008, up 21.8% from 2007 in constant euros.
 - The businesses in the Czech Republic, Slovakia and Ireland were particularly active in the fourth quarter of the year, reinforcing improving trends for the future.
 - **Under guidance criteria, OIBDA rose 4.7%¹⁴ in the year**, meeting the 2%-6% guidance. In 2008 the OIBDA margin stood at 29.2%, broadly unchanged from 2007 in like-for-like¹⁵ terms, as efficiency measures taken in 2007 and 2008 pay off, as well as more focused commercial activity.
 - Operating cash flow (OIBDA-CapEx) grew 6.7% year-on-year in like-for-like¹⁵ terms, despite increased investment in Germany.
- ## Telefónica Europe:
- **Telefónica Europe increased its total mobile base in 2008 by 2.9 million lines, to reach 41.2 million mobile customers at the end of the year (+7.6% year-on-year).**
 - **Telefónica Europe had a strong financial performance in 2008, with financial targets successfully achieved in a worse economic environment:**
 - **Under guidance criteria, revenue growth in 2008 reached 5.9%¹⁴ year-on-year**, within the 4%-7% announced guidance, and reflected a more balanced contribution from the different businesses:
 - Total revenue for Telefónica O2 UK had a strong 10.6% year-on-year growth in local currency in 2008, outperforming the mobile market on a leading contract churn rate and focused commercial approach around Simplicity and iPhone.
 - In the fourth quarter of 2008 Telefónica O2 Germany returned to positive year-on-year growth in mobile service revenues (+0.7%) in a very competitive environment. The business ended the year with a total revenue growth of 1.5% year-on-year with the foundations of the business on track and a new commercial approach set in the last quarter of the year.

9 The Telemig customers incorporated by the Group in April 2008 (close to 4 million) are not included as net adds in the period.

10 Including Telemig's accesses in December 2007.

11 Including Telemig in April-December 2007.

12 Assuming constant exchange rates of 2007. In terms of guidance calculation OIBDA and OI exclude other exceptional revenues/expenses not foreseeable. 2007 base figures include the consolidation of TVA in October-December 2007.

13 Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007.

14 Assuming constant exchange rates and excluding the consolidation of Airwave in the first quarter of 2007.

15 Assuming constant exchange rates and excluding the consolidation of Airwave in the first quarter of 2007. Capital gain from the sale of Airwave is also excluded, as well as gains related to the real estate sale in the Czech Republic, restructuring and similar charges and the result of the application of provisions made in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks had dissipated or had not materialized.

Market Size



Market Size

Telefónica Group Accesses

	January - December		
Unaudited figures (thousands)	2008	2007	% Chg
Final Clients Accesses	255,451.4	226,119.4	13.0
Fixed telephony accesses ¹	42,930.8	43,433.6	(1.2)
Internet and data accesses	14,654.3	13,156.6	11.4
Narrowband	1,997.2	2,678.7	(25.4)
Broadband ²	12,472.1	10,320.2	20.9
Other ³	185.0	1,577.7	17.3
Mobile accesses ⁴	195,598.9	167,781.1	16.6
Pay TV	2,267.5	1,748.1	29.7
Wholesale Accesses	3,433.0	2,624.2	30.8
Unbundled loops	1,748.1	1,396.5	25.2
Shared ULL	602.3	776.4	(22.4)
Full ULL	1,145.8	620.1	84.8
Wholesale ADSL ⁵	534.7	571.7	(6.5)
Other ⁶	1,150.1	656.0	75.3
Total Accesses	258,884.4	228,743.6	13.2

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.

2 ADSL, satellite, optical fibre, cable modem and broadband circuits.

3 Remaining non-broadband final client circuits.

4 Includes accesses of Telemig from April 2008.

5 Includes Unbundled Lines by T. Deutschland.

6 Circuits for other operators. Includes Wholesale Line Rental (WLR).

Notes:

- Iberbanda accesses are included from December 2006.
- As of 31 December 2006, Group accesses have been reclassified, including 'fixed wireless' accesses under the caption of fixed telephony. These accesses were previously classified, depending on the country, under mobile or fixed accesses.
- As of 1 January 2008, 'fixed wireless' public telephony accesses are included under the caption of fixed telephony accesses.

Consolidated Results

In a complex operating environment, the solid commercial and financial results recorded by the Telefónica Group confirm the benefits of its differential profile: high business diversification, integrated operations in key markets, competitive strength in main markets, strong execution skills and financial strength.

In 2008 the Telefónica Group delivered solid growth rates in organic terms excluding capital gains¹, with growth accelerating from revenues down through OI. At the same time, the Company's focus on maximising efficiency and cash generation resulted in operating cash flow growth (in organic terms, excluding capital gains) outpacing revenue and OIBDA growth by 13.3 percentage points and 5.5 percentage points respectively.

The strong rise in organic¹ revenues reflects the Company's success in capturing growth in its markets in 2008. As a result, the intense commercial activity recorded in 2008 enabled it to increase **total accesses** by 13.2% versus 2007 to around 259 million. This growth was driven by the increases in wireless (+16.6%), broadband (+20.9%) and pay TV (+29.7%) accesses. By region, the contribution by Telefónica Latinoamérica is especially noteworthy, with over 158 million accesses across the region at the end of December (up 18.0% on December 2007).

By access type, the Telefónica Group's **wireless accesses** stood at approximately 196 million at the end of 2008, with 6.7 million net adds in the fourth quarter and

Telefónica Group organizational restructuring by Regional Business Units: Telefónica España, Telefónica Latinoamérica and Telefónica Europe, in accordance with the new regional and integrated management model, defines that the companies legal structure is not relevant for the presentation of the Telefónica Group financial information. In this sense, operating results of each regional business units are presented independently of their legal structure.

In line with this new structure, Telefónica Group has incorporated in Telefónica España and Telefónica Latinoamérica regional businesses units all the information corresponding to fixed, cellular, cable, Internet and Television businesses.

Likewise, Telefónica Europe includes Telefónica O2 UK, Telefónica O2 Germany, Telefónica O2 Ireland, Telefónica O2 Czech Republic and Telefónica O2 Slovakia results.

In the caption 'Other companies and Eliminations' Atento together with other companies and eliminations in the consolidation process are included.

For the presentation of the reporting by regions, revenue and expenses arising from the use of the trademark and management contracts that do not affect the Group's consolidated results have been eliminated from the operating results of each Group region.

From December 31, 2006 Group's accesses have been reclassified, being fixed wireless accesses now included within the fixed telephony accesses. Till December 2007 fixed wireless accesses were included, depending on the country, in mobile or fixed accesses. As from January 1, 2008, the fixed wireless accesses include public telephones with this technology.

Additionally, in order to provide comparable information, Iberbanda's accesses, a Telefónica España's subsidiary, have been included in the total accesses of Telefónica Group effective from 31st December 2006.

Moreover, in Latinoamérica, year-on-year organic growth rates including Telemig results for the period April-December 2007 are provided, with the best comparable information available at the closing of this document.

around 24 million² in the full year. The main countries contributors to net adds were Brazil (7.5² million), Mexico (2.8 million), Peru (2.5 million) and Germany (1.7 million).

¹ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-147.4 million euros in 2007) is included. In OIBDA and OI, the impact of asset disposals (Airwave, Endemol and Sogecable) is excluded from both periods.

² The Telemig customers incorporated by the Group in April 2008 (close to 4 million) are not included as net adds in the period.

Consolidated Results

Retail internet broadband accesses stood at around 12.5 million, a year-on-year increase of 21%, driven by the growing penetration of voice, ADSL and pay-TV bundles. In fact, in Spain over 85% of retail broadband accesses are bundled as part of some kind of dual or triple service package while in Latin America 49% of retail broadband accesses are bundled as part of Duo or Trio packages. In the fourth quarter net adds amounted to 0.4 million accesses, with a total of 2.1 million accesses in the full year, of which 1.0 million originated in Latin America, 0.6 million in Spain and 0.5 million in Europe.

Pay TV accesses stood at over 2.2 million at the end of 2008, up almost 30% on the prior year, driven by net adds of 109,500 in the fourth quarter and some 519,500 in the year. At the end of 2008 the Company offered pay TV services in Spain, the Czech Republic, Peru, Chile, Colombia, Brazil and Venezuela.

The growth of the customer base and initiatives to boost usage led to **revenues** of 57,946 million euros in 2008, with similar growth in the full year (+2.7%) and the fourth quarter (+2.6%). In 2008, the negative impact of the exchange rates eroded 3 percentage points of revenue growth, while changes in the consolidation perimeter reduced top-line growth by a further 1.2 percentage points.

In organic terms³, revenue growth remained virtually unchanged from September, standing at 6.9% in 2008 (+7.0% in January-September 2008), mainly driven by the significant expansion in Telefónica Latinoamérica (4.6 percentage points contribution to growth) and, to a lesser degree, in Telefónica Europe (1.5 percentage points contribution to growth). By service, wireless service revenues, underpinned by a growing contribution from data services, wireline broadband and pay-TV were again the main drivers of organic revenue growth.

In absolute terms, Telefónica Latinoamérica accounted for 38.3% of total Group revenues

in 2008 (+2.7 percentage points from 2007), with Telefónica España and Telefónica Europe accounting for 36.0% and 24.7%, respectively.

Operating expenses declined 2.3% year-on-year in 2008 to 36,553 million euros. Stripping out the impact of currency movements, operating expenses would have risen 0.9% year-on-year, consolidating the declining trend noted since the start of the year as a result of initiatives to maximise efficiency in both years.

Supply costs incurred in 2008 totalled 17,818 million euros, down 0.5% year-on-year. Excluding the impact of foreign exchange fluctuations, these costs would have risen 3.6%, mainly due to higher interconnection expenses at Telefónica Latinoamérica and Telefónica O2 UK.

Personnel expenses fell 14.3% year-on-year to 6,762 million euros (-12.4% in constant euros), in large part due to workforce restructuring expenses reported in 2007 (1,199 million euros). The average headcount during the period was 251,775, a net increase of 7,723 employees, mainly due to expansion of the Atento Group's workforce. Excluding the Atento Group workforce, the average headcount at the Telefónica Group fell by 2,218 from 2007, in part due to the deconsolidation of Endemol and Airwave, to 124,885 employees.

External service expenses (10,079 million euros) rose 0.9% year-on-year (+3.7% in constant currency), mainly due to higher expenses in Telefónica Latinoamérica, primarily in Brazil, Venezuela and Chile due to outsourcing activities and commissions and higher customer acquisition and retention costs at Telefónica Europe.

Gains on sales of fixed assets in 2008 totalled 292 million euros, mainly related with capital gains recognised on the sale of the stake in Sogecable (143 million euros) and gains from Real Estate programmes at Telefónica España and Telefónica Europe.

It is worth recalling that in 2007 the Company recognised the capital gains realised on the disposal of Airwave (1,296 million euros) and Endemol (1,368 million euros) in the second and third quarters respectively.

The sound revenue performance and cost control are reflected in **operating income before depreciation and amortisation (OIBDA)**, which amounted to 22,919 million euros in 2008 (+0.4% versus 2007). In the fourth quarter of 2008 OIBDA grew by around 29% year-on-year reflecting the positive impact from the provision of 900 million euros for workforce restructuring plans registered in the previous year.

In organic terms⁴, OIBDA grew 2.8% in 2008. However, organic OIBDA excluding capital gains⁵ would have grown 14.7% in 2008, outpacing revenue growth by 7.8 percentage points, with this gap widening from September mainly due to the aforementioned workforce restructuring provisions reported in the fourth quarter of 2007. Telefónica Latinoamérica (+7.7 percentage points) and Telefónica España (+4.2 percentage points) were the main contributors to this growth.

In absolute terms, OIBDA at Telefónica España accounted for almost 45% of total Group OIBDA, compared to 36.8% and 18.2% at Telefónica Latinoamérica and Telefónica Europe respectively.

The OIBDA margin in 2008 stood at 39.6% (compared to 40.4% in 2007, mainly due to capital gains on the disposals of Airwave and Endemol).

In organic terms, and excluding capital gains⁵, the OIBDA margin was 38.7% in 2008, up 2.6 percentage points year-on-year, driven by efficiency gains and economies of scale, in a context of high commercial activity and transformation of the wireline business in Latin America.

³ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-147.4 million euros in 2007) is included. In OIBDA and OI, the impact of asset disposals (Airwave, Endemol and Sogecable) is excluded from both periods.

⁴ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007.

Depreciation and amortisation in 2008 totalled 9,046 million euros, down 4.1% year-on-year. Telefónica Europe includes the amortisation of the purchase price allocation made following the O2 Group acquisition (689 million euros) and the Telefónica O2 Czech Republic acquisition (131 million euros). In organic terms⁴ the Telefónica Group's depreciation and amortisation charges for the full year fell 0.9% from 2007, with Telefónica España and Telefónica Europe chiefly responsible for this decline.

Operating income (OI) totalled 13,873 million euros in 2008, down 3.6% on 2007, due to recognition of the aforementioned capital gains on the sale of Airwave and Endemol. In organic terms⁴, operating income would have increased by 5.6%. Stripping out also the impact related with Sogecable, Endemol and Airwave disposals from both periods, operating income would grow 28.7% year-on-year.

Accordingly, growth accelerated in organic terms and excluding capital gains⁵, from revenue through operating income (revenue up 6.9%, OIBDA up 14.7%, and OI up 28.7%).

The **net profit from associated companies** amounted to -161 million euros in 2008 (versus a profit of 140 million euros in 2007). Results for 2008 include the impact of the impairment charge taken by Telco, S.p.A.'s on its investment in Telecom Italia. To estimate the impact, the Telefónica Group considered the synergies to be obtained by improving certain processes in its European operations through the alliances reached with Telecom Italia S.p.A. The Company has recorded a 209 million euros loss in this respect (146 million euros after the related tax effect at Telefónica, S.A.).

Net financial results in 2008 amounted to 2,797 million euros, down 1.6% versus 2007, mainly due to:

- On the one hand, the decrease of 7.6% in the average debt, which has generated savings of 240 million euros. Also a 93 million euros positive impact has been registered, 9 million euros higher than the figure reported in 2007, due to changes in the actual value of commitments derived mainly from the pre-retirement programmes and other positions equally accounted at market value.
- On the other hand, an increase of the average cost of the Group's debt, to 6.0% over total average debt excluding foreign exchange results, that leads to a higher expense of 218 million euros due to higher interest rates in 2008.

Free cash flow generated by the Telefónica Group in 2008 amounted to 9,145 million euros of which 2,224 million euros were assigned to Telefónica's share buyback program, 4,165 million euros to Telefónica S.A. dividend payment and 920 million euros to commitment cancellations derived mainly from the pre-retirements programmes. Financial and Real Estate net investments for the period amounted to 1,327 million euros mainly due to the Telefónica Chile minority stake purchase, the increase of our participation in China Unicom, the Telemig purchase and the sale of Sogecable's participation. Because of these effects, net financial debt decreased in 508 million euros. Also, net debt was reduced by an additional 2,043 million euros because of the foreign exchange impact, changes in the consolidation perimeter and other effects on financial accounts. All this has led to a decrease of 2,551 million euros with respect to the net financial debt at the end of 2007 (45,284 million euros), leaving the net financial debt of the Telefónica Group at December 2008 at 42,733 million euros.

Leverage ratio, net debt over OIBDA, continues to fall down to 1.89 times at December 2008 versus 1.91 times at September 2008, thanks to both the reduction of the net financial debt in the period and to an increase in the OIBDA figure. In the fourth quarter of the year, the ratio has decreased albeit the dividend payment disbursement on November and the payment of the acquisitions already committed (basically the increase in China Unicom's stake and Telefónica Chile minority's stake acquisition).

During the year 2008, the **financing activity** of Telefónica Group, excluding short term Commercial Paper Programmes activity, rose to above 3,000 million euros, less intense compared to previous periods due to the instability of the credit markets and the Group's liquidity position. Included in this amount, we highlight the euro bond issuance for an amount of 1,250 millions raised by Telefónica last June.

Telefónica S.A. and its holding companies have continued active in 2008 under its various Commercial Paper Programmes (Domestic and European), for an outstanding balance of 1,586 million euros, maintaining spreads over reference rates.

Regarding Latin America, our subsidiaries have tapped the capital markets up to December 2008 for an amount of close to 1,800 million equivalent euros, mainly renewing existing debt.

As of December 31st, the breakdown of consolidated **financial debt** was 57% bonds and debentures and 43% debt with financial institutions.

Thanks to the 2 billion euro bond issuance last January 2009, the cash balance covers in excess the debt maturities of the coming 12 months, resulting in a negative net debt figure for 2009, of approximately 400 million euros.

⁵ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In OIBDA and OI, the impact of asset disposals (Airwave, Endemol and Sogecable) is excluded from both periods.

Consolidated Results

The solid financial position of the Group has led the rating agency Fitch to upgrade, on November 25th, Telefónica, S.A. long term credit to 'A-/stable outlook' from 'BBB+/positive outlook' since Telefónica's operational and financial profile is according to Fitch, comfortably in line with an 'A-'(A minus) rating. On December 2nd the rating agency Standard & Poor's raised Telefónica, S.A. long term corporate rating to 'A-/stable outlook' from 'BBB+/positive outlook' reflecting Telefónica's steady deleveraging over the last year. On December 17th the Japanese rating agency JCR, also upgraded the rating on the foreign currency long-term senior debts of Telefónica, S.A. to 'A/stable' prompted by Telefónica's improved leverage ratio supported by its high profitability and cash generating capacity. Finally, last February 17th 2009, the rating agency Moody's has changed the outlook of Telefónica, S.A. to positive affirming the long-term Baa1 ratings.

The **tax provision** for 2008 totalled 3,089 million euros, implying a tax rate of 28.3%, though cash outflow for the Telefónica Group was lower in 2008 as loss carryforwards generated in previous years were offset and pending deductions applied. It is worth highlighting that in 2007 the tax provision was lower, mainly on account of the Endemol disposal which triggered a capital loss for tax purposes.

Minority interests grew 10.2% year-on-year, reducing net income for 2008 by 234 million euros. Minority stakes in Telesp and Telefónica O2 Czech Republic accounted for the bulk of profit attributable to minority interests, although year-on-year growth is explained basically by the higher result attributed to Vivo's minorities.

In all, **consolidated net income in 2008** totalled 7,592 million euros, down 14.8% year-on-year. This decline is mainly due to the recognition in 2007 of capital gains on the sale of Airwave and Endemol. Stripping out the impact of asset disposals (Airwave, Endemol and Sogecable) from both periods, and the impact of the impairment charge

taken by Telco, SpA's on its investment of Telecom Italia, net income growth to December 2008 would rise to 38.0%.

Basic earnings per share in 2008 stood at 1,63 euros, **with year-on-year growth of 41.4% on a like-for-like basis⁶.**

CapEx in the full year amounted to 8,401 million euros, up 4.7% on 2007. This increase was mainly driven by investment in broadband, pay TV and expansion of the coverage and capacity of wireless networks in Latin America.

Also, the Company's drive to manage operating expenses and CapEx resulted in a significant increase in **operating cash flow (OIBDA-CapEx)**, which stood at 14,519 million euros at the end of 2008, up 20.2% year-on-year in organic terms excluding capital gains⁷. By region, Telefónica España accounted for 8,077 million euros of the total, while Telefónica Latinoamérica generated 4,410 million euros and Telefónica Europe, 2,108 million euros.

In 2008, the Company devoted 69% of the free cash flow to **shareholder remuneration**, combining dividend payments and share buybacks (126.7 million shares in 2008). The Company expects to complete the share buyback programme announced in 2008 (150 million shares) during the first quarter of 2009.

⁶ Excluding the impact of asset disposals (Airwave, Endemol y Sogecable) in both periods and the impact of the impairment charge taken by Telco, SpA's on its investment of Telecom Italia.

⁷ Assuming constant exchange rates and including the consolidation of TVA in January-December 2007 and Telemig in April-December 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In OIBDA and OI, the impact of asset disposals (Airwave, Endemol and Sogecable) is excluded from both periods.

Financial Data

Telefónica Group Consolidated Income Statement

Unaudited figures (euros in millions)	January - December			October - December		
	2008	2007	% Chg	2008	2007	% Chg
Revenues	57,946	56,441	2.7	14,804	14,426	2.6
Internal exp capitalized in fixed assets	736	708	4.0	207	211	(1.9)
Operating expenses	(36,553)	(37,431)	(2.3)	(9,367)	(10,381)	(9.8)
Supplies	(17,818)	(17,907)	(0.5)	(4,607)	(4,653)	(1.0)
Personnel expenses	(6,762)	(7,893)	(14.3)	(1,697)	(2,578)	(34.2)
Subcontracts	(10,079)	(9,991)	0.9	(2,607)	(2,771)	(5.9)
Bad Debt Provisions	(748)	(666)	12.3	(186)	(130)	43.2
Taxes	(1,147)	(974)	17.8	(271)	(249)	8.8
Other net operating income (expense)	510	358	42.6	196	192	2.1
Gain (loss) on sale of fixed assets	292	2,766	(89.4)	56	132	(57.7)
Impairment of goodwill and other assets	(12)	(17)	(30.8)	(3)	(4)	(26.3)
Operating income before D&A (OIBDA)	22,919	22,825	0.4	5,893	4,577	28.8
OIBDA margin	39.6%	40.4%	(0.9 p.p.)	39.8%	31.7%	8.1 p.p.
Depreciation and amortization	(9,046)	(9,437)	(4.1)	(2,243)	(2,452)	(8.5)
Operating income (OI)	13,873	13,388	3.6	3,650	2,125	71.8
Profit from associated companies	(161)	140	c.s.	(180)	34	c.s.
Net financial income (expense)	(2,797)	(2,844)	(1.6)	(698)	(749)	(6.8)
Income before taxes	10,915	10,684	2.2	2,771	1,409	96.7
Income taxes	(3,089)	(1,565)	97.3	(715)	(294)	143.1
Income from continuing operations	7,826	9,119	(14.2)	2,057	1,115	84.4
Income (Loss) from discontinued ops,	0	0	n.m.	0	0	n.m.
Minority interest	(234)	(213)	10.2	(61)	(57)	6.8
Net income	7,592	8,906	(14.8)	1,996	1,058	88.6
Weighted average number of ordinary shares outstanding during the period (millions)	4,645,9	4,758,7	(2.4)	4,592,6	4,718,5	(2.7)
Basic earnings per share (euros)	1.63	1.87	(12.7)	0.43	0.22	93.8

Notas:

- For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period have been obtained applying IFRS rule 33 'Earnings per share'. Thereby, there are not taking into account as outstanding shares the weighted average number of shares held as treasury stock during the period. Excluding the impact of asset disposals (Airwave and Sogecable) and the impact of the impairment charge taken by Telco, SpAs on its investment of Telecom Italia in both periods, net income grows 38.0% and EPS grows 41.4% as of the end of December 2008.
- Airwave and Endemol are not consolidated since the second and third quarter of 2007, respectively. The disposal of Airwave generated a capital gain of 1,296 million euros, recorded in the second quarter of 2007. The disposal of Endemol generated a capital gain of 1,368 million euros, recorded in the third quarter of 2007.
- 2008 includes 174 million euros due to the application of provisions made in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks had dissipated or had not materialized.
- Sogecable capital gain amounting 143 million euros is recorded in the second quarter of 2008.
- Starting April 2008, Vivo consolidates Telemig.
- Excluding the impact of asset disposals, organic OIBDA growth reaches 14.7% and organic OI growth reaches 28.7% in the period January-December 2008.

Financial Data

Telefónica Group Results by regional business units

Unaudited figures (euros in millions)	Revenues			OIBDA			OIBDA margin		
	January - December			January - December			January - December		
	2008	2007	% Chg	2008	2007	% Chg	2008	2007	% Chg
Telefónica España ¹	20,838	20,683	0.7	10,285	9,448	8.9	49.4%	45.7%	3.7 p.p.
Telefónica Latinoamérica ²	22,174	20,078	10.4	8,445	7,121	18.6	38.1%	35.5%	2.6 p.p.
Telefónica Europe ³	14,308	14,458	(1.0)	4,180	4,977	(16.0)	29.2%	34.4%	(5.2 p.p.)
Other companies and eliminations ⁴	625	1,221	(48.8)	9	1,278	(99.3)	n.m.	n.m.	n.m.
Total Group¹²³⁴	57,946	56,441	2.7	22,919	22,825	0.4	39.6%	40.4%	(0.9 p.p.)

	Operating income			CapEx			OpCF (OIBDA-CapEx)		
	January - December			January - December			January - December		
	2008	2007	% Chg	2008	2007	% Chg	2008	2007	% Chg
Telefónica España ¹	8,046	7,067	13.9	2,208	2,381	(7.3)	8,077	7,067	14.3
Telefónica Latinoamérica ²	4,800	3,562	34.8	4,035	3,343	20.7	4,410	3,778	16.7
Telefónica Europe ³	1,144	1,591	(28.1)	2,072	2,125	(2.5)	2,108	2,852	(26.1)
Other companies and eliminations ⁴	(117)	1,168	c.s.	85	178	(52.1)	(76)	1,100	c.s.
Total Group¹²³⁴	13,873	13,388	3.6	8,401	8,027	4.7	14,519	14,797	(1.9)

Notes:

- OIBDA and OI are presented before brand fees and management fees.
- CapEx at cumulative average exchange rate.
- OIBDA margin calculated as OIBDA over revenues.

1 2008 figures reflect the new applicable framework for public telephony services (net revenues). 2007 figures reported figures have not changed (gross revenues and gross expenses). Therefore, 2008/2007 variations are not homogeneous.

2 Starting April 2008, Vivo consolidates Telemig.

3 Airwave is not consolidated since the second quarter of 2007 (the disposal of Airwave generated a capital gain of 1,296 million euros, recorded in the second quarter of 2007). 2008 includes 174 million euros due to the application of provisions made in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks had dissipated or had not materialized.

4 Endemol is not consolidated since the third quarter of 2007 (the disposal of Endemol generated a capital gain of 1,368 million euros, recorded in the third quarter of 2007). Sogecable capital gain amounting 143 million euros is recorded in the second quarter of 2008.

Telefónica Group Consolidated balance sheet

Unaudited figures (euros in millions)	Dec 2008	Dec 2007	% Chg
Non-current assets	81,923	87,395	(6.3)
Intangible assets	15,921	18,320	(13.1)
Goodwill	18,323	19,770	(7.3)
Property, plant and equipment and Investment property	30,546	32,469	(5.9)
Non-current financial assets and investments in associates	10,153	9,007	12.7
Deferred tax assets	6,980	7,829	(10.8)
Current assets	17,973	18,478	(2.7)
Inventories	1,188	987	20.4
Trade and other receivables	9,315	9,662	(3.6)
Current tax receivable	970	1,010	(4.0)
Current financial assets	2,216	1,622	36.7
Cash and cash equivalents	4,277	5,065	(15.6)
Non-current assets classified as held for sale	7	132	(94.8)
Total Assets = Total Equity and Liabilities	99,896	105,873	(5.6)
Equity	19,562	22,855	(14.4)
Equity attributable to equity holders of the parent	17,231	20,125	(14.4)
Minority interest	2,331	2,730	(14.6)
Non-current liabilities	55,202	58,044	(4.9)
Long-term financial debt	45,088	46,942	(4.0)
Deferred tax liabilities	3,576	3,926	(8.9)
Long-term provisions	5,421	6,161	(12.0)
Other long-term liabilities	1,117	1,015	10.1
Current liabilities	25,132	24,974	0.6
Short-term financial debt	8,100	6,986	15.9
Trade and other payables	7,939	8,729	(9.1)
Current tax payable	2,275	2,157	5.5
Short-term provisions and other liabilities	6,818	7,102	(4.0)
Financial Data			
Net Financial Debt¹	42,733	45,284	(5.6)

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

Financial Data

Telefónica Group Free cash flow and change in debt

		January - December	
	Unaudited figures (euros in millions)	2008	2007
			% Chg
I	Cash flows from operations	20,571	20,132
II	Net interest payment ¹	(2,781)	(3,097)
III	Payment for income tax	(1,413)	(1,457)
A=I+II+III	Net cash provided by operating activities	16,377	15,578
B	Payment for investment in fixed and intangible assets	(7,861)	(7,205)
C=A+B	Net free cash flow after CapEx	8,516	8,373
D	Net Cash received from sale of Real Estate	248	129
E	Net payment for financial investment	(1,575)	2,383
F	Net payment for dividends and treasury stock ²	(6,681)	(5,496)
G=C+D+E+F	Free cash flow after dividends	508	5,389
H	Effects of exchange rate changes on net financial debt	(2,142)	(819)
I	Effects on net financial debt of changes in consolid. and others	99	(653)
J	Net financial debt at beginning of period	45,284	52,145
K=J-G+H+I	Net financial debt at end of period	42,733	45,284
			(5.6)

1 Including cash received from dividends paid by subsidiaries that are not under full consolidation method.

2 Dividends paid by Telefónica S.A. and dividend payments to minoritaries from subsidiaries that are under full consolidation method and treasury stock.

Reconciliations of cash flow and OIBDA minus CapEx

	January - December		
Unaudited figures (euros in millions)	2008	2007	% Chg
OIBDA	22,919	22,825	0.4
- CapEx accrued during the period	(8,401)	(8,027)	
- Payments related to cancellation of commitments	(920)	(781)	
- Net interest payment	(2,781)	(3,097)	
- Payment for income tax	(1,413)	(1,457)	
- Results from the sale of fixed assets	(292)	(2,766)	
- Investment in working capital and other deferred income and expenses	(597)	1,676	
= Net free cash flow after CapEx	8,516	8,373	1.7
+ Net Cash received from sale of Real Estate	248	129	
- Net payment for financial investment	(1,575)	2,383	
- Net payment for dividends and treasury stock	(6,681)	(5,496)	
= Free Cash Flow after dividends	508	5,389	(90.6)

	January - December		
Unaudited figures (euros in millions)	2008	2007	% Chg
Net free cash flow after CapEx	8,516	8,373	1.7
+ Payments related to cancellation of commitments	920	781	
- Ordinary dividends payment to minoritaries	(291)	(307)	
= Free cash flow	9,145	8,847	3.4
Weighted average number of ordinary shares outstanding during the period (millions)	4,646	4,759	
= Free cash flow per share (euros)	1.97	1.86	5.9

Note:

The concept 'Free cash flow' reflects the amount of cash flow available to remunerate Telefónica S.A. Shareholders, to protect solvency levels (financial debt and commitments), and to accommodate 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 dividend payments to minoritaries, due to cash recirculation within the Group.

Financial Data

Net financial debt and commitments

Unaudited figures (euros in millions)		December 2008
Long-term debt ¹		45,565
Short term debt including current maturities		8,100
Cash and Banks		(4,277)
Short and Long-term financial investments ²		(6,655)
A Net Financial Debt	42,733	
Guarantees to IPSE 2000		365
B Commitments related to guarantees	365	
Gross commitments related to workforce reduction ³		4,782
Value of associated Long-term assets ⁴		(697)
Taxes receivable ⁵		(1,398)
C Net commitments related to workforce reduction	2,687	
A + B + C Total Debt + Commitments	45,786	
Net Financial Debt / OIBDA ⁶		1.9x
Total Debt + Commitments/ OIBDA⁶	2.0x	

¹ Includes 'long-term financial debt' and 447 million euros of 'other long-term debt'.

² Short-term investments and 4,438 million euros recorded under the caption of 'financial assets and other long-term assets'.

³ Mainly in Spain. This amount is detailed in the caption 'Provisions for Contingencies and Expenses' of the Balance Sheet, and is the result of adding the following items: 'Provision for Pre-retirement, Social Security Expenses and Voluntary Severance', 'Group Insurance', 'Technical Reserves', and 'Provisions for Pension Funds of Other Companies'.

⁴ Amount included in the caption 'Investment' of the Balance Sheet, section 'Other Loans'. Mostly related to investments in fixed income securities and long-term deposits that cover the materialization of technical reserves of the Group insurance companies.

⁵ Net present value of tax benefits arising from the future payments related to workforce reduction commitments.

⁶ Calculated based on December 2008 OIBDA, excluding results on the sale of fixed assets.

Debt structure by currency

		December 2008				
Unaudited figures		EUR	LATAM	GBP	CZK	USD
Currency mix		65%	14%	9%	7%	5%

Credit ratings

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

Telefónica Group
Exchanges rates applied

	P&L and CapEx ¹		Balance Sheet ²	
	Jan - Dec 2008	Jan - Dec 2007	December 2008	December 2007
USA (US Dollar/Euro)	1.463	1.368	1.392	1.472
United Kingdom (Sterling/Euro)	0.795	0.685	0.952	0.733
Argentina (Argentinean Peso/Euro)	4.632	4.263	4.806	4.636
Brazil (Brazilian Real/Euro)	2.659	2.661	3.252	2.608
Czech Republic (Czech Crown/Euro)	24.969	27.756	26.930	26.620
Chile (Chilean Peso/Euro)	758.725	714.637	885.740	731.472
Colombia (Colombian Peso/Euro)	2,873.563	2,837.126	3,125.000	2,965.928
El Salvador (Colon/Euro)	12.806	11.974	12.177	12.881
Guatemala (Quetzal/Euro)	11.069	10.502	10.830	11.234
Mexico (Mexican Peso/Euro)	16.239	14.953	18.841	15.996
Nicaragua (Cordoba/Euro)	28.365	25.229	27.623	27.827
Peru (Peruvian Nuevo Sol/Euro)	4.285	4.282	4.371	4.409
Uruguay (Uruguayan Peso/Euro)	30.605	32.101	33.888	31.724
Venezuela (Bolívar/Euro)	3.147	2.942	2.992	3.165

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/08 and 31/December/07.

Results by regional business units

Telefónica España

At the end of 2008, Telefónica España managed 47.3 million **accesses**, a year-on-year increase of 2.0%, boosted by a 3.4% advance in mobile accesses (to over 23.6 million) and 13.7% growth in wireline retail broadband Internet accesses to over 5.2 million.

The results achieved in 2008 underscore Telefónica's management capacity in a market that has clearly showed its more defensive profile in the face of a worse economic environment. Accordingly, the soundness of a business model that leverages the advantages of being an integrated operator, with a strong position in the highest value segments, the measures adopted in 2007 to enhance efficiency and the Company's ability to manage OpEx and CapEx are reflected in an increasing growth throughout the P&L and a sharp increase in operating cash flow.

Revenues grew 0.7% in 2008 to 20,838 million euros. On a like-for-like basis¹, revenues performance in the fourth quarter (-0.9%) was in line with the growth recorded in the third quarter once excluded the impact from the Universal Service Obligation (-0.8%), to post a like-for-like growth of 1.5% in the full year.

It is worth recalling that a total of 182.2 million euros of revenues were accounted for in the third quarter of 2008 associated with the Universal Service Obligation at Telefónica España Wireline Business for the years 2003, 2004 and 2005. This had a positive impact of 50.6 million euros on OIBDA at Telefónica España.

Operating income before depreciation and amortisation (OIBDA) jumped 17.7% year-on-year in the fourth quarter and by 8.9% in 2008 to 10,285 million euros, putting the OIBDA margin at 49.4% for the full year (up 3.7 percentage points from 2007).

CapEx amounted to 2,208 million euros in 2008, down 7.3% year-on-year, with the pace of the decline accelerating (-19.4%) in the fourth quarter. This reflects Telefónica España's commitment to preserving the Company's strong cash flow generation. In 2008 Telefónica España generated **operating cash flow (OIBDA-CapEx)** of 8,077 million euros, up 14.3% year-on-year.

Wireline business

In the current environment the Spanish wireline access market has continued to expand, though the year-on-year growth rate fell from 1.9% in the first half to 0.7% at the end of 2008.

Against this backdrop, the Company's **wireline telephony accesses** topped 15.3 million at the end of December 2008 (-3.7% versus December 2007) after registering a net loss of 200,585 lines in the fourth quarter of 2008 and 592,492 in the full year. The main factors behind this decline are loop unbundling, more intense competition and the shrinking of the market in the last months of 2008. As a result, Telefónica's estimated share of the wireline access market stood at around 77% in December 2008. It is worth noting that of the total number of lines lost in 2008, 83% corresponded to migrations to wholesale lines in any of the existing formats - fully unbundled loop, naked shared access loop or the recently-created WLR² - and that they therefore continue to generate revenues for the Company, while the remaining 17% correspond to lines captured by competitors via direct access or a reduction in the size of the market.

The number of pre-selected lines continued to decline, dropping by 76,702 in the fourth quarter of 2008 and by 331,557 in the full year, to less than 1.5 million lines at the end of December 2008.

Telefónica España's estimated share of wireline traffic remained stable at around 64%.

¹ Including the impact on Telefónica España of the new model for public use telephone service (-147.4 million euros in 2007, -41.3 million euros in the fourth quarter of 2007).

² WLR: Wholesale Line Rental or AMLT (Alquiler Mayorista de Línea Telefónica) on its Spanish naming. In the fourth quarter of 2008 Telefónica began marketing this resale service which allows alternative operators to provide a single bill to their customers, including both the monthly line fee and the traffic consumption. At the end of December 2008 WLR amounted to 9,530 accesses.

The Spanish wireline broadband Internet access market registered an estimated 0.3 million net adds in the fourth quarter and 1.1 million in the full year (1.4 million net adds in 2007). Accordingly, estimated size of the wireline broadband Internet access market reached 9.3 million accesses in 2008, up 13.4% on December 2007.

Telefónica's **retail broadband Internet accesses** net adds totalled 129,478 in the fourth quarter and 632,402 in the full year (a year-on-year drop of 25.2%), resulting in a 13.7% year-on-year increase in accesses to over 5.2 million. The Company remains market leader with an estimated share around 57%.

The estimated share of unbundled loops in the broadband Internet access market increased slightly to surpass 18%. Net quarterly adds amounted to 112,842 loops (-2.8% vs. the fourth quarter 2007) and 344,102 in the full year (-17.1% from 2007). Total unbundled loops amounted to approximately 1.7 million, of which 35.5% (602,345) were shared access loops. The remaining 1,095,697 were fully unbundled loops (including 259,868 naked shared access loops). Fully unbundled loops grew by 150,739 in the quarter, of which 48,540 (32.2%) were naked shared access loops. Shared loops fell by 37,897 accesses in the quarter (net loss).

The decline of the wholesale ADSL service continued due to migrations to unbundled loops. Net fourth quarter losses amounted to 21,008 accesses to end up the year with net losses of 71,728 wholesale ADSL connections. At the end of 2008 total wholesale ADSL accesses amounted to 423,764, down 14.5% from December 2007.

Telefónica had an estimated 14% share of the **Pay TV** market at year-end, having added 22,943 customers in the fourth quarter and 101,407 in 2008, leading to a total of 612,494 customers (up 19.8% year-on-year).

The total number of Duo and Trio bundles stood at 4.5 million units. This means that more than 85% of the Company's retail broadband accesses were part of a double or triple offer bundle.

Revenues totalled 12,581 million euros in 2008, up 1.4% year-on-year, after declining by 2.2% in the fourth quarter. Like-for-like growth³ stood at 2.7% in 2008, while revenues declined by 0.9% in the fourth quarter. The fourth quarter revenue performance was due to lower voice service revenues, coupled with lower growth of Internet and broadband revenues.

- **Traditional access revenues** fell by 1.1% year-on-year in the fourth quarter and amounted to 2,944 million euros in the year, an increase of 6.2% from 2007. Stripping out the impact of Universal Service Obligation related revenues, revenues would drop 0.4% in the year due to lower average accesses, with the same rate of decline in the fourth quarter as in the third quarter.
- **Voice service revenues** declined 6.2% in the fourth quarter on like-for-like⁴ basis (10.4% reported drop) and 3.5% in the full year (7.4% reported decrease), reflecting lower fixed-to-mobile traffic, the fall in the effective prices of international traffic and the increased weighting of flat-rate traffic in national wireline traffic.
- **Internet and broadband revenues** grew 5.2% in the quarter and totalled 3,017 million euros in 2008, up 8.7% versus 2007. By item:
 - Retail broadband service revenues grew 6.3% in the quarter and 11.6% in the year, contributing 2.2 percentage points to revenue growth at Telefónica España Wireline Business.
 - Improved performance at the wholesale broadband business, (up 12.5% in the quarter and 2.6% in the year), reflecting growth in revenues from a higher number of unbundled loops.

• **Data service revenues** rose 2.6% year-on-year in 2008 (up 1.5% in the fourth quarter) to 1,190 million euros.

• **IT service revenues** fell by 1.8% year-on-year in the fourth quarter and amounted to 443 million euros in the full year, up 1.2% from 2007.

Operating expenses fell 21.8% in the fourth quarter to total 6,716 million euros in 2008 (-8.5% year-on-year). The full year decline is due to: i) the 5.4% decline in external service expenses to 1,336 million euros due to the new model for the PUT and call centres business; ii) the 1.5% fall in supply costs to 2,962 million euros due to lower interconnection and equipment purchasing expenses and special projects; iii) the 21.6% reduction in personnel expenses to 2,071 million euros due to workforce reorganization expenses in 2007 (513 million euros; zero in 2008) –stripping out this impact, personnel expenses would have fallen by 2.7% in 2008– and the lower average headcount in 2008; and iv) the contribution of 73 million euros to cover the Universal Service Obligation. On a like-for-like basis⁵, operating expenses would have declined by 6.6% in 2008 and by 20.3% in the fourth quarter.

Operating income before depreciation and amortisation (OIBDA) rose 20.3% year-on-year in the fourth quarter, reflecting the lower provisions linked to the workforce reorganization programme (397 million euros in the fourth quarter of 2007, zero in 2008) and the lower real estate capital gains (1 million euros in October-December 2008 and 152 million euros in the same period of 2007).

³ Including the impact on Telefónica España of the new model for public use telephone service (-147.4 million euros in 2007; -41.3 million euros in the fourth quarter of 2007).

⁴ Including the impact on Telefónica España of the new model for public use telephone service (-193.7 million euros in voice service revenues in 2007; -53.7 million euros in the fourth quarter of 2007).

⁵ Including the impact on Telefónica España of the new model for public use telephone service (-147.4 million euros in 2007; -41.3 million euros in the fourth quarter of 2007).

Results by regional business units

Telefónica España

OIBDA for the full year 2008 amounted to 6,050 million euros, up 15.3% from 2007. This growth reflects the following: recognition of the Universal Service Obligation –with a positive impact of 110 million euros in 2008–, lower provisions linked to the workforce reorganization programme –513 million euros to December 2007, zero in 2008–, lower capital gains from property sales –74 million euros in 2008 vs. 161 million euros a year earlier–, the sale of the bad debt portfolio for 17 million euros in 2008 and a fine levied by the European Union for 152 million euros in the second quarter of 2007.

The **OIBDA margin** stood at 45.6% in the fourth quarter and 48.1% in the full year.

CapEx fell by 7.2% in 2008 to 1,498 million euros and **operating cash flow (OIBDA–CapEx)** amounted to 4,552 million euros, up 25.2% year-on-year.

Wireless business

The **Spanish wireless market** totalled 53.1 million lines at the end of 2008, with an estimated penetration rate of 116% (an increase of more than five percentage points from December 2007).

In the context of an increasingly mature market and the current economic climate, **net adds** in 2008 stood at 778,280 lines, with an especially strong performance in the contract segment, where 923,076 lines were added. Net adds totalled 168,862 lines in the fourth quarter (406,837 lines in the same period a year earlier), driven mainly by the contract segment (65% of the total), which registered net adds of 110,358 lines (383,049 in the fourth quarter of 2007).

As a result, Telefónica España's **customer base** in Spain totalled more than 23.6 million lines at the end of 2008, up 3.4% year-on-year, driven by the growth rate of the contract segment (+6.8% versus December 2007), which represents 61.7% of the total customer base (1.9 percentage points more than in December 2007).

In terms of **portability**, the net balance in 2008 was –61,254 lines, with a positive net balance of 38,750 lines in the contract segment.

In a highly competitive environment, **churn** in 2008 advanced slightly to 1.9% (+0.1 percentage points versus 2007), standing at 2.0% in the fourth quarter. Churn was significantly lower in the contract segment (1.3% in the fourth quarter and 1.2% in the full year) despite increasing slightly (+0.1 percentage points versus 2007).

In terms of usage, minutes of traffic carried in the fourth quarter grew 4.1% year-on-year to over 65,000 million minutes in the full year (+3.3% versus 2007). **MoU** amounted to 152 minutes in the fourth quarter (-2.3% year-on-year), broadly in line with the trend in the previous quarter, and to 156 minutes in the year as a whole (-2.8% versus 2007).

Voice ARPU reached 24.1 euros in the last quarter of 2008, 10.0% lower than in the same quarter of 2007, and amounted to 25.2 euros in the full year (-8.5% versus 2007). This performance was driven by the change in customer usage patterns in the current economic climate and the sharp drop in termination rates in April and October (-17% year-on-year on cumulative basis). Outgoing voice ARPU performed better than in the third quarter, falling 8.4% year-on-year in the fourth quarter and by 7.4% overall in 2008.

Data ARPU in the last quarter of the year continued the trend seen since the start of the year, growing 8.3% year-on-year in the quarter to 5.5 euros and by 9.3% in the full year to 5.2 euros. The strong performance of the wireless data business was underpinned by higher content revenues (+9.2% versus 2007) and, above all, strong growth in connectivity revenues, which advanced 65.4% year-on-year in the fourth quarter and by 65.2% in the year as a whole. Particularly noteworthy is the growing contribution of connectivity revenues, which accounted for 19.8% of data revenues in 2008, up 6.2 percentage points versus 2007.

As a result, total outgoing ARPU amounted to 25.9 euros in 2008, 4.6% less than in 2007.

Total ARPU stood at 30.4 euros at the end of 2008, down 5.9% year-on-year and 7.1% in the last quarter of 2008.

The number of 3G handsets held by customers rose steadily to more than 6.2 million (1.8 times more than in December 2007), reaching a penetration rate of 27% of the customer base excluding M2M (+11.5 percentage points from 2007).

Revenues totalled 9,684 million euros in 2008, virtually unchanged from 2007 (-0.1%) and down 1.0% in the fourth quarter due to lower customer usage and lower incoming revenues. Highlights by revenue item:

- **Service revenues** remained virtually unchanged in 2008 (-0.6% year-on-year) at 8,457 million euros. The year-on-year change in the fourth quarter stood at -2.6%, just 0.5 percentage points less than the change reported in the previous quarter.

- **Customer revenues** advanced 1.2% in 2008 to 6,943 million euros and remained virtually unchanged in the fourth quarter (-0.3% year-on-year), an improvement on the performance in the previous quarter (-0.8% year-on-year).

- **Interconnection revenues** fell 9.4% year-on-year in 2008 and by 13.9% in the fourth quarter, hit by the cut in termination rates (17% in the year).

- **Roaming in revenues** fell 9.9% versus 2007 following a 16.1% decline in the fourth quarter. This is due to ongoing reductions in wholesale roaming prices.

- **Revenues from handset sales** grew 3.6% in 2008 to 1,227 million euros, rising 10.9% in the fourth quarter, reflecting the different timing for handset shipments (-1.6% in the third quarter of 2008).

Operating expenses declined by 0.7% year-on-year in 2008 to 5,500 million euros. This performance is affected by personnel reorganization costs registered in the fourth quarter of 2007 (154 million euros) and the costs related with the Universal Service Obligation (59 million euros) recorded in the third quarter of 2008. Operating expenses in the fourth quarter amounted to 1,389 million euros, down 9.3% on the same period in 2007 (+0.8% stripping out the aforementioned workforce reorganization expenses).

Operating income before depreciation and amortisation (OIBDA) grew 0.5% in 2008 to 4,265 million euros, after increasing by 12.2% in the fourth quarter. The OIBDA margin stood at 44.0% in the full year, an improvement of 0.3 percentage points from 2007.

CapEx in 2008 totalled 710 million euros, down 7.4% from 2007, fuelling 2.3% year-on-year growth in **operating cash flow (OIBDA–CapEx)** to 3,555 million euros.

Results by regional business units

Telefónica España

Telefónica España Accesses

Unaudited figures (thousands)	2007		2008				% Chg y-o-y
	December	March	June	September	December		
Final Clients Accesses	44,578.2	44,872.9	45,019.7	45,160.7	45,213.6		1.4
Fixed telephony accesses ¹	15,918.8	15,842.1	15,670.0	15,526.9	15,326.3		(3.7)
Internet and data accesses	5,321.8	5,468.4	5,547.6	5,608.3	5,670.0		6.5
Narrowband	660.8	589.5	502.3	453.9	388.0		(41.3)
Broadband ²	4,614.0	4,835.9	5,005.0	5,117.0	5,246.4		13.7
Other ³	47.0	43.1	40.4	37.4	35.6		(24.3)
Mobile accesses	22,826.6	23,008.4	23,225.4	23,436.0	23,604.8		3.4
Pre-Pay	9,181.8	9,058.4	8,964.6	8,978.5	9,037.0		(1.6)
Contract	13,644.7	13,950.0	14,260.8	14,457.5	14,567.8		6.8
Pay TV	511.1	554.0	576.6	589.6	612.5		19.8
Wholesale Accesses	1,855.5	1,953.3	2,001.3	2,035.0	2,136.1		15.1
WLR ⁴	0.0	0.0	0.0	0.0	9.5		n.s.
Unbundled loops	1,353.9	1,467.4	1,532.6	1,585.2	1,698.0		25.4
Shared ULL	776.4	755.0	683.6	640.2	602.3		(22.4)
Full ULL ⁵	577.6	712.5	849.1	945.0	1,095.7		89.7
Wholesale ADSL	495.5	480.3	463.3	444.8	423.8		(14.5)
Other ⁶	6.0	5.7	5.3	5.0	4.7		(21.7)
Total Accesses	46,433.6	46,826.3	47,020.9	47,195.7	47,349.7		2.0

1 PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included.

2 ADSL, satellite, optical fibre, cable modem and broadband circuits.

3 Leased lines.

4 Wholesale Line Rental.

5 Includes naked shared loops.

6 Wholesale circuits.

Note: Iberbanda's accesses are included from December 2006.

Telefónica España Consolidated Income Statement

Unaudited figures (euros in millions)	January - December			October - December		
	2008	2007	% Chg	2008	2007	% Chg
Revenues	20,838	20,683	0.7	5,132	5,222	(1.7)
Internal exp capitalized in fixed assets	213	220	(3.3)	61	59	4.2
Operating expenses	(10,818)	(11,505)	(6.0)	(2,738)	(3,366)	(18.7)
Other net operating income (expense)	7	(71)	c.s.	(24)	8	c.s.
Gain (loss) on sale of fixed assets	54	137	(61.0)	(0)	145	c.s.
Impairment of goodwill and other assets	(8)	(17)	(51.7)	(3)	(3)	(13.7)
Operating income before D&A (OIBDA)	10,285	9,448	8.9	2,428	2,064	17.7
OIBDA margin	49.4%	45.7%	3.7 p.p.	47.3%	39.5%	7.8 p.p.
Depreciation and amortization	(2,239)	(2,382)	(6.0)	(550)	(587)	(6.3)
Operating income (OI)	8,046	7,067	13.9	1,878	1,476	27.2

Notes:

- OIBDA and OI before brand fees.

- 2008 figures reflect the new applicable framework for public telephony services (net revenues). 2007 figures reported figures have not changed (gross revenues and gross expenses). Therefore, 2008/2007 variations are not homogeneous.

Telefónica España: wireline business Selected financial data

Unaudited figures (thousands)	January - December			October - December		
	2008	2007	% Chg	2008	2007	% Chg
Revenues	12,581	12,401	1.4	3,113	3,183	(2.2)
OIBDA	6,050	5,249	15.3	1,421	1,181	20.3
<i>OIBDA margin</i>	48.1%	42.3%	5.8 p.p.	45.6%	37.1%	8.5 p.p.
CapEx	1,498	1,614	(7.2)	455	553	(17.7)
OpCF (OIBDA-CapEx)	4,552	3,635	25.2	966	628	53.7

Notes:

- OIBDA before brand fee.
- 2008 figures reflect the new applicable framework for public telephony services (net revenues). 2007 figures reported figures have not changed (gross revenues and gross expenses). Therefore, 2008/2007 variations are not homogeneous.

Telefónica España: Wireline business selected revenues data

Unaudited figures (euros in millions)	January - December			October - December		
	2008	2007	% Chg	2008	2007	% Chg
Traditional Access¹	2,944	2,772	6.2	681	688	(1.1)
Traditional Voice Services	4,436	4,792	(7.4)	1,078	1,203	(10.4)
Domestic Traffic ²	2,566	2,921	(12.2)	619	729	(15.0)
Interconnection ³	960	952	0.8	230	237	(3.0)
Handsets sales and others ⁴	910	918	(0.9)	228	237	(3.6)
Internet Broadband Services	3,017	2,775	8.7	754	716	5.2
Narrowband	55	95	(42.8)	7	18	(60.5)
Broadband	2,962	2,679	10.5	747	698	6.9
Retail ⁵	2,635	2,361	11.6	663	624	6.3
Wholesale ⁶	327	318	2.6	84	74	12.5
Data Services	1,190	1,160	2.6	313	309	1.5
IT Services	443	437	1.2	131	133	(1.8)

1 Monthly and connection fees (PSTN, Public Use Telephony, ISDN and Corporate Services) and Telephone booths surcharges.

2 Local and domestic long distance (provincial, interprovincial and international) fixed to mobile traffic, Intelligent Network Services, Special Valued Services, Information Services (118xy), bonuses and others.

3 Includes revenues from fixed to fixed incoming traffic, mobile to fixed incoming traffic, and transit and carrier traffic.

4 Managed Voice Services and other businesses revenues.

5 Retail ADSL services and other Internet Services.

6 Includes Megabase, Megavia, GigADSL and local loop unbundling.

Note: 2008 figures reflect the new applicable framework for public telephony services (net revenues). 2007 figures reported figures have not changed (gross revenues and gross expenses). Therefore, 2008/2007 variations are not homogeneous.

Results by regional business units

Telefónica España

Telefónica España: wireless business Selected financial data

Unaudited figures (euros in millions)	January - December			October - December		
	2008	2007	% Chg	2008	2007	% Chg
Revenues	9,684	9,693	(0.1)	2,383	2,407	(1.0)
OIBDA	4,265	4,241	0.5	1,012	902	12.2
<i>OIBDA margin</i>	44.0%	43.8%	0.3 p.p.	42.5%	37.5%	5.0 p.p.
CapEx	710	767	(7.4)	199	257	(22.8)
OpCF (OIBDA-CapEx)	3,555	3,474	2.3	813	645	26.2

Note: OIBDA before brand fee.

Telefónica España: wireless business Selected revenues data

Unaudited figures (euros in millions)	January - December			October - December		
	2008	2007	% Chg	2008	2007	% Chg
Service Revenues	8,457	8,509	(0.6)	2,055	2,111	(2.6)
Customer Revenues	6,943	6,861	1.2	1,713	1,718	(0.3)
Interconnection	1,243	1,372	(9.4)	286	333	(13.9)
Roaming - In	198	220	(9.9)	37	44	(16.1)
Other	73	57	28.5	19	17	15.7
Handset	1,227	1,184	3.6	328	296	10.9

Telefónica España: wireless business Selected operating data

Unaudited figures	2007		2008			% Chg y-o-y
	Q4	Q1	Q2	Q3	Q4	
MoU (minutes)	156	151	159	163	152	(2.3)
Pre-pay Contract	64 218	63 209	69 216	84 213	66 205	2.8 (5.7)
ARPU (EUR)	31.8	30.5	30.8	30.9	29.5	(7.1)
Pre-pay Contract	15.0 43.2	14.6 41.0	14.5 41.1	15.4 40.6	13.8 39.3	(8.3) (9.0)
Data ARPU	5.0	5.1	5.0	5.3	5.5	8.3
%non-P2P SMS over data revenues	47.7%	52.7%	53.6%	54.8%	55.5%	7.8 p.p.

Note: MoU and ARPU calculated as monthly quarterly average.

Telefónica España: wireless business Selected operating data

Unaudited figures	January - December		
	2008	2007	% Chg
MoU (minutes)	156	161	(2.8)
Pre-pay Contract	70 211	74 223	(4.8) (5.4)
ARPU (EUR)	30.4	32.3	(5.9)
Pre-pay Contract	14.5 40.5	15.6 44.3	(6.6) (8.5)
Data ARPU	5.2	4.8	9.3
%non-P2P SMS over data revenues	54.2%	47.8%	6.4 p.p.

Note: MoU and ARPU calculated as monthly January-December period average.

Results by regional business units

Telefónica Latinoamérica

Telefónica Latinoamérica ended 2008 with a solid set of commercial and financial results, underpinned by the strong dynamism of the telecommunications market in the region, which again posted strong growth in the fourth quarter across the region.

In this context, Telefónica Latinoamérica continued to focus on maintaining its commercial effort to capture growth in the mobile business and further transform its wireline business, with Internet, broadband and Pay TV services all increasing their weighting through bundled and segmented offerings.

At the end of 2008 Telefónica Latinoamérica managed 158.3 million **accesses** in the region, 24 million more than in 2007, a year-on-year increase of 18.0%.

After reporting 5.1 million net adds in the quarter and 18.9 million in the year to date¹, Telefónica Latinoamérica had a total of 123.4 million mobile accesses (+22.7% compared with December 2007; +18.1% in organic terms²), with solid growth across all its operations. This increase is due both to the larger number of gross adds reported in the year (+17.8%; +14.2% in organic terms³), and the strong performance of churn, which remained stable compared with 2007.

The largest increases in mobile accesses were reported in: Brazil, where Telefónica strengthened its position as market leader with almost 45 million mobile accesses (11.5 million more than in December 2007, with close to 4 million added following the acquisition of Telemig in April 2008); Mexico, where Telefónica continues to gain market share thanks to 22.3% year-on-year growth in its customer base to 15.3 million; Peru, where customer numbers increased by 31.6% year-on-year to over 10.6 million mobile accesses; and Colombia, where accesses grew by 19.0% to almost 10 million customers. The Company also performed well in markets with high penetration levels, such as Argentina, Chile and Venezuela where it continues to achieve significant year-on-year increases in its customer base (8.8% in Argentina, 9.4% in Chile and 12.2% in Venezuela, respectively).

In parallel with the sharp growth in mobile accesses, Telefónica's strategy of increasing usage levels led to higher **MoU**, which increased by a notable 7.8% year-on-year in organic terms⁴ (stable in the fourth quarter compared with the same period a year earlier⁵). **ARPU** fell by 3.5% in 2008 in constant euros in organic terms³ and by 3.1% in the quarter⁴, an improvement on the 4.7% decline in organic terms⁵ reported in the previous quarter. ARPU was affected by the reduction in termination rates in several countries and commercial initiatives aimed at boosting usage. Outgoing ARPU

grew by 0.9% year-on-year in constant euros in organic terms³ (+0.4% in the fourth quarter⁴), with close to 23 million more accesses than in December 2007.

In the **wireline business**, as a result of the transformation process for operations, the contribution of growth businesses (Broadband, Pay TV and Data) rose, boosted by the increase in bundled products and an improved portfolio of services, putting the wireline customer base at almost 34.9 million accesses, up 3.9% year-on-year. By service:

- In **Broadband** net adds to December 2008 topped one million accesses (more than 191,000 net adds in the fourth quarter), to reach a customer base over 6 million accesses (+20.5% year-on-year). Of particular note are the expansion of the service in Colombia (+96.7% growth year-on-year), the sustained growth achieved in Argentina (+32.1% year-on-year) and the consolidation of growth in Brazil (+23.6% year-on-year) to over 2.5 million accesses.

¹ The Telemig customers incorporated by the Group in April 2008 (close to 4 million) are not included as net adds in the period.

² Including Telemig's accesses in December 2007.

³ Including Telemig in April-December 2007.

⁴ Including Telemig in October-December 2007.

⁵ Including Telemig in July-September 2007.

- In **pay TV**, Telefónica Latinoamérica already has over 1.5 million subscribers, with operations in Peru, Chile, Colombia, Brazil and Venezuela, up from 1.2 million in December 2007.

- **Fixed telephony accesses** totalled 25.6 million at the end of December 2008, 1.0% more than in December 2007. Particularly noteworthy was the fixed-wireless project in Peru, which underpinned the 5.0% year-on-year growth in wireline telephony accesses in the country. Also, the growth of fixed wireless accesses in Venezuela remained strong (+31.8% year-on-year), with more than 1.3 million accesses at the end of the year.

Underlining the Company's successful policy of unlocking value in the customer base, the **average revenue per fixed telephony access** in 2008 advanced 6.4% in constant euros (+5.5% in the first nine months), driven by higher revenues from new businesses and services.

The Company continued to focus on bundled services, with 49% of broadband accesses under a 2P/3P offer (+18 percentage points versus 2007). Including local and control usage bundles, 60% of fixed telephony accesses are part of a bundle (up 7 percentage points from December 2007).

The Company's strong commercial performance in 2008 is reflected in a strong set of financial results, despite the worse evolution of exchange rates, that drain 3.7 percentage points to revenue growth and 4.0 percentage points to OIBDA growth (vs. -3.0 percentage points to both metrics in the first nine months of 2008).

Revenues amounted to 22,174 million euros in 2008, up 10.4% on 2007 in current euros.

Brazil remains the Company's main growth driver, accounting for 38.8% of revenues in 2008 in current currency, followed by Venezuela (12.5%), and Argentina (11.4%).

In organic terms⁶ revenues advanced 12.9% year-on-year, with the pace of growth in the fourth quarter similar to that in the first nine months. By country, Brazil is the largest contributor to organic revenue growth (+3.5 percentage points), followed by Venezuela (+2.8 percentage points), Argentina (+2.4 percentage points) and Mexico (+1.7 percentage points).

Revenue growth, together with ongoing efficiency improvements, underpinned 18.6% growth in **operating income before depreciation and amortisation (OIBDA)** in current euros to 8,445 million euros (+21.5% in organic terms⁶). The pace of growth picked up significantly in the fourth quarter (+15.6% organic growth⁷ to September), mainly due to the personnel reorganization provisions made in 2007 (most of which were made in the fourth quarter). Stripping out these provisions, OIBDA in 2008 advanced 16.3% in organic terms⁶.

As a result, the Company's margin advanced significantly, both year-on-year and quarter-on-quarter. The OIBDA margin stood at 38.1% in 2008, up 2.6 percentage points on 2007, and 41.2% in the fourth quarter (37.0% to September). The increase in the OIBDA margin in the fourth quarter (+7.7 percentage points) reflects the efficiency improvements achieved in 2008 and the impact of the personnel reorganization provisions made in the last quarter of 2007.

Brazil was the biggest contributor, accounting for 39.8% of Telefónica Latinoamérica's OIBDA in current euros. Venezuela and Argentina also made noteworthy respective contributions of 15.7% and 10.9%, while Mexico's contribution doubled from 2.5% in 2007 to 5.0% in 2008.

In organic terms⁶, OIBDA advanced 21.5% year-on-year, driven by Venezuela (+5.0 percentage points), Mexico (+3.9 percentage points) and Brazil (+3.2 percentage points).

Telefónica's CapEx in Latin America amounted to 4,035 million euros in 2008 (up 21.2% on 2007 in organic terms⁶), driven by the commercial activity in the wireline business, both in broadband and in pay TV, while in the wireless business the expansion of the coverage and capacity of GSM networks and the rollout of UMTS continued (including the acquisition of licences in Brazil).

Telefónica Latinoamérica generated **operating cash flow (OIBDA-CapEx)** of 4,410 million euros in 2008, up 16.7% on 2007 in current euros (+21.8% organic growth⁸).

⁶ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007.

⁷ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-September 2007.

⁸ Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007.

Results by regional business units

Telefónica Latinoamérica

Brazil

The Brazilian telecommunications market recorded one of the highest growth rates in 2008, with a sharp rise in mobile and broadband accesses.

In this market, Telefónica reported 60.7 million **accesses** at the end of 2008, 24.0% more than in 2007, thanks to sharp increases in customer numbers at Vivo and the success of the policies to transform Telesp based on bundled services. Vivo consolidated its leading market position and had a total of 44.9 million accesses (+34.2% year-on-year). Meanwhile, Telesp captured a large part of broadband growth, increasing its accesses by 23.6% year-on-year to almost 2.6 million, and drove the growth of the pay TV market, where it now has over 472,000 accesses (+104.5%).

With regard to financial results, it is noteworthy that in 2008 Telefónica reached in Brazil higher growth rates than in 2007 in local currency. Also, in the fourth quarter the growing trend in OIBDA and revenue continued.

Telefónica's **revenues** in Brazil totalled 8,606 million euros in 2008, an advance of 12.2% year-on-year in local currency, after rising 15.8% in local currency in the fourth quarter compared with the same period a year earlier. This growth was fuelled by the strong performance of Vivo and the sustained growth acceleration in Telesp's revenues over the year.

Operating income before depreciation and amortisation (OIBDA) reported by Telefónica in Brazil increased by 9.8% year-on-year in local currency to 3,359 million euros (+16.8% in the fourth quarter). This strong performance reflects both efficiency improvements at Vivo and the growth in OIBDA at Telesp, despite the increased weight of new businesses requiring greater resources. Telefónica's OIBDA margin in Brazil remained virtually unchanged at 39.0% in 2008 (39.9% in 2007).

Telefónica is committed to Brazil as a market with strong potential, which is a benchmark in the take-up of new technologies and which offers huge scope for increased service penetration. Accordingly, **CapEx** in Brazil totalled 1,614 million euros in 2008 (+48.4% year-on-year in local currency including the acquisition of Vivo's 3G licences and +27.7% excluding these licences).

Telefónica generated **operating cash flow (OIBDA-CapEx)** of 1,745 million euros in Brazil in 2008, down 11.5% in local currency on 2007. However, excluding the impact of the acquisition of Vivo's 3G licences operating cash flow remained at the same level as in 2007 despite the higher investment made.

VIVO

Mobile accesses in the Brazilian market topped 150 million at the end of 2008, around 30 million more than in December 2007. As a result, the penetration rate exceeded 78% (up 15 percentage points from December 2007), further establishing Brazil as one of the fastest growing mobile telephony markets in the world.

Vivo undertook outstanding commercial effort in the fourth quarter, with 5.9 million gross adds, a significant increase in organic terms⁹ on October-December of 2007. As a result Vivo maintained its market share at around 30% despite the more competitive market conditions, primarily in São Paulo.

Against this backdrop Vivo kept **churn** under control, both in the full year and the fourth quarter. In 2008 **churn** stood at 2.6% (+0.2 percentage points year-on-year in organic terms¹⁰), while it was slightly lower than the full-year average in the last quarter (2.5%, up 0.2 percentage points year-on-year in organic terms⁹).

As a result, Vivo posted net adds of 2.7 million accesses in the fourth quarter of 2008, 9.0% more than in the same period a year earlier in organic terms⁹. In the full year net adds totalled 7.5 million accesses¹¹ (+54.6% from 2007 in organic terms¹⁰).

Vivo had almost 45 million **accesses** at the end of 2008, 34.2% larger than its customer base in 2007 (+20.2% in organic terms¹⁰). Also worth highlighting is the GSM customer base evolution to over 30 million, representing 68% of the total (+34 percentage points year-on-year).

The Company's effort to foster the contract customers segment should be highlighted. Net adds in this segment almost doubled vs. 2007 (+86.9% year-on-year in organic terms⁹). As a result contract customers now represent 19.0% of the total. This performance reflects the effectiveness of the Company's policies to attract and retain high-value customers, with the 'Vivo Escolha' plans proving especially successful.

In an environment marked by strong growth and intense competition, Vivo's MoU was 86 minutes in 2008, up 12.0% from 2007 in organic terms¹⁰ and 85 minutes in the fourth quarter, 6.9% higher than in the same period of 2007 in organic terms⁹. This positive performance was underpinned by the growth in outgoing MoU.

⁹ Including Telemig in October-December 2007.

¹⁰ Including Telemig in April-December 2007.

¹¹ The Telemig customers incorporated by the Group in April 2008 (close to 4 million) are not included as net adds in the period.

¹² Including Telemig in December 2007.

ARPU fell 5.8% year-on-year in 2008 in local currency in organic terms¹³, affected by increased competition and the increase in 'SIM only' customers, and by 6.4% in the fourth quarter in organic terms¹⁴. However, it improved in quarter-on-quarter terms (-1.4% compared with the third quarter).

Meanwhile, Data revenues accounted for 9.2% of service revenues in 2008, up 46.6% from 2007 (+38.3% in organic terms¹³). The weighting of non-SMS and connectivity data revenues also increased, thanks largely to the success of card/modem offerings and service plans (Vivo Zap, Vivo Wap, Vivo Play).

Revenues in 2008 totalled 2,932 million euros, up 22.3% year-on-year in local currency (+13.1% in organic terms¹³), after jumping 26.8% year-on-year in local currency in the fourth quarter (+14.3% organic¹⁴). Underlying the strong revenue performance was a 23.2% year-on-year increase in local currency in service revenues (+13.6% organic¹³), driven by a 24.6% jump in outgoing revenues (+15.6% organic¹³).

Despite an increase in commercial initiatives, subscriber acquisition costs fell notably. As a result, **operating income before depreciation and amortisation (OIBDA)** rose 34.5% year-on-year in local currency to 825 million euros (+22.4% organic¹³), significantly outstripping revenue growth. In the fourth quarter year-on-year OIBDA growth was even higher, despite the increased commercial activity, at 35.9% in local currency (+24.4% organic¹⁴). These results reflect the Company's drive to improve the efficiency of its commercial and management processes, underpinned by the increased weighting of GSM customers and larger scale.

As a result, the 2008 OIBDA margin stood at 28.2%, up 2.6 percentage points from 2007 (+2.1 percentage points in organic terms¹³). Vivo achieved a fourth-quarter OIBDA margin of 28.7%, 2.0 percentage points higher than in the same period a year earlier, (+2.4 percentage points like-for-like¹⁴), despite the increased commercial activity.

CapEx in 2008 amounted to 739 million euros, largely affected by the acquisition of 3G licences and the start-up of operations in the North-East of Brazil. In organic terms¹³, CapEx increased by 24.8% in 2008 excluding the 3G licences acquisition.

Operating cash flow (OIBDA–CapEx) in 2008 was 87 million euros, which rises to 312 million euros stripping out the cost of the licences, a year-on-year increase of 22.2% in local currency (+18.8% in organic terms¹³).

TELESP

In 2008 Telesp focused on transforming its operations in order to fully leverage the potential of its business by offering customers a wide and competitive range of products based on its service bundling strategy (2P/3P) in a market that remains highly dynamic, bolstering its position as a pioneer in Latin America in the use of new technologies.

The broadband market grew by an estimated 25% year-on-year in 2008, driven largely by Telesp with net adds of more than 488,000 accesses in 2008 (up 5.8% from 2007).

Telesp had 15.8 million **accesses** at the end of 2008, having doubled its pay TV accesses to 472,200 and captured the growth of the broadband market (+23.6% year-on-year to 2.6 million accesses). Fixed-line accesses registered a slight year-on-year decline of 2.5%.

In 2008 Telesp further developed its broadband services portfolio and now offers speeds ranging from 1Mb to 30Mb. At its pay TV business the Company rolled out an outstanding content offering.

The solid commercial results attained drove substantial year-on-year growth in **revenues**, which totalled 6,085 million euros. Revenues increased 8.2% in local currency in 2008 vs. 2007 (+7.5% organic¹⁵) after posting 10.6% growth in the fourth quarter, maintaining the acceleration in revenue growth since the start of the year. This improvement was underpinned by growth in fixed telephony revenues and, above all, Internet, Pay TV and content revenues.

Fixed-line revenues advanced 2.7% in 2008 in local currency (+2.0% to September), continuing the positive trend since the start of the year. Important factors in this improvement were the growth in traffic linked to the mobile business, and the success of service bundling policies. A total of 57% of Telesp's lines had bundled services at the end of 2008 (up 9 percentage points year-on-year). Meanwhile, Internet and Pay TV revenues grew 41.1% in local currency in 2008, accounting for 12.9% of the Company's revenues (14.0% in the fourth quarter), 3.0 percentage points more than in 2007. Data, IT and Capacity Rental revenues also rose sharply (+23.4% year-on-year in local currency in 2008), capturing the increase in new businesses and the growth of the Wholesale Business linked with increased mobile traffic.

¹³ Including Telemig in April–December 2007.

¹⁴ Including Telemig in October–December 2007.

¹⁵ Including TVA in January–September 2007.

Results by regional business units

Telefónica Latinoamérica

Full-year operating expenses rose 7.7% from 2007 in local currency, lower than the increase to September (+8.9%). The fall in the pace of increase of costs is partly due to the personnel reorganization provisions booked in the fourth quarter of 2007; stripping out these provisions, operating expense growth increases to 9.4% year-on-year in local currency in 2008. This is mainly due to the higher interconnection/transport expenses linked to the rise in traffic and the increased weighting of new businesses, which require greater investment. Also noteworthy are the growth in customer service and network maintenance costs due to the increase in broadband and pay TV accesses and the impact of policies implemented by Telesp to maximise customer satisfaction. On the other hand, personnel expenses were lower following the implementation of the personnel reorganization plan provisioned in 2007, and the bad debt ratio decreased to 3.1% over revenues, improving vs. previous quarters and vs. the previous year (3.6% in 2007).

Operating income before depreciation and amortisation (OIBDA) advanced 2.8% year-on-year in local currency to 2,515 million euros on the back of the strong revenue performance and efficiency improvement measures. As a result, the 2008 OIBDA margin stood at 41.3%, 2.1 percentage points lower than in 2007 but higher than the margin to September (40.6%).

CapEx in 2008 totalled 875 million euros (up +20.0% year-on-year in local currency), while **operating cash flow (OIBDA-CapEx)** amounted to 1,639 million euros (down 4.5% year-on-year in local currency).

Argentina

Argentina's telecommunications market posted significant growth in 2008 in both the wireless and broadband businesses.

In this scenario, Telefónica's accesses in Argentina rose by nearly 1.3 million from December 2007 (up 6.4% year-on-year), to a total of 20.7 million **accesses** at the end of 2008. This sharp growth was explained by the performance of the wireless business, which registered year-on-year growth of 8.8%, and by the broadband business, where the number of accesses passed the one-million mark, growing 32.1% in 2008.

In addition, the Company continued its policy of unlocking value in the customer base, with a focus on bundling services at the fixed telephony business (46.8% of lines with bundles; up 11.8 percentage points from December 2007) and on encouraging usage in the wireless business by promoting on-net traffic.

Revenues in 2008 totalled 2,527 million euros, an increase of 21.3% year-on-year in local currency, climbing 20.7% in the fourth quarter of 2008.

The performance of revenues and cost containment measures in a high-inflation environment were reflected in the **operating income before depreciation and amortisation (OIBDA)**, which rose 26.7% year-on-year in 2008 in local currency to 919 million euros, after the pace of growth increased in the fourth quarter (up 65.7% vs. the fourth quarter of 2007), pushed up by the reorganization costs registered in 2007. The 2008 OIBDA margin stood at 35.2%, 1.8 percentage points higher than a year earlier.

CapEx in 2008 totalled 344 million euros (up 29.7% year-on-year in local currency), while **operating cash flow (OIBDA-CapEx)** amounted to 574 million euros (up 25.0% year-on-year in local currency).

T. Móviles Argentina

The Argentine wireless market continued to post strong dynamism in 2008, with the estimated penetration rate exceeding 110% at the end of December 2008, 12 percentage points higher than in December 2007.

In this environment the operator's customer base totalled 14.8 million **accesses**, 8.8% more than in the same period a year earlier. The Company reported 1.2 million net adds in 2008, and **churn** stood at 1.9%. In the fourth quarter of 2008, net adds of 176,926 customers were registered, with a churn rate of 1.8%, in line with the same quarter a year earlier.

The Company continued to strengthen the value of its customer base, with a very positive performance in usage ratios. **MoU** in 2008 rose 21.1% year-on-year to 76 minutes. In the fourth quarter, MoU stood at 83 minutes (up 23.9% year-on-year), driven by sharp growth in on-net traffic.

The push in usage was similarly reflected in **ARPU**, which is consolidating its position as the key driver of revenue growth. ARPU in 2008 climbed 10.5% year-on-year in local currency, while in the fourth quarter, ARPU rose a noteworthy 14.3% in local currency. ARPU growth was fuelled by the positive performance of data revenues, which jumped 30.5% year-on-year in local currency and already account for 25.4% of service revenues.

Revenues in 2008 increased 27.3% year-on-year in local currency to 1,585 million euros, with even stronger growth in the fourth quarter (up 26.6% year-on-year). This strong performance was underpinned by outgoing revenues, which rose 32.2% year-on-year in local currency in 2008, driving service revenues up 28.2% in 2008 in local currency.

The Company has furthered improved its efficiency ratios, with growth in operating costs in 2008 (up 21.6% year-on-year in local currency) trailing revenue growth in spite of rising inflation. The increase in interconnection and structure costs was more than offset by significant efficiency improvements, reducing sharply other expenses.

As a result, **operating income before depreciation and amortisation (OIBDA)** in 2008 rose 33.4% year-on-year in local currency to 514 million euros, while in the fourth quarter it climbed a noteworthy 40.1% year-on-year in local currency. The 2008 OIBDA margin stood at 32.4% (up 1.5 percentage points from 2007), underpinned by the good performance in the fourth quarter, when the margin stood at 39.5% (up 2.9 percentage points from the fourth quarter of 2007).

CapEx in 2008 amounted to 154 million euros (up 35.4% year-on-year), while **operating cash flow (OIBDA-CapEx)** rose 32.6% year-on-year in local currency to 360 million euros.

Telefónica de Argentina

The Argentine fixed line telecommunications market continued to grow rapidly in 2008, fuelled by the increased penetration of broadband services.

Telefónica de Argentina had 5.9 million **accesses** at the end of 2008, 1.0% more than in 2007. Wireline accesses remained stable while growth in broadband accesses rose sharply to 1.1 million accesses (up 32.1% vs. December 2007), with net adds in 2008 of 262,667 accesses (35,762 net adds in the fourth quarter of 2008).

This good performance was thanks to the Company's strategy of bundling services, with an increasingly attractive Duo bundle offering and the ongoing commitment to improving speed and service. Of new broadband connections in 2008, 79% were Duo bundles, and Duos increased their weight over total ADSL connections to 58% (up 24 percentage points from December 2007).

Revenues in 2008 increased 13.5% year-on-year in local currency to 1,027 million euros, with significant growth in the fourth quarter (up +12.5% year-on-year in local currency). This performance was driven by sharp growth in Internet and content revenues and a simultaneous stable evolution in the wireline business. Internet and content revenues increased 42.5% in local currency in 2008 from a year earlier (up 57.8% year-on-year in the fourth

quarter), accounting for 17.3% of total revenues (up 3.5 percentage points from 2007). Meanwhile, revenues from the traditional telephony business rose 4.1% in 2008, boosted by the good performance in basic telephony revenues (up 6.3% vs. 2007) despite lower public use telephony revenues, which by the end of 2008 accounted for only 5.6% of revenues (2.4 percentage points less than in 2007). Average revenue per fixed line access thus increased 13.6% from 2007 in local currency.

Operating expenses in 2008 rose 10.4% year-on-year in local currency. It must be noted that in 2007 and mainly in the fourth quarter, the Company recorded provisions related to personnel reorganization. Excluding the impact of those provisions, expenses in 2008 would have increased by 29.3% from a year earlier. This evolution was due primarily to rising prices, and by the higher weight of the new businesses, reflected mainly in an increase in subcontract and personnel expenses.

Bad debt provisions totalled about 1.1% of revenues in 2008, 0.2 percentage points higher than in 2007.

As a result, Telefónica de Argentina's **operating income before depreciation and amortisation (OIBDA)** showed a sound performance in 2008, rising 19.0% year-on-year in local currency to 405 million euros. The OIBDA margin improved by 2.3 percentage points in 2008 year-on-year to 34.4%.

CapEx totalled 191 million euros (an increase of 25.4% in local currency).

Operating cash flow (OIBDA-CapEx) in 2008 stood at 214 million euros in 2008 (up 13.8% year-on-year in local currency).

Chile

In one of the Latin American markets with the highest mobile and broadband penetration rates, the Company focused on improving usage ratios, on attracting higher value mobile customers and on further transforming its fixed-line activities.

In this context, Telefónica managed over 10 million accesses at the end of 2008, up 6.8% from December 2007 and consolidating its position as market leader in terms of fixed-line accesses, broadband and wireless customers.

Telefónica's **revenues** in Chile totalled 1,936 million euros in 2008, an advance of 13.3% year-on-year in local currency, after rising 10.2% in the fourth quarter in local currency compared with the same period a year earlier. The sharp rise in revenues was mainly due to higher mobile revenues, with positive growth also reported at the wireline business.

Operating income before depreciation and amortisation (OIBDA) increased by 9.7% year-on-year in local currency to 740 million euros, with the pace of growth accelerating in the fourth quarter (+13.2% year-on-year) mainly as a result of the growth in the wireless business OIBDA. The 2008 OIBDA margin stood at 38.2%, down 1.3% from 2007 due to lower wireline margins stemming from the change in the revenue mix.

CapEx in 2008 amounted to 423 million euros (+7.5% year-on-year in local currency), while **operating cash flow (OIBDA-CapEx)** stood at 316 million euros, up 12.6% from 2007 in local currency.

Results by regional business units

Telefónica Latinoamérica

T. Móviles Chile

At the end of 2008 the estimated penetration rate of the Chilean mobile market stood at 97%, up 7 percentage points from December 2007.

Against this backdrop, Movistar Chile consolidated its leading market position, reaching a **customer base** of almost 6.9 million accesses, with net adds of more than 592,000 accesses in 2008 (more than 172,000 in the fourth quarter). As a result, the customer base grew by 9.4% year-on-year, with the weighting of the contract segment increasing to 27.9% of the total (+3.4 percentage points vs. 2007). This means the contract segment grew 24.6% in 2008, with net adds of 378,500 (72,700 in the fourth quarter), almost 64% of total net adds in the year.

The Company's policy of unlocking value in the customer base, which is reflected in the improved mix, has a positive impact both on churn and usage ratios.

Churn remained at around 1.8% in the full year and the fourth quarter, slightly lower than in the fourth quarter of 2007 and 0.1 percentage points lower than in January-December 2007.

With regard to usage ratios, **MoU** in 2008 was 123 minutes, up 16.3% year-on-year (+7.5% year-on-year in the fourth quarter). This growth is reflected in 2008 **ARPU**, which rose 8.3% year-on-year in local currency (+3.7% year-on-year in the fourth quarter).

The Company's strong operating performance drove a 20.0% year-on-year **revenue** increase in local currency to 1,051 million euros in 2008 (+13.3% in the fourth quarter). The improvement in usage ratios is reflected in service revenues, which advanced 20.3% year-on-year in local currency (+14.9% in the fourth quarter), underpinned by outgoing revenue growth (+18.2% year-on-year in local currency in 2008 and +6.8% in the fourth quarter). Meanwhile, data revenues grew 37.8% year-on-year in local currency in 2008 and now account for 8.9% of service revenues.

Operating income before depreciation and amortisation (OIBDA) jumped 22.4% year-on-year in local currency to 402 million euros (+19.0% in local currency in the fourth quarter). This growth in OIBDA allowed to reach a margin of 38.2%, 0.7 percentage points higher year-on-year, despite the highly competitive environment in which the Company operates.

CapEx in 2008 totalled 228 million euros, up 10.1% in local currency from 2007, while **operating cash flow (OIBDA-CapEx)** amounted to 173 million euros, up 43.5% in local currency from 2007, thanks to the increase in OIBDA.

Telefónica Chile

Telefónica Chile managed a total of 3.1 million **accesses** at the end of 2008, 1.4% more than in December 2007, underpinned by growth in broadband and pay TV customers, which offset the fall in fixed-line accesses (-2.4% year-on-year).

The Company achieved 16,391 net adds in the broadband market in the fourth quarter, bringing the full-year total to 70,565. Telefónica Chile managed 716,562 broadband accesses in December 2008, up 10.9% from 2007. Regarding Pay TV, accesses totalled 262,957, an increase of 19.6%.

This strong performance was largely due to the Company's service bundling strategy, which is creating a quality offering for the customer. A total of 95% of broadband accesses have a bundled product (2P/3P). This strategy, together with the drive to improve broadband service speeds, further consolidated Telefónica's leadership of the Chilean market. It is worth noting that Telefónica tripled the speed of its offering in the first quarter of the year and in the fourth quarter doubled the speed again. As a result, at the end of 2008 customers enjoyed, on average, a speed six times greater than a year earlier. The Company also launched a prepay broadband offering which has attracted 14,000 customers since its launch.

At the same time, the commitment to bundling services (63% of fixed lines in December 2008 compared with 52% in December 2007) had pushed the **average revenue per fixed telephony access** (+5.7% in local currency vs. 2007).

As a result, 2008 **revenues** climbed 6.1% year-on-year in local currency to 974 million euros (+5.5% in the fourth quarter). Particularly noteworthy was the growth in Internet and Pay TV revenues, which accounted for 21.9% of the revenues of Telefónica Chile after advancing 25.9% year-on-year in local currency. Fixed-line revenues remained virtually unchanged in 2008 (-0.5% year-on-year in local currency) due to the strong performance of traffic revenues. Also, growth in Data, IT and Capacity Rental revenues accelerated to 25.1% in local currency in the year (+21.1% in the first nine months of 2008).

Operating expenses rose 13.7% year-on-year in local currency, decelerating slightly compared with the first nine months (+14.1%), mainly due to the behaviour of exchange rates and the better CPI evolution. Bad debt provisions stood at 4.9% of revenues in 2008 and at 4.6% in the fourth quarter.

Operating income before depreciation and amortisation (OIBDA) for 2008, 339 million euros, fell 2.1% year-on-year in local currency, with growth of 8.3% in local currency reported in the fourth quarter, a significant improvement on previous quarters thanks to earnings from asset disposals. The 2008 OIBDA margin stood at 34.8%, 2.9 percentage points less than in 2007, due to the increased weighting of new businesses, with a lower margin. However, it represents an improvement compared to the margin of 33.9% recorded in the first nine months of 2008.

CapEx in 2008 totalled 195 million euros, an increase of 4.7% in local currency from 2007, while **operating cash flow (OIBDA-CapEx)** stood at 144 million euros, down 10.1% in local currency on 2007.

Peru

At the end of 2008 Telefónica managed a total of 15.0 million **accesses** in Peru, up 23.1% year-on-year. This robust growth was underpinned by the sharp rise in wireless customers, which increased by 2.5 million in 2008 to 10.6 million at the end of the year (+31.6% from 2007).

Also noteworthy were the 5.0% year-on-year rise in wireline accesses, the growth in broadband to almost 700,000 accesses (+22.1% year-on-year) and the increase in Pay TV accesses to 654,537 at the end of 2008.

The strong growth in commercial activity throughout the year translated into a 7.6% year-on-year rise in **revenues** to 1,627 million euros in local currency, driven by higher wireless, broadband and TV revenues. Additionally, it is worth to note the acceleration of revenue growth in the fourth quarter, after having increased by 11.8% year-on-year in local currency.

Operating income before depreciation and amortisation (OIBDA) in 2008 grew 29.0% year-on-year in local currency to 621 million euros, driven by the jump in the fourth quarter (+213.1% year-on-year in local currency). The 2008 OIBDA margin stood at 38.2%, up 6.3 percentage points from 2007.

CapEx through to December amounted to 289 million euros (+2.8% year-on-year in local currency), leaving **operating cash flow (OIBDA-CapEx)** of 332 million euros, a significant year-on-year jump of 65.5% in local currency.

T. Móviles Perú

The estimated penetration rate in the Peruvian wireless market continued to advance at an impressive pace in 2008 (+13 percentage points from 2007), reaching 61% in December, with a growth of more than 3 percentage points in the fourth quarter.

Telefónica's total **wireless accesses** in Peru grew 31.6% year-on-year in 2008 to more than 10.6 million, underpinned by the sharp increase in prepay customers (+32.3% year-on-year) and steady growth in the contract customer base. As a result, partly underpinned by the migrations from the prepay segment, contract customers now top one million, up 25.1% from 2007.

Gross adds amounted to more than 6.0 million in 2008 (+15.1% year-on-year), with almost 1.5 million reported in the fourth quarter. **Churn** in 2008 was 3.1% (0.2 percentage points more than a year earlier) and 2.9% in the fourth quarter (improving 0.3 percentage points year-on-year). With 602,592 new customers added in the fourth quarter, net adds in 2008 topped the 2.5 million mark, with a sharp rise in contract customers (+68.1% year-on-year). GSM customers accounted for 89.6% of the total at year-end 2008 (+12.2 percentage points versus December 2007).

MoU in 2008 remained stable at 90 minutes, and stood at 89 minutes in the fourth quarter (-5.9% year-on-year), due to a decline in prepay MoU following the launch of a single tariff in April and the reduction in the promotional minutes offered to new customers compared with 2007. Negatively affected by the reduction in mobile termination rates (-19% in nominal terms since 1 January 2008), the increase in traffic promotions versus 2007 and the sharp growth in the customer base, in 2008 **ARPU** fell by 16.6% year-on-year in local currency, though the decline decelerated in the fourth quarter (-9.1% year-on-year in local currency).

Revenues in 2008 advanced 28.4% year-on-year in local currency to 773 million euros (+25.5% in the fourth quarter), driven by the robust growth in wireless service revenues (+20.1% year-on-year in local currency). Outgoing wireless revenues jumped 25.5% to December in local currency showing a solid advance in 2008. Incoming revenues grew 8.9% year-on-year in 2008, despite the reduction in mobile termination rates from January, after growing 39.6% in the fourth quarter thanks to higher traffic volumes.

Also noteworthy was the increase in data revenues (+66.3% year-on-year in local currency), which now account for 13.3% of wireless service revenues (+3.6 percentage points versus December 2007).

The sharp growth in revenues together with the drive to contain costs, with commercial expenses cut despite strong activity in the period, resulted in full year **operating income before depreciation and amortisation (OIBDA)** of 266 million euros, up 64.6% year-on-year in local currency (+58.9% in the fourth quarter). This left the OIBDA margin for the quarter at 39.1% (7.9 percentage points higher year-on-year), with the margin for the year increasing by 7.6 percentage points from 2007 to 34.4%.

CapEx in 2008 amounted to 144 million euros (down 6.8% in local currency from December 2007), allowing **operating cash flow (OIBDA-CapEx)** to reach 122 million euros (compared with 7 million euros in December 2007).

Results by regional business units

Telefónica Latinoamérica

Telefónica del Perú¹⁶

Telefónica del Perú managed 4.4 million **accesses** at the end of December 2008, up 6.4% year-on-year, with a notable 5.0% year-on-year increase in wireline telephony accesses, mainly driven by the growth in fixed-wireless accesses to 485,529 and in broadband accesses (+22.1% year-on-year).

The sharp growth of the broadband business in the year is reflected in cumulative net adds, which totalled 126,330 accesses (+21.9% versus 2007) leading the broadband customer base to almost 700,000 accesses.

Along with the expansion of broadband, the Company has been implementing a bundling service and segmented offering policy which is key to the transformation of its business. As a result there was a sharp increase in Dúo and Trío customers over the year, which accounted for 44.3% of the broadband customer base at the end of 2008 (compared with 0.6% in December 2007 and 30.6% in September 2008). The growth pace of Dúo and Trío net adds accelerated in the fourth quarter, partly due to the improved basic TV offering and the start of the digitalisation process for premium customers in Lima. These will see the number of channels increase from 87 at present to 107.

In this context, and having grown in the quarter 2.1% year-on-year in local currency thanks to improved public telephony and data **revenues**, revenues in 2008 stood at 977 million euros (down 5.1% year-on-year in local currency). This decrease is mainly due to the decline in traditional telephony revenues, primarily affected by the boom in wireless penetration in the country and the decline in outgoing wireline traffic.

However, the success of new businesses partly offset this trend, being notable the year-on-year growth in broadband revenues (up 21.0% in local currency). Revenues from Internet, TV and content rose by 14.2% year-on-year in local currency, accounting for 30.5% of total revenues at the end of December (up 5.2 percentage points versus 2007).

Operating expenses declined 12.2% year-on-year in local currency, having fallen 34.4% year-on-year in the fourth quarter, partly due to provision related to the personnel reorganization made in the fourth quarter of 2007. Excluding this impact of this provision, operating expenses would have advanced 3.3% in local currency in 2008. This reflects the increase in commercial and supplies costs as a result of the sharp increase in commercial activity. Bad debt provisions represented 3.2% of revenues at the end of December.

As a result, **operating income before depreciation and amortisation (OIBDA)** rose 10.6% in local currency in 2008 to 354 million euros, leaving an OIBDA margin of 36.2% (up 5.2 percentage points from January- December 2007).The fourth quarter OIBDA margin was 37.1%.

CapEx in 2008 amounted to 144 million euros (up 14.7% year-on-year in local currency) while **operating cash flow (OIBDA-CapEx)** totalled 209 million euros (up 7.9% year-on-year in local currency).

Colombia

Telefónica managed a total of 12.8 million **accesses** in Colombia at the end of 2008, up 16.7% from 2007. This increase was underpinned by 19.0% year-on-year growth in wireless accesses to top 9.9 million, and the broadband accesses expansion to 393,871, more than doubling those at the end of 2007.

Revenues in 2008 totalled 1,490 million euros, a year-on-year decline of 3.9% in local currency. This performance is explained by both lower wireless and wireline revenues, affected by the sharp reduction in interconnection rates in December 2007. In the fourth quarter revenues fell 13.8% year-on-year in local currency mainly due to the performance of the wireline business.

Operating income before depreciation and amortisation (OIBDA) in 2008 rose 3.6% year-on-year in local currency to 515 million euros. This reflects the successful efficiency improvement measures implemented by the Company and the reduction in interconnection expenses. However, OIBDA dropped 13.2% year-on-year in local currency in the fourth quarter mainly due to the decline at the wireless business. As a result, despite the lower revenues, the OIBDA margin stood at 34.6% at the end of 2008, an improvement of 2.5 percentage points from 2007.

CapEx in 2008 totalled 420 million euros (+17.9% year-on-year in local currency), while **operating cash flow (OIBDA-CapEx)** declined 32.5% year-on-year in local currency terms to 95 million euros.

¹⁶ Wireline telephony accesses include all Telefónica's fixed wireless accesses in Peru; those managed by the wireline business and those managed by the wireless business. However, earnings from fixed wireless accesses are included in the results of the Peruvian wireless business.

T. Móviles Colombia

The pace of growth of the Colombian wireless market remained strong in 2008, with an estimated penetration rate at 91%, around 16 percentage points higher than in December 2007.

The Company managed almost 10 million **accesses** at the end of 2008, 19.0% more than in 2007, with a 25.9% year-on-year rise in the prepay segment. GSM customers now account for 91.6% of the total (+10.1 percentage points year-on-year).

There were 1.3 million gross adds in the fourth quarter, bringing total gross adds in the full year to 5.5 million, up 36.0% from 2007, mainly due to the Company's drive to expand the reach of its distribution network in 2008.

Churn stood at 3.5% at the end of 2008, down 0.2 percentage points from 2007, whilst the churn rate in the fourth quarter stood at 3.7% (1.2 percentage points higher than in the fourth quarter of 2007). Accordingly, net adds in the quarter were 261,145 accesses, bringing net adds in the full year to 1.6 million, 2.6 times more than in 2007.

With regard to usage, **MoU** performance remained positive in 2008 to reach 124 minutes, up 11.8% versus 2007, though it fell by 3.4% year-on-year in the fourth quarter due to the greater weighting of the prepay segment in the customer base (+4.6 percentage points from December 2007).

The decline in **ARPU** in 2008 (down 21.6% in local currency) was mainly due to the sharp reduction (around 50%) in termination rates in December 2007. ARPU was also affected by the increased weighting of the prepay segment.

The Company is implementing measures to enhance the quality of its customer base and to bolster its competitive positioning. These include promotions that reward customer loyalty and new plans offering a single tariff to any destination with lower basic charges, easing the customer access to these plans.

Revenues in 2008 amounted to 815 million euros, down 5.1% year-on-year in local currency, while service revenues declined 5.5%, also in local currency. This performance was shaped by the aforementioned reduction in termination rates, which resulted in a 42.8% year-on-year drop in 2008 in incoming revenues in local currency that was not offset by higher outgoing revenues (+10.3% year-on-year in local currency). Revenues declined by 12.6% year-on-year in local currency in the fourth quarter, mainly due to the 36.3% fall in incoming revenues and the small rise in outgoing revenues (+0.3% year-on-year in local currency).

Also worth highlighting is the increase in data revenues (+32.6% year-on-year in local currency), which accounted for 5.8% of service revenues in 2008 (+1.7 percentage points January-December 2007).

Despite the drop in revenues, **operating income before depreciation and amortisation (OIBDA)** registered solid 13.4% year-on-year growth in local currency to 208 million euros thanks to lower supplies costs, cost contention measures and, to a far lesser extent, the provision related to personnel reorganization made in the fourth quarter of 2007 (stripping out this provision growth would be 11.8%). As a result, the OIBDA margin in 2008 stood at 25.6%, 4.2 percentage points higher than in 2007.

CapEx in 2008 stood at 230 million euros (+29.3% year-on-year in local currency) and **operating cash flow (OIBDA-Capex)** amounted to -22 million euros (versus 6 million euros in 2007).

Telefónica Telecom

Telefónica Telecom managed over 2.8 million **accesses** in December 2008, up 9.2% from 2007, driven by the increase in broadband (+96.7% year-on-year) and Pay TV (+95.1% year-on-year) accesses.

Thanks to its bundling strategy the Company was able to capture growth in the broadband segment and stimulate the Colombian Pay TV market. Having added 38,803 new broadband customers in the fourth quarter, net adds in 2008 totalled 193,600, a significant increase of 46.4%. As a result total broadband accesses amounted to 393,871, with almost 83% of these customers benefiting from a bundled package. Net adds in Pay TV totalled 69,388 in 2008, with 4,810 registered in the fourth quarter. As a result the customer base tripled from December 2007 to 142,318 accesses.

Revenues in 2008 decreased 2.9% year-on-year in local currency to 710 million euros despite the positive evolution recorded by the Internet, TV and content revenues that grew 74.7% in local currency in 2008 and now account for 15.8% of total revenues (+7.0 percentage points from 2007). Lower traditional telephony revenues (-11.4% year-on-year in local currency) were largely affected by the fixed-wireless substitution effect and the reduction in call termination charges on fixed networks (-38% average), prompting a sharp fall in interconnection revenues (-19.2% in local currency). Revenues decreased 13.9% year-on-year in local currency in the fourth quarter, largely due to the recording of turnkey IT projects in the fourth quarter of 2007. Stripping out this impact, the revenue trend in the fourth quarter would be similar to that for the rest of the year.

Also, the growing weighting of bundled products over fixed access base pushed up the **average revenue per fixed telephony access** in 2008 by 4.0% year-on-year in local currency.

Results by regional business units

Telefónica Latinoamérica

Operating expenses remained virtually unchanged in 2008 (-0.3% in local currency versus 2007) thanks to the successful efficiency policies implemented by the Company over the year. Operating expenses fell 19.4% year-on-year in local currency in the fourth quarter, affected by higher sales of equipment and the provision related to the personnel reorganization made in the same period of the previous year. Thus, stripping out this provision, the operating expenses growth in 2008 would be 0.5 % in local currency.

The bad debt provision represented 1.6% of revenues at the end of December, down 1.3 percentage points from 2007.

As a result, **operating income before depreciation and amortisation (OIBDA)** totalled 307 million euros in 2008, down 2.1% year-on-year in local currency (-6.4% in the fourth quarter). The 2008 OIBDA margin stood at 43.2%, 0.3 percentage points higher than the 2007 figure.

CapEx in 2008 totalled 190 million euros (+6.5% year-on-year in local currency), while **operating cash flow (OIBDA-CapEx)** dropped 13.4% year-on-year in local currency to reach 117 million euros.

Mexico

The wireless market in Mexico grew at a fast pace in 2008, with an estimated penetration of 72% at the end of the year (up 8 percentage points from December 2007).

Telefónica's business in Mexico in the fourth quarter of 2008 was boosted by the Christmas Campaign, in which the Company launched innovative products geared towards bolstering its competitive commercial offer while focusing on growth and profitability. In addition, the development of its distribution network and ongoing improvements to the quality of its mobile network enabled the Company to maintain robust growth in commercial activity.

Telefónica Móviles Mexico's wireless **customer base** stood at 15.3 million lines at the end of December 2008, an increase of 22.3% from a year earlier. The Company had 15.5 million total customers in Mexico in 2008 (up 23.3% year-on-year) and an estimated market share of 19.5% (up 1.2 percentage points year-on-year), making Mexico Telefónica's second most important market in Latin America by number of wireless customers.

A highlight of commercial initiatives that allowed the Company to improve its competitive position was the introduction during the Christmas Campaign of a new prepay commercial offering known as 'Movistar 1-2-3,' which complemented the 'per call' rate. This scheme established a new, per-minute progressive rate based on three levels depending upon the customer's usage. The Movistar 1-2-3 launch allowed the Company to record more than 1.8 million gross adds in the fourth quarter of 2008, and 6.8 million in full-year 2008 (vs. 7.3 million in 2007).

A notable improvement in activities geared toward increasing customer loyalty along with marketing initiatives to encourage top-ups meant that churn continued to perform favourably, with fourth-quarter **churn** at 2.7% and 2008 churn at 2.4% (down 0.3 percentage points from 2007).

As a result of the high number of gross adds and the improvement in churn, **net adds** in the fourth quarter totalled 668,585 bringing 2008 net adds to nearly 2.8 million customers.

MoU in 2008 reached 136 minutes (down 6.3% vs. 2007), while **ARPU** stood at 8.2 euros (down 4.3% in local currency). MoU in the fourth quarter of 2008 was 127 minutes, down 22.1% from the same period a year earlier and at a similar level of third quarter 2008, due to changes in the existing commercial offer and the launch of new pricing schemes aimed at building an innovative range of services with an improvement in their profitability. Meanwhile, ARPU in the fourth quarter dropped 6.7% year-on-year in local currency as a result of both a reduction in termination rates implemented in early 2008 and the lower usage.

Revenues in 2008 climbed 23.8% year-on-year in local currency to 1,631 million euros, driven by a positive performance in service revenues, which jumped 32.1% in 2008 and 24.5% in the fourth quarter (in line with the pace of third-quarter growth). A highlight was the significant growth the Company registered in outgoing revenues (up 38.2% year-on-year in local currency), underpinned by a sustained increase in traffic, especially outgoing traffic (up 29.2% in 2008), which outpaced the growth of the customer base.

Incoming revenues advanced 8.2% year-on-year in the fourth quarter of 2008 and by 12.1% in 2008, despite the 9.7% reduction in termination rates in January 2008. Revenues rose 10.9% in the fourth quarter, reflecting the impact of slower revenue growth from handset sales.

Operating income before depreciation and amortisation (OIBDA) in 2008 amounted to 420 million euros, 2.5 times higher in local currency than the 179 million euros earned in 2007. The OIBDA margin for 2008 stood at 25.7%, a year-on-year increase of 13.2 percentage points, reflecting significant efficiency improvements from economies of scale and cost containment efforts.

OIBDA in the fourth quarter of 2008 more than doubled from the same period a year earlier in local currency, with margins improving by 16.5 percentage points year-on-year to 32.2%.

CapEx in 2008 amounted to 317 million euros (up 49.7% year-on-year in local currency).

Finally, the Company posted positive **operating cash flow (OIBDA-CapEx)** of 103 million euros, a significant improvement on 2007's operating cash flow of -51 million euros, in spite of sharp growth in the customer base and stepped-up investment in 2008.

Venezuela

The Venezuelan wireless market had an estimated penetration rate of 100% in 2008, an increase of 14 percentage points from 2007, making it one of the markets with the highest penetration rates in the region.

In this environment, Telefónica's business in the fourth quarter continued the trend for growth and profitability seen in the first nine months of the year.

In the fourth quarter the Company focused on developing its service portfolio, highlights of which include the launch of pay TV service at a nationwide level via DTH satellite technology in October and the launch of 3G mobile broadband service in December, starting in the Gran Caracas area.

The Company continued its strategy of offering a broader range of handsets than its competitors, being the exclusive retailer of a number of handsets during the Christmas Campaign, and boosting fixed-wireless sales. Wireless gross adds in the fourth quarter exceeded 1.2 million, bringing 2008 wireless gross adds to nearly 4.3 million.

Churn in 2008 stood at 2.7%, in line with 2007, despite increasing 0.3 percentage points in the fourth quarter. Worth noting is the Company's ability to contain churn in a year marked by competitors' intensive marketing campaigns and by customer migration to GSM technology.

Telefónica Móviles Venezuela's customer base in 2008 stood at 11.9 million **total accesses** (up 14.1% vs. December 2007), fuelled by the wireless customer base (up 12.2%) to 10.6 million and a sharp growth in fixed wireless (up 31.8%) with 1.5 million total net adds recorded in 2008. Net adds in the fourth quarter totalled 343,334 accesses, of which 303,816 were new wireless customers.

Of total wireless gross adds in 2008, approximately 66% were based on GSM technology, and GSM users accounted for 55% of total wireless lines, an increase of 20 percentage points from a year earlier.

MoU in 2008 dropped 2.2% from 2007 to 129 minutes (down 4.2% in the fourth quarter), affected by a sharp increase in the customer base. **ARPU** in 2008 rose 11.0% year-on-year in local currency, following robust growth in the fourth quarter (up 15.9% in local currency) which stemmed from the growing contribution of data services. These accounted for 22.1% of service revenues (up 3.2 percentage points year-on-year) and allowed outgoing ARPU to grow 13.9% year-on-year in local currency.

Revenues in 2008 totalled 2,769 million euros (up 23.9% vs. 2007 in local currency), underpinned by strong year-on-year growth in service revenues (up 22.6% in local currency), which accelerated in the fourth quarter (up 27.9%) and continued to outpace growth in the customer base. Worthy of note was the good performance reported by outgoing revenues, which increased 31.0% in 2008 in local currency.

Operating income before depreciation and amortisation (OIBDA) in 2008 totalled 1,328 million euros, up 34.0% year-on-year in local currency, thanks to higher revenues and commercial savings deriving from lower handset subsidies. This left the 2008 margin at 48.0%, an improvement of 3.6 percentage points vs. 2007, and the fourth-quarter margin at 51.5% (up 6.4 percentage points year-on-year).

CapEx in 2008 amounted to 287 million euros (down 17.0% in local currency vs. 2007), as the Company continued to roll out its GSM and 3G networks and launched satellite pay TV service. **Operating cash flow (OIBDA-CapEx)** totalled 1,042 million euros (up 61.4% in local currency from 2007).

Central America

The penetration rate of the Central American wireless telephony market increased 11 percentage points year-on-year in 2008 to 80%.

Overall, the number of wireless accesses managed by Telefónica in the markets in which it operates (Guatemala, El Salvador, Panama and Nicaragua) grew 13.8% year-on-year to 5.7 million. In a highly competitive environment, where it is noteworthy the entrance of two new competitors in Panamá, Telefónica achieved net adds of 692,168 accesses in Central America in 2008.

Revenues in 2008 totalled 568 million euros, a year-on-year increase of 4.2% in constant euros (+4.5% in constant euros when compared to the fourth quarter of 2007). Wireless service revenues climbed 5.2% in constant euros from 2007.

Operating income before depreciation and amortisation (OIBDA) amounted to 217 million euros in 2008 (down 1.5% in constant euros), affected by the sale of spectrum in El Salvador in 2007 (16.4 million euros). Excluding this impact, OIBDA would have grown 5.9% in constant euros in 2008 and the OIBDA margin would have increased by 0.7 percentage points vs. 2007. OIBDA grew 4.6% in the fourth quarter in constant euros and the OIBDA margin stood at 43.5%.

CapEx in 2008 amounted to 116 million euros (-6.0% versus 2007 in constant currency) and **operating cash flow (OIBDA-CapEx)** was 101 million euros (+4.4% year-on-year compared to 2007 in constant currency).

Results by regional business units

Telefónica Latinoamérica

Ecuador

The Ecuadorian wireless market recorded strong growth in 2008, with penetration reaching an estimated 81% by the end of the year, 11 percentage points higher than December 2007.

In this context, Telefónica Móviles Ecuador reported 541,422 wireless net adds in 2008, close to six times the 2007 figure, to reach 3.1 million **accesses** in December 2008 (+21.0% year-on-year). In the fourth quarter net adds stood at 165,123. Particularly noteworthy is the advance of GSM services, with 83% of customers now using this technology (+13 percentage points versus 2007) following the closure of the TDMA network.

At the same time **MoU** rose sharply, driven by commercial campaigns aimed at encouraging top-ups and consumption. As a result, MoU rose by 76.1% in the year to 84 minutes, with growth remaining strong in the fourth quarter (99 minutes, +70.9% year-on-year).

This increase in consumption is reflected in **ARPU**, which advanced 8.9% year-on-year in local currency after recording a solid increase of 14.0% in the fourth quarter of 2008.

Revenues in 2008 amounted to 318 million euros, up 16.8% in local currency from 2007. Particularly noteworthy is the increase in service revenues (+20.8% in local currency versus 2007), driven by the growth in outgoing revenues (+28.0% from 2007). In the fourth quarter of 2008, revenues grew 7.4% compared with the same period of 2007.

Operating income before depreciation and amortisation (OIBDA) totalled 92 million euros, up 35.0% year-on-year in local currency, thanks to economies of scale and improved efficiency. As a result, the OIBDA margin stood at 29.0%, up 3.9 percentage points from 2007. In the fourth quarter of 2008, OIBDA grew 38.4% in local currency and OIBDA margin reached 33.7% (+6.9 percentage points).

CapEx in 2008 amounted to 124 million euros, including investment associated with the renewal of the concession for its wireless telephony and international long-distance licences for the next 15 years until 2023. Excluding this investment (61 million euros), CapEx in local currency would have grown by 13.4% due to the strong growth in traffic and network coverage improvements.

Operating cash flow (OIBDA-CapEx) was affected by the renewal of the licence and, excluding this impact, it would have increased by 128.9% in local currency to 29 million euros.

Telefónica International Wholesale Services (TIWS)

Revenues at TIWS in 2008 totalled 324 million euros, up 21.3% year-on-year in constant euros.

TIWS enjoyed significant growth across all its business lines. In 2008, revenues from International Capacity climbed 45.5% in constant euros, while revenues from Corporate Services (Virtual Private Networks) rose 23.6%. Revenues from Satellite Services were up 11.5%. IP Interconnection Services accounted for 46% of total revenues, up 12.5% year-on-year in constant euros.

Revenue growth was reflected in improved **operating income before depreciation and amortisation (OIBDA)**, which rose 19.4% year-on-year in constant euros, stepping up the pace registered in the first nine months (+13.3% year-on-year in constant euros). OIBDA totalled 102 million euros in the full year with a margin of 31.3%, virtually unchanged from December 2007 (-0.6 percentage points).

Telefónica Latinoamérica Accesses

Unaudited figures (thousands)	2007		2008				% Chg y-o-y
	December		March	June	September	December	
Final Clients Accesses	134,041.8		137,612.4	147,845.8	153,060.9	158,200.1	18.0
Fixed telephony accesses ¹	25,381.0		25,595.4	25,757.6	25,758.2	25,644.5	1.0
Internet and data accesses	6,954.8		7,099.9	7,275.1	7,572.4	7,629.8	9.7
Narrowband ²	1,815.6		1,752.9	1,635.3	1,587.9	1,445.8	(20.4)
Broadband ^{3,4}	5,035.9		5,237.2	5,525.8	5,875.7	6,067.0	20.5
Other ⁵	103.4		109.8	114.0	108.8	117.0	13.1
Mobile accesses ⁶	100,542.2		103,676.7	113,459.6	118,269.8	123,385.2	22.7
Contract	83,162.9		85,634.0	93,527.9	97,713.7	102,329.7	23.0
Pre-Pay	17,379.3		18,042.7	19,931.7	20,556.1	21,055.5	21.2
Pay TV	1,163.8		1,240.4	1,353.6	1,460.5	1,540.5	32.4
Wholesale Accesses	62.6		56.0	57.6	69.6	59.0	(5.7)
Total Accesses	134,104.4		137,668.4	147,903.4	153,130.5	158,259.0	18.0

1 PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included. Total 'fixed wireless' accesses included.

2 Includes narrowband ISP of Terra Brasil and Terra Colombia.

3 Includes broadband ISP of Terra Brasil, Telefónica de Argentina, Terra Guatemala and Terra México.

4 Includes ADSL, optical fiber, cable modem, broadband circuits and Telefónica de Argentina ISP in the North part of the country.

5 Retail circuits other than broadband.

6 includes accesses of Telemig from April 2008.

Notes:

- As of 31 December 2006, Group accesses have been reclassified, including 'fixed wireless' accesses under the caption of fixed telephony. These accesses were previously classified, depending on the country, under mobile or fixed accesses.
- As of 1 January 2008, 'fixed wireless' public telephony accesses are included under the caption of fixed telephony accesses.

Telefónica Latinoamérica Consolidated income statement

Unaudited figures (euros in millions)	January - December			October - December		
	2008	2007	% Chg	2008	2007	% Chg
Revenues	22,174	20,078	10.4	5,863	5,402	8.5
Internal exp capitalized in fixed assets	108	105	3.4	27	36	(25.7)
Operating expenses	(14,098)	(13,422)	5.0	(3,629)	(3,783)	(4.1)
Other net operating income (expense)	180	363	(50.5)	81	163	(50.3)
Gain (loss) on sale of fixed assets	81	(3)	c.s.	74	(6)	c.s.
Impairment of goodwill and other assets	(0)	0	c.s.	(0)	0	c.s.
Operating income before D&A (OIBDA)	8,445	7,121	18.6	2,416	1,812	33.4
OIBDA Margin	38.1%	35.5%	2.6 p.p.	41.2%	33.5%	7.7 p.p.
Depreciation and amortization	(3,645)	(3,559)	2.4	(928)	(1,010)	(8.1)
Operating income (OI)	4,800	3,562	34.8	1,488	802	85.6

Notes:

- OIBDA and OI before management and brand fees.
- Starting April 2008, Vivo consolidates Telemig.

Results by regional business units

Telefónica Latinoamérica

Telefónica Latinoamérica Accesses by countries (I)

Unaudited figures (Thousands)	2007	2008				% Chg y-o-y
	December	March	June	September	December	
Brazil						
Final Clients Accesses	48,963.1	49,906.5	56,098.3	58,165.3	60,704.9	24.0
Fixed telephony accesses ¹	11,960.0	11,931.9	11,893.5	11,860.7	11,661.9	(2.5)
Internet and data accesses	3,288.6	3,369.3	3,423.1	3,601.9	3,625.8	10.3
Narrowband	1,155.9	1,133.6	1,055.2	1,079.2	996.4	(13.8)
Broadband ²	2,069.6	2,167.7	2,297.1	2,458.3	2,557.8	23.6
Other ³	63.1	68.0	70.8	64.4	71.6	13.5
Mobile accesses ⁴	33,483.5	34,323.0	40,434.8	42,276.6	44,945.0	34.2
Pre-pay	27,236.4	27,849.8	32,689.9	34,161.5	36,384.0	33.6
Contract	6,247.1	6,473.2	7,745.0	8,115.1	8,561.0	37.0
Pay TV	230.9	282.3	346.9	426.1	472.2	104.5
Wholesale Accesses	37.4	34.1	35.0	47.1	34.1	(8.7)
Total Accesses	49,000.5	49,940.5	56,133.3	58,212.4	60,739.1	24.0
Argentina						
Final Clients Accesses	19,462.1	19,587.3	19,999.2	20,533.4	20,717.0	6.4
Fixed telephony accesses ¹	4,682.5	4,664.2	4,656.1	4,599.0	4,603.1	(1.7)
Fixed wireless	104.3	98.1	90.1	13.2	22.4	(78.5)
Internet and data accesses	1,149.9	1,168.3	1,234.6	1,281.6	1,284.3	11.7
Narrowband	312.2	264.5	249.4	215.9	182.8	(41.4)
Broadband ²	819.3	885.3	966.4	1,046.2	1,082.0	32.1
Other ³	18.4	18.5	18.9	19.5	19.5	5.8
Mobile accesses	13,629.7	13,754.8	14,108.4	14,652.7	14,829.6	8.8
Pre-pay	8,836.0	8,865.6	9,003.9	9,473.6	9,687.6	9.6
Contract	4,793.7	4,889.2	5,104.6	5,179.0	5,142.0	7.3
Wholesale Accesses	9.3	9.4	9.8	10.1	10.0	7.8
Total Accesses	19,471.4	19,596.8	20,009.0	20,543.4	20,726.9	6.4
Chile						
Final Clients Accesses	9,361.7	9,482.8	9,709.4	9,816.7	10,002.7	6.8
Fixed telephony accesses ¹	2,172.4	2,140.1	2,148.1	2,134.6	2,121.0	(2.4)
Internet and data accesses	686.8	679.1	709.3	728.7	743.8	8.3
Narrowband	31.8	22.1	20.7	19.7	18.7	(41.3)
Broadband ²	646.0	648.1	679.8	700.2	716.6	10.9
Other ³	8.9	8.8	8.8	8.8	8.6	(4.0)
Mobile accesses	6,282.7	6,432.0	6,611.3	6,702.6	6,875.0	9.4
Pre-pay	4,742.2	4,797.1	4,850.0	4,856.3	4,956.0	4.5
Contract	1,540.5	1,634.9	1,761.3	1,846.3	1,919.0	24.6
Pay TV	219.9	231.6	240.8	250.9	263.0	19.6
Wholesale Accesses	15.4	12.1	12.4	12.0	11.5	(25.3)
Total Accesses	9,377.2	9,494.9	9,721.8	9,828.8	10,014.3	6.8

1 PSTN (including Public Use Telephony) x1; ISDN Basic access x1, ISDN Primary access, z/6 Access x30. Company's accesses for internal use included. Total fixed wireless accesses included.

2 Includes ADSL, optical fiber, cable modem and broadband circuits.

3 Retail circuits other than broadband.

4 Includes accesses of Telemig from April 2008.

Notes:

- As of 31 December 2006, Group accesses have been reclassified, including 'fixed wireless' accesses under the caption of fixed telephony. Till December 2007, these accesses were classified, depending on the country, under mobile or fixed accesses.
- As of 1 January 2008, 'fixed wireless' Public Use Telephony accesses are included under the caption of 'fixed wireless'.

Telefónica Latinoamérica Accesses by countries (II)

Unaudited figures (Thousands)	2007		2008			% Chg y-o-y
	December	March	June	September	December	
Peru						
Final Clients Accesses	12,173.8	12,839.9	13,542.8	14,300.9	14,982.6	23.1
Fixed telephony accesses ¹	2,843.4	2,867.7	2,893.1	2,941.5	2,986.5	5.0
Fixed wireless	290.0	321.4	349.2	412.0	485.5	67.4
Internet and data accesses	623.1	639.4	672.4	703.3	728.9	17.0
Narrowband	40.3	33.9	34.1	21.5	17.7	(56.1)
Broadband ²	572.1	594.2	626.8	669.8	698.4	22.1
Other ³	10.7	11.2	11.5	11.9	12.8	19.4
Mobile accesses	8,067.3	8,699.4	9,324.0	10,010.1	10,612.7	31.6
Pre-pay	7,238.1	7,826.1	8,411.1	9,036.7	9,575.2	32.3
Contract	829.2	873.3	912.9	973.4	1,037.5	25.1
Pay TV	640.0	633.4	653.2	646.0	654.5	2.3
Wholesale Accesses	0.5	0.4	0.4	0.4	0.4	(10.5)
Total Accesses	12,174.3	12,840.3	13,543.2	14,301.3	14,983.0	23.1
Colombia						
Final Clients Accesses	10,973.8	11,484.3	12,116.7	12,516.9	12,800.5	16.6
Fixed telephony accesses ¹	2,328.5	2,396.7	2,349.9	2,320.4	2,299.2	(1.3)
Internet and data accesses	200.3	240.0	295.7	357.0	395.9	97.7
Narrowband	0.0	0.3	0.3	0.3	0.3	n.m.
Broadband ²	200.3	238.3	294.0	355.1	393.9	96.7
Other ³	0.0	1.3	1.5	1.6	1.7	n.m.
Mobile accesses	8,372.1	8,754.5	9,358.5	9,702.0	9,963.1	19.0
Pre-pay	6,612.9	6,931.7	7,506.0	7,959.7	8,327.3	25.9
Contract	1,759.2	1,822.8	1,852.5	1,742.2	1,635.8	(7.0)
Pay TV	72.9	93.0	112.6	137.5	142.3	95.1
Wholesale Accesses	0.0	0.0	0.0	0.0	2.9	n.m.
Total Accesses	10,973.8	11,484.3	12,116.7	12,516.9	12,803.4	16.7
Mexico						
Mobile accesses	12,534.1	13,258.6	14,114.2	14,662.0	15,330.6	22.3
Pre-pay	11,833.7	12,492.6	13,288.9	13,779.2	14,432.4	22.0
Contract	700.4	766.0	825.4	882.8	898.1	28.2
Fixed Wireless	3.6	47.7	62.5	99.4	133.6	n.m.
Total Accesses	12,537.6	13,306.3	14,176.7	14,761.3	15,464.2	23.3
Venezuela						
Mobile accesses	9,434.0	9,311.1	9,841.2	10,280.2	10,584.0	12.2
Pre-pay	8,900.3	8,771.8	9,238.5	9,659.7	9,970.7	12.0
Contract	533.7	539.3	602.7	620.5	613.3	14.9
Fixed Wireless	995.9	1,043.6	1,242.5	1,281.8	1,312.8	31.8
Pay TV	0.0	0.0	0.0	0.0	8.5	n.m.
Total Accesses	10,429.9	10,354.7	11,083.8	11,562.0	11,905.3	14.1

1 PSTN (including Public Use Telephony) x1; ISDN Basic access x1, ISDN Primary access, z/6 Access x30. Company's accesses for internal use included. Total 'fixed wireless' accesses included.

2 Includes ADSL, optical fiber, cable modem and broadband circuits.

3 Retail circuits other than broadband.

Notes:

- As of 31 December 2006, Group accesses have been reclassified, including 'fixed wireless' accesses under the caption of fixed telephony. Till December 2007, these accesses were classified, depending on the country, under mobile or fixed accesses.
- As of 1 January 2008, 'fixed wireless' Public Use Telephony accesses are included under the caption of 'fixed wireless'.

Results by regional business units

Telefónica Latinoamérica

Telefónica Latinoamérica Accesses by countries (III)

Unaudited figures (Thousands)	2007	2008				% Chg y-o-y
		December	March	June	September	
Central America¹						
Fixed telephony accesses ²	393.4	419.3	429.2	435.2	437.2	11.1
Fixed Wireless	268.2	272.4	281.4	276.7	278.7	3.9
Internet and data accesses	22.0	20.9	20.1	19.3	18.4	(16.3)
Broadband³	19.8	19.1	18.2	17.3	16.5	(16.8)
Other ⁴	2.2	1.9	1.8	1.9	1.9	(12.5)
Mobile accesses	5,009.9	5,256.6	5,530.2	5,665.8	5,702.0	13.8
Pre-pay	4,628.6	4,881.7	5,152.1	5,281.6	5,315.3	14.8
Contract	381.2	375.0	378.1	384.1	386.7	1.4
Total Accesses	5,425.3	5,696.9	5,979.5	6,120.2	6,157.6	13.5
Ecuador						
Mobile accesses	2,581.1	2,675.8	2,862.2	2,957.4	3,122.5	21.0
Pre-pay	2,177.5	2,251.9	2,406.4	2,491.5	2,650.5	21.7
Contract	403.6	423.9	455.8	465.9	472.0	16.9
Fixed Wireless	1.3	83.6	82.7	85.5	89.4	n.m.
Total Accesses	2,582.4	2,759.4	2,944.9	3,042.9	3,211.9	24.4
Uruguay						
Mobile accesses	1,147.8	1,210.8	1,274.7	1,360.6	1,420.7	23.8
Pre-pay	957.0	965.8	981.3	1,013.8	1,030.6	7.7
Contract	190.8	245.0	293.5	346.7	390.1	104.5
Total Accesses	1,147.8	1,210.8	1,274.7	1,360.6	1,420.7	23.8

1 Includes Guatemala, Panamá, El Salvador and Nicaragua.

2 PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access, z/6 Access x30. Company's accesses for internal use included. Total 'fixed wireless' accesses included.

3 Includes ADSL, optical fiber and broadband circuits.

4 Retail circuits other than broadband.

Notes:

- As of 31 December 2006, Group accesses have been reclassified, including 'fixed wireless' accesses under the caption of fixed telephony. Till December 2007, these accesses were classified, depending on the country, under mobile or fixed accesses.
- As of 1 January 2008, 'fixed wireless' Public Use Telephony accesses are included under the caption of 'fixed wireless'.

Telefónica Latinoamérica: wireless business selected operating data by country

Unaudited figures	2007 Q4	2008				% Chg y-o-y Local Cur
		Q1	Q2	Q3	Q4	
Brazil¹						
MoU (minutes)	80	75	94	89	85	7.4
ARPU (EUR)	12.3	11.7	10.9	12.0	10.0	(7.1)
Argentina						
MoU (minutes)	67	64	78	79	83	23.9
ARPU (EUR)	8.5	7.9	8.1	8.9	9.8	14.3
Chile						
MoU (minutes)	119	120	122	122	127	7.5
ARPU (EUR)	13.0	13.5	12.2	11.7	11.7	3.7
Peru						
MoU (minutes)	94	97	88	88	89	(5.9)
ARPU (EUR)	6.4	6.4	5.8	5.9	6.1	(9.1)
Colombia						
MoU (minutes)	129	125	120	123	124	(3.4)
ARPU (EUR)	8.9	7.3	7.3	6.6	6.2	(27.7)
Mexico						
MoU (minutes)	164	142	149	126	127	(22.1)
ARPU (EUR)	9.2	8.6	8.2	8.2	7.9	(6.7)
Venezuela						
MoU (minutes)	136	125	132	128	130	(4.2)
ARPU (EUR)	16.5	15.1	15.3	16.7	20.3	15.9
Central America						
MoU (minutes)	139	127	129	118	114	(17.8)
ARPU (EUR)	8.6	7.8	7.0	7.1	7.9	(15.4)
Ecuador						
MoU (minutes)	58	67	80	88	99	70.9
ARPU (EUR)	6.2	6.3	6.3	6.7	7.4	14.0
Uruguay						
MoU (minutes)	70	82	101	130	158	125.1
ARPU (EUR)	8.7	8.3	8.1	8.5	8.7	(2.7)

¹ Includes Telemig from April 2008.

Note:

MoU and ARPU calculated as a monthly quarterly average.

Results by regional business units

Telefónica Latinoamérica

Telefónica Latinoamérica: wireless business selected operating data by country

Unaudited figures	January - December		
	2008	2007	% Chg Local Cur
Brazil¹			
MoU (minutes)	86	77	12.9
ARPU (EUR)	11.2	11.9	(5.8)
Argentina			
MoU (minutes)	76	63	21.1
ARPU (EUR)	8.7	8.5	10.5
Chile			
MoU (minutes)	123	106	16.3
ARPU (EUR)	12.3	12.0	8.3
Peru			
MoU (minutes)	90	90	0.0
ARPU (EUR)	6.0	7.3	(16.6)
Colombia			
MoU (minutes)	124	110	11.8
ARPU (EUR)	6.8	8.8	(21.6)
Mexico			
MoU (minutes)	136	145	(6.3)
ARPU (EUR)	8.2	9.3	(4.3)
Venezuela			
MoU (minutes)	129	132	(2.2)
ARPU (EUR)	16.9	16.3	11.0
Central America			
MoU (minutes)	122	144	(15.2)
ARPU (EUR)	7.4	9.7	(17.7)
Ecuador			
MoU (minutes)	84	48	76.1
ARPU (EUR)	6.7	6.6	8.9
Uruguay			
MoU (minutes)	119	56	114.4
ARPU (EUR)	8.4	8.2	(2.4)

1 Includes Telemig from April 2008.

Note:

MoU and ARPU calculated as a monthly January-December period average.

Telefónica Latinoamérica

Selected financial data (I)

Unaudited figures (euros in millions) Cur	January - December				October - December			
	2008	2007	% Chg	% Chg Local Cur	2008	2007	% Chg	% Chg Local
Brazil								
Revenues	8,606	7,662	12.3	12.2	2,041	2,025	0.8	15.8
OIBDA	3,359	3,056	9.9	9.8	826	809	2.2	16.8
OIBDA margin	39.0%	39.9%	(0.9 p.p.)		40.5%	39.9%	0.6 p.p.	
CapEx	1,614	1,087	48.5	48.4	507	431	17.8	29.1
OpCF (OIBDA-CapEx)	1,745	1,970	(11.4)	(11.5)	319	378	(15.6)	2.4
Vivo¹								
Revenues	2,932	2,396	22.4	22.3	730	656	11.3	26.8
OIBDA	825	613	34.6	34.5	209	175	19.7	35.9
OIBDA margin	28.2%	25.6%	2.6 p.p.		28.7%	26.7%	2.0 p.p.	
CapEx	739	358	106.2	106.1	210	183	14.5	26.1
OpCF (OIBDA-CapEx)	87	255	(66.0)	(66.0)	(1)	(9)	(93.3)	(123.2)
Telesp								
Revenues	6,085	5,619	8.3	8.2	1,405	1,465	(4.1)	10.6
OIBDA	2,515	2,443	2.9	2.8	617	633	(2.6)	11.4
OIBDA margin	41.3%	43.5%	(2.1 p.p.)		43.9%	43.2%	0.7 p.p.	
CapEx	875	729	20.1	20.0	297	247	20.3	31.3
OpCF (OIBDA-CapEx)	1,639	1,714	(4.4)	(4.5)	320	386	(17.3)	(1.5)
Argentina								
Revenues	2,527	2,264	11.6	21.3	725	586	23.8	20.7
OIBDA	919	788	16.6	26.7	291	170	71.3	65.7
OIBDA margin ²	35.2%	33.5%	1.8 p.p.		39.1%	28.0%	11.1 p.p.	
CapEx	344	289	19.4	29.7	157	109	44.0	47.7
OpCF (OIBDA-CapEx)	574	499	15.1	25.0	134	61	120.2	94.7
T. Móviles Argentina								
Revenues	1,585	1,353	17.2	27.3	457	353	29.6	26.6
OIBDA	514	418	22.8	33.4	181	129	40.0	40.1
OIBDA margin	32.4%	30.9%	1.5 p.p.		39.5%	36.6%	2.9 p.p.	
CapEx	154	123	24.6	35.4	99	52	92.0	100.5
OpCF (OIBDA-CapEx)	360	295	22.0	32.6	82	77	5.4	1.0
Telefónica de Argentina								
Revenues	1,027	984	4.4	13.5	291	252	15.5	12.5
OIBDA	405	370	9.5	19.0	111	42	166.6	135.5
OIBDA margin ²	34.4%	32.1%	2.3 p.p.		33.6%	14.2%	19.5 p.p.	
CapEx	191	165	15.4	25.4	58	58	0.9	0.8
OpCF (OIBDA-CapEx)	214	205	4.7	13.8	53	(16)	c.s.	c.s.
Chile								
Revenues	1,936	1,814	6.7	13.3	474	495	(4.4)	10.2
OIBDA	740	716	3.3	9.7	201	202	(0.7)	13.2
OIBDA margin	38.2%	39.5%	(1.3 p.p.)		42.4%	40.8%	1.6 p.p.	
CapEx	423	418	1.3	7.5	134	133	0.5	13.0
OpCF (OIBDA-CapEx)	316	298	6.1	12.6	67	69	(2.9)	13.5
T. Móviles Chile								
Revenues	1,051	930	13.1	20.0	264	268	(1.5)	13.3
OIBDA	402	348	15.3	22.4	114	108	4.7	19.0
OIBDA margin	38.2%	37.5%	0.7 p.p.		43.0%	40.4%	2.5 p.p.	
CapEx	228	220	3.7	10.1	70	72	(3.3)	9.1
OpCF (OIBDA-CapEx)	173	128	35.2	43.5	44	36	20.6	38.5
Telefónica Chile								
Revenues	974	974	(0.0)	6.1	233	255	(8.6)	5.5
OIBDA	339	368	(7.8)	(2.1)	88	93	(5.2)	8.3
OIBDA margin	34.8%	37.7%	(2.9 p.p.)		37.7%	36.3%	1.3 p.p.	
CapEx	195	198	(1.3)	4.7	64	61	5.0	17.5
OpCF (OIBDA-CapEx)	144	170	(15.3)	(10.1)	24	32	(25.0)	(9.3)

¹ 50% of Vivo. Includes Telemig from April 2008.

² Margin over revenues includes fixed to mobile interconnection.

Note: OIBDA is presented before management and brand fees.

Telefónica Latinoamérica

Selected financial data (II)

Unaudited figures (euros in millions)	January - December				October - December			
	2008	2007	% Chg	% Chg Local Cur	2008	2007	% Chg	% Chg Local Cur
Peru								
Revenues	1,627	1,513	7.5	7.6	459	388	18.4	11.8
OIBDA	621	482	28.9	29.0	189	56	n.m.	n.m.
OIBDA margin	38.2%	31.9%	6.3 p.p.		41.1%	14.4%	26.7 p.p.	
CapEx	289	281	2.7	2.8	160	125	28.1	25.7
OpCF (OIBDA-CapEx)	332	201	65.4	65.5	29	(69)	c.s.	c.s.
T. Móviles Perú								
Revenues	773	603	28.3	28.4	229	173	32.3	25.5
OIBDA	266	162	64.5	64.6	89	54	65.9	58.9
OIBDA margin	34.4%	26.9%	7.6 p.p.		39.1%	31.2%	7.9 p.p.	
CapEx	144	155	(6.9)	(6.8)	85	74	15.2	13.4
OpCF (OIBDA-CapEx)	122	7	n.m.	n.m.	4	(20)	c.s.	c.s.
Telefónica del Perú¹								
Revenues	977	1,031	(5.2)	(5.1)	266	245	8.5	2.1
OIBDA	354	320	10.5	10.6	99	2	n.m.	n.m.
OIBDA margin	36.2%	31.1%	5.2 p.p.		37.1%	0.8%	36.3 p.p.	
CapEx	144	126	14.6	14.7	75	51	46.8	43.6
OpCF (OIBDA-CapEx)	209	194	7.8	7.9	24	(49)	c.s.	c.s.
Colombia								
Revenues	1,490	1,569	(5.0)	(3.9)	359	431	(16.7)	(13.8)
OIBDA	515	503	2.4	3.6	135	161	(16.2)	(13.2)
OIBDA margin	34.6%	32.0%	2.5 p.p.		37.6%	37.4%	0.2 p.p.	
CapEx	420	360	16.6	17.9	168	213	(21.4)	(19.1)
OpCF (OIBDA-CapEx)	95	143	(33.3)	(32.5)	(33)	(52)	(37.3)	(38.2)
T. Móviles Colombia								
Revenues	815	869	(6.2)	(5.1)	192	227	(15.5)	(12.6)
OIBDA	208	186	12.1	13.4	59	78	(23.9)	(21.0)
OIBDA margin	25.6%	21.4%	4.2 p.p.		30.8%	34.3%	(3.4 p.p.)	
CapEx	230	180	27.9	29.3	100	117	(14.8)	(12.5)
OpCF (OIBDA-CapEx)	(22)	6	c.s.	c.s.	(41)	(39)	3.2	4.9
Telefónica Telecom								
Revenues	710	739	(4.0)	(2.9)	177	212	(16.8)	(13.9)
OIBDA	307	317	(3.2)	(2.1)	76	83	(9.3)	(6.4)
OIBDA margin	43.2%	42.9%	0.3 p.p.		42.9%	39.3%	3.6 p.p.	
CapEx	190	180	5.3	6.5	68	96	(29.4)	(27.1)
OpCF (OIBDA-CapEx)	117	137	(14.4)	(13.4)	8	(12)	c.s.	c.s.
Mexico (T. Móviles México)								
Revenues	1,631	1,431	14.0	23.8	427	420	1.5	10.9
OIBDA	420	179	134.1	154.2	137	66	108.0	127.0
OIBDA margin	25.7%	12.5%	13.2 p.p.		32.2%	15.7%	16.5 p.p.	
CapEx	317	230	37.8	49.7	161	77	109.6	123.9
OpCF (OIBDA-CapEx)	103	(51)	c.s.	c.s.	(23)	(11)	119.1	105.0
Venezuela (T. Móviles Venezuela)								
Revenues	2,769	2,392	15.8	23.9	898	675	32.9	25.3
OIBDA	1,328	1,060	25.3	34.0	462	305	51.7	44.4
OIBDA margin	48.0%	44.3%	3.6 p.p.		51.5%	45.1%	6.4 p.p.	
CapEx	287	370	(22.4)	(17.0)	144	216	(33.5)	(32.5)
OpCF (OIBDA-CapEx)	1,042	691	50.8	61.4	319	89	n.m.	n.m.
Central America²								
Revenues	568	585	(2.9)	n.c.	157	146	7.6	n.c.
OIBDA	217	236	(8.0)	n.c.	68	65	6.0	n.c.
OIBDA margin	38.2%	40.3%	(2.1 p.p.)		43.5%	44.2%	(0.7 p.p.)	
CapEx	116	133	(12.6)	n.c.	62	69	(10.7)	n.c.
OpCF (OIBDA-CapEx)	101	103	(2.2)	n.c.	6	(5)	c.s.	n.c.
Ecuador (T. Móviles Ecuador)								
Revenues	318	291	9.2	16.8	93	80	16.1	7.4
OIBDA	92	73	26.2	35.0	31	21	46.0	38.4
OIBDA margin	29.0%	25.1%	3.9 p.p.		33.7%	26.8%	6.9 p.p.	
CapEx	124	60	108.3	122.8	90	32	182.9	193.4
OpCF (OIBDA-CapEx)	(32)	13	c.s.	c.s.	(59)	(10)	n.s.	n.s.

1 Telefónica del Perú includes 'Cable Mágico'.

2 Includes Guatemala, Panamá, El Salvador and Nicaragua.

Note: OIBDA is presented before management and brand fees.

Telefónica Latinoamérica Selected financial data (III)

Unaudited figures (euros in millions)	January - December				October - December			
	2008	2007	% Chg	% Chg Local Cur	2008	2007	% Chg	% Chg Local Cur
Uruguay (T. Móviles Uruguay)								
Revenues	150	104	44.5	37.8	43	32	36.6	31.9
OIBDA	48	28	72.5	64.5	17	10	68.2	61.9
OIBDA margin	31.7%	26.6%	5.2 p.p.		40.3%	32.7%	7.6 p.p.	
CapEx	24	15	63.1	55.5	12	7	74.7	67.6
OpCF (OIBDA-CapEx)	24	13	83.4	74.9	6	4	56.8	51.7

TIWS

Revenues	324	275	18.1	21.3	89	73	22.3	18.0
OIBDA	102	88	15.9	19.4	27	18	50.0	43.4
OIBDA margin	31.3%	31.9%	(0.6 p.p.)		30.0%	24.6%	5.4 p.p.	
CapEx	51	54	(5.7)	(1.3)	25	24	5.9	5.3
OpCF (OIBDA-CapEx)	50	33	51.2	53.5	1	(6)	c.s.	c.s.

Note:

OIBDA is presented before management and brand fees.

Results by regional business units

Telefónica Europe

Telefónica Europe had a strong performance in 2008, despite a worse economic environment and changing patterns in customer behaviour. With the markets being affected unequally, the main common strength across Telefónica Europe has been the delivery of new propositions that anticipated customer needs in the current environment.

At the end of December 2008, Telefónica Europe total customer base reached 45.8 million (+9.0% year-on-year). Mobile customer net additions for the year were 2.9 million, reaching a total **mobile customer base** of 41.2 million at the end of December (+7.6% year-on-year), with good performance in both contract and prepay segments across the markets. The fourth quarter saw 0.7 million net additions, 28.1% less than in the same period of 2007, as the businesses adapted their commercial strategies to the new market environment.

Revenues in 2008 showed resilient year-on-year growth of 5.9% on a like-for-like basis¹ to reach 14,308 million euros, leveraging Telefónica O2 UK's solid year-on-year total revenue growth of 10.6% in local currency, as well as building on positive year-on-year growth at Telefónica O2 Germany, with mobile service revenue positive in the fourth quarter. Reported revenues for the year showed a decline of 1.0%, while for the fourth quarter they were down 1.7% year-on-year, mainly impacted by sterling/euro depreciation in the period and the exclusion of Airwave.

Operating income before depreciation and amortization (OIBDA) in 2008 recorded a significant 4.7% year-on-year growth on a like-for-like basis², totalling 4,180 million euros, mainly driven by revenue growth and a more focused commercial approach, with the restructuring measures taken in the fourth quarter of 2007 already showing benefits. On a reported basis, OIBDA in 2008 showed a year-on-year decline of 16.0%, reflecting the proceeds from the disposal of Airwave in the second quarter of last year (1,296 million euros), and the weaker sterling/euro exchange rate. In the fourth quarter, OIBDA increased 34.0% year-on-year, mainly due to restructuring charges taken in the same period of 2007, as well as 60 million euros registered in the fourth quarter of 2008 as a result of an additional application of provisions made in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks had dissipated or had not materialized, being the total amount for 2008 174 million euros.

OIBDA margin of 29.2% in 2008 was comparable to 2007 (-0.3 percentage points) on a like-for-like basis², while for the quarter was 30.6%, 0.6 percentage points higher than in the same period of 2007 on a like-for-like basis².

CapEx for the year was 2,072 million euros, a year-on-year increase of 2.9% on a like-for-like¹ basis. **Operating cash flow (OIBDA-CapEx)** in 2008 totalled 2,108 million euros, a significant increase of 6.7% year-on-year on a like-for-like² basis.

Telefónica O2 UK

Telefónica O2 UK outperformed the market in 2008 in all main financial and operating metrics despite the worse economic environment, with a balanced approach in the growth-efficiency equation that helped to sustain its leadership position.

It is also noteworthy that Telefónica O2 UK has topped the list of fixed and mobile broadband internet service providers (ISPs) in the UK for customer satisfaction, according to a recent report by JD Power and Associates, as well as leading on customer satisfaction for the overall mobile business among the mobile network operators. The marketing firm conducted two customer satisfaction studies based on five factors that drive overall satisfaction with the provision of mobile and fixed broadband: i) performance and reliability; ii) billing; iii) cost; iv) customer service/technical support; and v) offerings/promotions.

Net mobile additions in the year reached 1.1 million (+45.3% year-on-year), ending December 2008 with a total **mobile base** of 19.5 million lines (which excludes Tesco Mobile), with a 5.9% year-on-year growth. In the fourth quarter of the year, Telefónica O2 UK recorded net mobile customer additions of 390,365.

¹ Assuming constant exchange rates and excluding the consolidation of Airwave in the first quarter of 2007.

² Assuming constant exchange rates and excluding the consolidation of Airwave in the first quarter of 2007. Capital gain from the sale of Airwave is also excluded, as well as gains related to the real estate sale in the Czech Republic, restructuring and similar charges and the result of the application of provisions made in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks had dissipated or had not materialized.

After adding 798,690 contract customers in 2008 (+35.2% year-on-year), at the end of December contract customers made up 39.1% of the total base (37.0% in December 2007). This reflects the focus on higher value customers across various segments, market leading churn levels, as well as the strength of propositions such as Simplicity, the iPhone (3G), mobile broadband, and the continued prepay to contract migration. In the fourth quarter, contract net additions totalled 177,116.

A total number of 289,176 prepay customers were added in 2008, a year-on-year growth of 82.7% to reach 11.9 million customers. In a seasonally strong quarter, prepay customers grew by 213,249, with new propositions also being introduced in the quarter, such as prepay mobile broadband, and prepay iPhone.

It is worth highlighting the 1.3% market leading contract **churn** achieved in the fourth quarter down from the 1.5% in the first quarter, reflecting the correct commercial focus of the company alongside market leading customer satisfaction levels in the current environment (contract churn for the year went down from 1.7% in 2007 to 1.4% in 2008). Blended churn was 2.7% for the full year, down from 2.9% in 2007.

MoU showed a robust 9.1% year-on-year growth to reach 207 minutes in 2008, mainly due to an increasing number of prepay customers benefiting from propositions such as Unlimited, while contract customers were optimizing their voice bundle utilisation in the current environment. In the fourth quarter, MoU reached 213 minutes (+8.0% year-on-year).

Telefónica O2 UK's **total ARPU** reached 30.0 euros in 2008, a 1.4% year-on-year growth in local currency as a result of improved customer mix. In the fourth quarter it was 1.7% down year-on-year in local currency, reflecting the declines in both contract and prepay voice ARPUs, being partially compensated by continued growth in data ARPU.

In 2008, contract ARPU showed a year-on-year decline of 2.1% in local currency, due to the continued migration process from prepay to contract and customer propositions, such as Simplicity, which better fit customers' expectations in the current environment, as well as the continued optimising behaviour of customers when using voice bundles. Prepay ARPU for the year declined 0.6% over 2007 in local currency, again reflecting the above mentioned migration process and also increased uptake of prepay tariffs such as Unlimited.

Data ARPU had a very strong performance in 2008, with a year-on-year increase in local currency of 9.2% to 10.3 euros (+6.6% year-on-year in local currency in the fourth quarter), mainly driven by an increase in the number of mobile broadband connections (a new prepay proposition was launched in the fourth quarter), as well as the continued success of data bolt-ons. Non-SMS data revenues increased 55.4% year-on-year in local currency in the year.

Telefónica O2 UK's DSL **broadband** service added 270,157 lines in 2008, and finished the year with market leading customer satisfaction numbers. The business had another strong quarter with 73,776 net additions, leaving the total broadband customer base at 340,866 lines at the end of December.

Revenues for the year were 7,052 million euros, an increase of 10.6% year-on-year in local currency. In the fourth quarter revenues grew by 10.4% year-on-year in local currency, an acceleration compared to the previous quarter (+8.7%), reflecting the different timing for handsets shipments compared to the previous year (which will not occur in the next quarter), as well as increased activity around the iPhone towards the end of the year. Mobile service revenue for the year totalled 6,435 million euros, an increase of 10.0% year-on-year in local currency, and in the fourth quarter showed a growth rate of 8.0% year-on-year in local currency, lower than in the third quarter due to declining voice ARPUs, being offset by customer growth and the mobile data business.

Operating income before depreciation and amortization (OIBDA) totalled 1,839 million euros in 2008, an 11.1% year-on-year growth in local currency (+9.1% on a like-for-like basis³), leveraging more focused commercial campaigns, ongoing efficiency savings and market leading contract churn. For the fourth quarter OIBDA rose 12.3% year-on-year in local currency, while on a like-for-like basis³ it was 8.1% higher.

OIBDA margin for the year was 26.1% (0.4 percentage points lower than in 2007 on a like-for-like basis³), as customer investments in the new DSL and mobile broadband propositions throughout the year were partially compensated by efficiency improvements. In the fourth quarter, margin was 27.3%, compared to 26.8% in the same quarter of 2007 (27.8% on a like-for-like basis³).

CapEx for the year amounted to 717 million euros (+0.1% year-on-year in local currency), with **operating cash flow (OIBDA-CapEx)** amounting to 1,122 million euros (+15.7% year-on-year on a like-for-like basis³).

³ Excluding restructuring charges in 2007

Results by regional business units

Telefónica Europe

Telefónica O2 Germany

In the fourth quarter of 2008, Telefónica O2 Germany returned to positive mobile service revenue growth despite a highly competitive and overall smaller market. At the end of December, the business had successfully built on its foundations strategy, with the infrastructure of the network on track, the distribution network ahead of target (725 shops at year end), and the customer migration program from legacy to new tariffs completed. The business has seen also a significant increase in OIBDA margin leveraged on the success of customer propositions such as the O2 Handy flatrate (only six-months contract), as well as the launch in the fourth quarter of a commercial approach towards a new and more efficient acquisition and retention concept, that had an encouraging start in the direct channels.

In 2008, Telefónica O2 Germany's **mobile customer base** grew by 1.7 million (19.4% higher than last year), of which 952,794 came from partner channels, including HanseNet, Tchibo, Fonic, Schlecker and M-Net, taking the mobile customer base to 14.2 million (+13.8% vs. December 2007). In the fourth quarter, mobile net additions were 220,159, a decrease of 27.4% over the same period of last year, after disconnecting more than 240,000 inactive prepay lines. It should be pointed out that this decision had no impact on the business' economic and financial performance.

The mobile contract base increased by 730,418 in 2008 to reach 7.0 million customers (+11.7% year-on-year), with 85,895 net additions in the fourth quarter. Contract customers made up 49.1% of the total mobile base at the end of December vs. 50.0% at December, 2007. A total of 996,514 prepay customers were added in the year (+44.3% year-on-year) to give a prepay base of 7.2 million customers at the end of December (+16.0% year-on-year), with 134,264 prepay customers being added in the fourth quarter, after the above mentioned disconnections.

In 2008, **churn** rate increased 0.1 percentage points year-on-year to 2.0% and was lower by 0.7 percentage points year-on-year in the quarter at 2.4%.

MoU showed a 5.3% year-on-year increase in 2008 to reach 138 minutes, while it decreased 3.8% year-on-year in the fourth quarter, as previous flat rate promotions on prepay were expired in the quarter.

Total **ARPU** for the year was 17.4 euros (-14.9% year-on-year), mainly due to the completion of base migration to tariffs such as Genion and Inklusivpakete, successfully achieved before year end, as well as the impact from the cut in mobile termination rates from November 2007. However, the fourth quarter saw a better year-on-year performance (-13.2%) than the previous quarter (-16.8%). Contract ARPU for the year fell 15.0% year-on-year to reach 29.0 euros, while prepay ARPU decreased 11.0% year-on-year.

Data ARPU for the year was 4.8 euros (-5.8% year-on-year), while in the fourth quarter was 7.0% lower than the same period of last year due to the impact on SMS usage from the introduction of better value tariffs and flat rate voice promotions. It is important to highlight that non-SMS data revenues grew 25.7% year-on-year in 2008, mainly driven by mobile broadband 'Surfsticks' and web browsing packs.

In 2008, 140,079 O2 DSL customers were added to reach a total customer base of 214,783 at the end of December, with 16,713 customers acquired in the fourth quarter. Telefónica Deutschland reported 1.3 million ULL lines in total at the end of December, compared to 0.7 million lines at the end of December 2007.

Revenues totalled 3,595 million euros in 2008 (+1.5% year-on-year), with mobile service revenues (2,869 million euros, down 1.1% year-on-year) and wholesale fixed broadband revenues (435 million euros, up 44.3% year-on-year) being the main contributors to the performance of the business. It's important to highlight that the fourth quarter of the year saw positive

mobile service revenue growth (+0.7% year-on-year), leveraged on the better year-on-year performance of ARPU coupled with customer growth.

Operating income before depreciation and amortization (OIBDA) for the year totalled 770 million euros, a 62.9% year-on-year growth, while on a like-for-like basis⁴ OIBDA grew by 6.6% year-on-year. This increase in the profitability level of the business (+1.0 percentage points on a like-for-like basis⁴) to reach a 21.4% margin in 2008) was the result of success of the business building on its foundations (less dependence on national roaming, improved distribution network and the completion of the tariff migration process), as well as the new commercial approach introduced in the fourth quarter, which significantly reduced acquisition and retention costs.

CapEx amounted to 924 million euros for 2008 (+8.7% year-on-year), mainly as a result of the acceleration of the mobile network rollout in line with Telefónica O2 Germany's network investment plans (2G coverage reaching 99% pop and data coverage including HSDPA and EDGE now reaching 78% pop), and the acceleration of the distribution network.

Operating cash flow (OIBDA-CapEx) amounted to -154 million euros in 2008 (-377 million euros in 2007).

⁴ Excluding restructuring charges in 2007.

Telefónica O2 Ireland

In a more challenging economic environment, Telefónica O2 Ireland has continued to improve its operating and financial metrics throughout 2008, particularly during the fourth quarter of the year. The business recorded net additions of 81,561 lines in the year and 14,589 in the fourth quarter to reach a total **customer base** of 1.7 million customers at the end of December, 5.0% higher than a year ago.

The contract market continues to drive growth for Telefónica O2 Ireland with 87,864 contract customers added in the year (+25.3% year-on-year) and 12,513 in the fourth quarter, to give a closing year end contract base of 643,091 lines. Key drivers of this performance include strong progress in the business market, continued momentum in mobile broadband and the success of the new O2 Clear propositions. Building on momentum from the O2 Experience offer, launched in February 2008, and the success of December's O2 Treat card campaign, prepay net adds for the year were -6,303 customers, a significant improvement over 2007. On a quarterly basis, there were 2,076 prepay net additions in the fourth quarter (a significant improvement on the -12,409 lines reported in the previous quarter). The prepay base reached 1.1 million lines at the end of December.

Churn reached 2.8% in the year, showing an increase of 0.2 percentage points year-on-year. Contract churn rose as a result of the trading environment, while prepay churn remained broadly stable throughout the year.

MoU for the full year fell 1.1% year-on-year to 245 minutes, with a decline of 3.6% in the quarter. This was driven by an increasing number of mobile broadband lines in the base, contract customers optimising their usage, as well as voice to text substitution on prepay O2 Experience tariffs.

Total **ARPU** reached 43.2 euros in 2008 (-5.9% year-on-year), while in the fourth quarter it was 6.8% lower year-on-year than in the same period of last year. Prepay ARPU declined 7.0% year-on-year in the year and 7.9% in the fourth quarter on the back of new and existing customers adopting new value-for-money price plans such as O2 Experience. Contract ARPU had a year-on-year decline of 11.9% in 2008, while in the fourth quarter was 12.2% lower than the same period in 2007, mainly due to the growth of mobile broadband subscriptions and the continued adoption of the O2 Clear tariffs.

Data ARPU was 7.2% lower in the year at 10.8 euros and in the fourth quarter was 11.6% lower than the same period last year, driven by customer promotions such as O2 Experience offering unlimited SMS (SMS volumes in 2008 +40.3% year-on-year). Non-SMS data revenues in 2008 grew by 17.1% year-on-year on the back of the growing mobile broadband base.

Revenues for the year were 957 million euros, a year-on-year decline of 3.4%. Mobile service revenues for the full year declined 2.7% year-on-year to 909 million euros, while they decreased 1.7% year-on-year in the fourth quarter compared to the same period last year, with a decline in ARPU partially offset by growth in the customer base.

Operating income before depreciation and amortization (OIBDA) for the full year was 301 million euros, 9.5% lower on a like-for-like basis⁵ vs. 2007, due to lower revenues and increased investment to regain momentum in the market. In the fourth quarter the year-on-year OIBDA decrease was 4.0% on a like-for-like basis⁵, a marked improvement over the previous quarter (-12.6% year-on-year on a like-for-like basis⁵). This improvement was in part due to the higher levels of investment in contract in the previous quarter, but also partly due to ongoing cost rationalisation programs and a higher proportion of lower cost SIM-only acquisitions in the fourth quarter. OIBDA

margin for the year was 31.5% (2.1 percentage points lower than in 2007 on a like-for-like basis⁵), while for the fourth quarter it was 30.3% (0.4 percentage points lower than in the same period of 2007 on a like-for-like basis⁵).

CapEx for the year totalled 83 million euros (-29.6% year-on-year) and **operating cash flow (OIBDA-CapEx)** amounted to 219 million (+1.4% year-on-year on a like-for-like basis⁵).

⁵ Excluding restructuring charges in 2007.

Results by regional business units

Telefónica Europe

Telefónica O2 Czech Republic

Telefónica O2 Czech Republic has delivered strong results in 2008 in a very competitive mobile Czech market, while reinforcing its leadership position in the fixed Czech market, improving fixed line trends, as well as the continued improvement of the Slovak operations.

At the end of December, the total number of **accesses** for Telefonica O2 Czech Republic, including Slovakia, stood at 8.6 million, a slight decrease of 0.6% year-on-year.

Fixed telephony accesses amounted to 1.9 million at the end of December, 8.5% lower than in December, 2007. Underlying net losses of fixed telephony amounted to 30,072 accesses in the fourth quarter, a significant improvement of 54.0% year-on-year in the fourth quarter, and by 37.9% in the year, leveraged on a better evolution of gross additions and lower number of disconnections driven by enhancements to fixed line propositions with broadband and bundled offers. At the end of December, 14.2% of fixed accesses had a bundled product (+9.6 percentage points year-on-year).

Retail Internet broadband accesses reached 583,698 (+14.6% year-on-year), with 74,309 net additions in the year and 31,518 in the fourth quarter, leveraging a very strong commercial activity. The total number of **O2 TV customers** increased by 41,331 in 2008 and by 6,435 in the quarter to reach 114,496 at the end of December.

The total number of **mobile customers** in the Czech Republic increased by 2.6% year-on-year to reach 5.3 million at the end of December, mainly driven by the increase in the contract customer base (275,387 net additions in the year, and 89,868 in the fourth quarter). Contract customer base at December, 2008 amounted to 2.5 million customers, leveraged on the continued success of the Neon tariffs. The prepay customer base decreased by 143,584

customers in the year and by 20,122 customers in the fourth quarter to reach 2.7 million at the end of December, following the active prepay to contract migration strategy. Telefonica O2 Slovakia registered 455,277 customers at the end of December, compared with 565,424 customers at the end of 2007, with the contract customer base increasing during the year on the back of the success of the 'O2 Fé' customer proposition.

In the Czech Republic, the **churn** rate increased 0.1 percentage points in the year to reach 1.6%, and 1.7% in the fourth quarter, 0.2 percentage points higher than in the same period of last year.

MoU in the Czech Republic reached 121 minutes in 2008 (+3.6% year-on-year), while in the fourth quarter it increased year-on-year by 1.8% due to the higher contract base and the good performance of Neon flat rate tariffs, with close to 270 thousand customers opting for one of these tariffs at the end of December.

Total mobile **ARPU** in the Czech Republic reached 20.7 euros in 2008 (-0.9% year-on-year in local currency), while in the fourth quarter it declined by 1.6% year-on-year in local currency. Lower voice ARPU was partially offset by the 2.8% year-on-year increase in data ARPU in 2008, in local currency to 4.6 euros, as a result of the growth in mobile data customers.

Revenues for the Telefonica O2 Czech Republic Group showed a 2.9% year-on-year increase in constant currency in 2008 to reach 2,581 million euros, while in the fourth quarter they were 4.2% higher year-on-year in constant currency, with ICT and Business Solutions showing an outstanding performance in the quarter. The Czech mobile business continued to be the key driver of the underlying growth of the Company, with service revenue growing by 3.9% in 2008 and 2.8% year-on-year in local currency in the fourth quarter. Traditional fixed revenues fell by 9.3% year-on-year in

local currency in 2008, while the decline was 8.6% in the fourth quarter, with fixed internet, broadband and TV revenues growing by 5.6% year-on-year in local currency in 2008 (+2.0% in the fourth quarter).

Operating income before depreciation and amortization (OIBDA) growth for the year was 3.1% year-on-year in constant currency to reach 1,159 million euros, while in the fourth quarter it increased by 5.1% year-on-year in constant currency. On a like-for-like basis⁶, OIBDA increased by 0.8% year-on-year in constant currency in the year. OIBDA margin for 2008 was 44.9%, slightly better than in the previous year, with the Slovak operation showing a better performance in terms of margin dilution. In the fourth quarter, OIBDA margin was 41.9%, an improvement over the same period of last year.

CapEx for the year totalled 324 million euros (+4.0% year-on-year in constant currency) and **operating cash flow (OIBDA-CapEx)** amounted to 835 million euros.

⁶ Excluding restructuring charges, real estate gains and others.

Telefónica Europe Accesses

Unaudited figures (thousands)	2007		2008				% Chg y-o-y
	December		March	June	September	December	
Final Clients Accesses	41,347.0		41,967.5	42,794.3	43,718.9	44,603.8	7.9
Fixed telephony accesses ¹	2,130.0		2,056.5	1,998.1	1,952.3	1,952.7	(8.3)
Internet and data accesses	880.0		996.1	1,101.4	1,212.7	1,354.5	53.9
Narrowband	202.4		188.7	177.0	170.3	163.4	(19.3)
Broadband	670.3		800.2	917.3	1,035.5	1,158.7	72.9
Other ²	7.3		7.2	7.1	6.9	32.4	n.m.
Mobile accesses	38,263.8		38,827.7	39,596.9	40,445.8	41,182.1	7.6
Pre-pay	22,327.7		22,387.7	22,643.0	22,965.1	23,314.4	4.4
Contract	15,936.1		16,440.0	16,953.9	17,480.7	17,867.6	12.1
Pay TV	73.2		87.2	97.9	108.1	114.5	56.5
Wholesale Accesses³	706.2		831.3	1,008.1	1,139.0	1,237.9	75.3
Total Accesses	42,053.2		42,798.8	43,802.4	44,857.9	45,841.7	9.0

1 PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included.

2 Remaining non-broadband final circuits.

3 Includes Unbundled Lines by T. Deutschland.

Note:

Mobile accesses, Fixed telephony accesses and Broadband accesses include MANX customers.

Telefónica Europe Consolidated income statement

Unaudited figures (euros in millions)	January - December			October - December		
	2008	2007	% Chg	2008	2007	% Chg
Revenues	14,308	14,458	(1.0)	3,618	3,682	(1.7)
Internal exp capitalized in fixed assets	175	200	(12.4)	43	44	(2.0)
Operating expenses	(10,514)	(10,987)	(4.3)	(2,616)	(2,896)	(9.7)
Other net operating income (expense)	181	14	n.m.	63	2	n.m.
Gain (loss) on sale of fixed assets	32	1,292	(97.5)	(1)	(6)	(79.6)
Impairment of goodwill and other assets	(3)	(0)	n.m.	0	(0)	c.s.
Operating income before D&A (OIBDA)	4,180	4,977	(16.0)	1,107	826	34.0
OIBDA margin	29.2%	34.4%	(5.2 p.p.)	30.6%	22.4%	8.2 p.p.
Depreciation and amortization	(3,035)	(3,386)	(10.4)	(730)	(820)	(11.0)
Operating income (OI)	1,144	1,591	(28.1)	377	6	n.s.

Notes:

- OIBDA and OI before brand fees.

- Airwave is not consolidated since the second quarter of 2007. The disposal of Airwave generated a capital gain of 1,296 million euros, recorded in the second quarter of 2007.

- 2008 includes 174 million euros due to the application of provisions made in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks had dissipated or had not materialized.

Results by regional business units

Telefónica Europe

Telefónica Europe Accesses by countries

Unaudited figures (Thousands)	2007		2008			% Chg y-o-y
	December	March	June	September	December	
UK						
Final Clients Accesses	18,452.8	18,534.7	18,872.0	19,346.7	19,810.8	7.4
Internet and data accesses	70.7	131.4	194.2	267.1	340.9	n.m.
Broadband	70.7	131.4	194.2	267.1	340.9	n.m.
Mobile accesses	18,382.1	18,403.2	18,677.8	19,079.6	19,470.0	5.9
Pre-pay	11,573.4	11,388.1	11,525.1	11,649.3	11,862.5	2.5
Contract	6,808.7	7,015.1	7,152.7	7,430.3	7,607.4	11.7
Total Accesses	18,452.8	18,534.7	18,872.0	19,346.7	19,810.8	7.4
Germany						
Final Clients Accesses	12,546.2	13,132.3	13,741.3	14,176.4	14,413.3	14.9
Internet and data accesses	74.7	124.7	165.4	198.1	214.8	187.5
Broadband	74.7	124.7	165.4	198.1	214.8	187.5
Mobile accesses	12,471.5	13,007.5	13,575.9	13,978.3	14,198.5	13.8
Pre-pay	6,235.0	6,565.4	6,841.4	7,097.2	7,231.5	16.0
Contract	6,236.6	6,442.1	6,734.5	6,881.1	6,967.0	11.7
Wholesale Accesses ¹	596.0	719.9	897.4	1,026.7	1,128.4	89.3
Total Accesses	13,142.3	13,852.1	14,638.7	15,203.1	15,541.7	18.3
Ireland						
Mobile accesses	1,646.1	1,662.9	1,687.6	1,713.1	1,727.7	5.0
Pre-pay	1,090.9	1,089.1	1,094.9	1,082.5	1,084.6	(0.6)
Contract	555.2	573.8	592.6	630.6	643.1	15.8
Total Accesses	1,646.1	1,662.9	1,687.6	1,713.1	1,727.7	5.0
Czech Republic						
Final Clients Accesses	7,986.8	7,964.8	7,946.3	7,917.3	8,044.6	0.7
Fixed telephony accesses ²	2,069.2	1,995.6	1,937.7	1,892.4	1,893.4	(8.5)
Internet and data accesses	719.1	723.4	724.4	729.4	779.5	8.4
Narrowband	202.4	188.7	177.0	170.3	163.4	(19.3)
Broadband	509.4	527.4	540.4	552.2	583.7	14.6
Other ³	7.3	7.2	7.1	6.9	32.4	n.m.
Mobile accesses	5,125.4	5,158.7	5,186.3	5,187.4	5,257.2	2.6
Pre-pay	2,881.5	2,853.2	2,817.3	2,758.0	2,737.9	(5.0)
Contract	2,243.9	2,305.5	2,369.1	2,429.4	2,519.3	12.3
Pay TV	73.2	87.2	97.9	108.1	114.5	56.5
Wholesale Accesses	110.2	111.5	110.7	112.2	109.5	(0.6)
Total Accesses	8,097.0	8,076.3	8,057.1	8,029.5	8,154.1	0.7
Slovakia						
Mobile accesses	565.4	523.1	394.7	412.7	455.3	(19.5)
Pre-pay	502.4	449.0	319.8	334.6	356.2	(29.1)
Contract	63.0	74.1	74.9	78.1	99.0	57.2
Total Accesses	565.4	523.1	394.7	412.7	455.3	(19.5)

1 Includes Unbundled Lines by T. Deutschland.

2 PSTN (including Public Use Telephone) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included. Includes a positive adjustment of 31,000 accesses recorded on December 2008.

3 Retail circuits other than broadband.

Telefónica Europe Selected operating data mobile business by countries

Unaudited figures	2007		2008			% Chg y-o-y Local Cur
	Q4		Q1	Q2	Q3	
Telefónica O2 UK						
MoU (minutes)	197	197	208	208	213	8.0
ARPU (EUR)	33.9	31.1	30.2	30.6	28.1	(1.7)
Pre-pay	18.0	16.2	15.6	15.9	14.4	(5.3)
Contract	61.0	56.0	53.6	54.1	49.6	(3.9)
Data ARPU(EUR)	11.1	10.7	10.3	10.3	10.0	6.6
%non-P2PSMS over data revenues	15.9%	18.3%	18.2%	21.0%	22.2%	6.2 p.p.
Telefónica O2 Germany						
MoU (minutes)	134	147	144	133	129	(3.8)
ARPU (EUR)	19.4	17.7	17.6	17.3	16.9	(13.2)
Pre-pay	6.4	5.9	6.1	6.0	5.8	(9.5)
Contract	32.3	29.7	29.3	28.9	28.3	(12.4)
Data ARPU(EUR)	5.1	4.9	4.8	4.9	4.8	(7.0)
%non-P2PSMS over data revenues	25.7%	28.4%	26.9%	29.6%	31.7%	6.1 p.p.
Telefónica O2 Ireland						
MoU (minutes)	252	240	250	246	243	(3.6)
ARPU (EUR)	45.7	43.4	43.2	43.7	42.6	(6.8)
Pre-pay	29.0	26.7	26.9	27.7	26.7	(7.9)
Contract	78.8	75.5	73.8	72.2	69.2	(12.2)
Data ARPU(EUR)	12.4	11.2	10.6	10.6	10.9	(11.6)
%non-P2PSMS over data revenues	31.4%	27.5%	30.2%	31.2%	32.6%	1.2 p.p.
Telefónica O2 Czech Republic¹						
MoU (minutes)	122	117	122	120	124	1.8
ARPU (EUR)	20.5	19.4	21.0	21.7	20.4	(1.6)
Pre-pay	9.7	8.9	9.8	10.2	9.5	(2.7)
Contract	34.5	32.7	34.7	35.1	32.6	(6.6)
Data ARPU(EUR)	4.4	4.4	4.5	4.7	4.7	3.3
%non-P2PSMS over data revenues	42.0%	43.0%	44.0%	45.7%	43.5%	1.5 p.p.

1 KPIs for Mobile business in Czech Republic do not include Slovakia.

Note:
MoU and ARPU calculated as monthly quarterly average.

Results by regional business units

Telefónica Europe

Telefónica Europe Selected operating data mobile business by countries

Unaudited figures	January - December		
	2008	2007	% Chg Local Cur
Telefónica O2 UK			
MoU (minutes)	207	190	9.1
ARPU (EUR)	30.0	34.4	1.4
Pre-pay	15.5	18.1	(0.6)
Contract	53.3	63.2	(2.1)
Data ARPU(EUR)	10.3	11.0	9.2
%non-P2PSMS over data revenues	20.0%	14.8%	5.2 p.p.
Telefónica O2 Germany			
MoU (minutes)	138	131	5.3
ARPU (EUR)	17.4	20.4	(14.9)
Pre-pay	5.9	6.7	(11.0)
Contract	29.0	34.1	(15.0)
Data ARPU(EUR)	4.8	5.1	(5.8)
%non-P2PSMS over data revenues	29.2%	25.4%	3.8 p.p.
Telefónica O2 Ireland			
MoU (minutes)	245	248	(1.1)
ARPU (EUR)	43.2	45.9	(5.9)
Pre-pay	27.0	29.0	(7.0)
Contract	72.5	82.3	(11.9)
Data ARPU(EUR)	10.8	11.7	(7.2)
%non-P2PSMS over data revenues	31.1%	25.4%	5.6 p.p.
T. O2 Czech Republic¹			
MoU (minutes)	121	117	3.6
ARPU (EUR)	20.7	18.9	(0.9)
Pre-pay	9.8	8.9	(2.0)
Contract	33.5	32.7	(6.7)
Data ARPU(EUR)	4.6	4.0	2.8
%non-P2PSMS over data revenues	43.6%	42.7%	0.9 p.p.

¹ KPIs for Mobile business in Czech Republic do not include Slovakia.

Note:

MoU and ARPU calculated as monthly January-December period average.

Telefónica Europe Selected financial data

Unaudited figures (euros in millions)	January - December				October - December			
	2008	2007	% Chg	% Chg Local Cur	2008	2007	% Chg	% Chg Local Cur
Telefónica O2 UK								
Revenues	7,052	7,403	(4.7)	10.6	1,755	1,877	(6.5)	10.4
OIBDA	1,839	1,923	(4.3)	11.1	479	503	(4.7)	12.3
<i>OIBDA margin</i>	26.1%	26.0%	0.1 p.p.		27.3%	26.8%	0.5 p.p.	
CapEx	717	832	(13.8)	0.1	198	272	(27.1)	(13.7)
OpCF (OIBDA-CapEx)	1,122	1,090	2.9	19.5	281	230	21.8	42.5
Telefónica O2 Germany								
Revenues	3,595	3,541	1.5	1.5	931	929	0.2	0.2
OIBDA	770	473	62.9	62.9	237	17	n.m.	n.m.
<i>OIBDA margin</i>	21.4%	13.3%	8.1 p.p.		25.5%	1.8%	23.7 p.p.	
CapEx	924	850	8.7	8.7	304	245	24.4	24.4
OpCF (OIBDA-CapEx)	(154)	(377)	(59.2)	(59.2)	(67)	(228)	(70.5)	(70.5)
Telefónica O2 Ireland								
Revenues	957	991	(3.4)	(3.4)	243	250	(2.8)	(2.8)
OIBDA	301	316	(4.7)	(4.7)	74	63	17.4	17.4
<i>OIBDA margin</i>	31.5%	31.9%	(0.4 p.p.)		30.3%	25.1%	5.2 p.p.	
CapEx	83	117	(29.6)	(29.6)	29	36	(18.7)	(18.7)
OpCF (OIBDA-CapEx)	219	199	10.0	10.0	44	27	65.5	65.5
Telefónica O2 Czech Republic								
Revenues	2,581	2,257	14.4	n.c.	651	590	10.3	n.c.
OIBDA	1,159	1,010	14.7	n.c.	273	247	10.5	n.c.
<i>OIBDA margin</i>	44.9%	44.8%	0.1 p.p.		41.9%	41.9%	0.1 p.p.	
CapEx	324	281	15.2	n.c.	157	117	34.3	n.c.
OpCF (OIBDA-CapEx)	835	729	14.5	n.c.	116	130	(10.9)	n.c.

Note:

OIBDA before brand fee.

Results by regional business units

Other Companies

Atento Group

The Atento Group achieved profitable growth in 2008, forging ahead with a strategy that seeks to differentiate the Company through quality and value creation for customers and the diversification of its customer portfolio.

Cumulative **Revenues** advanced 10.8% year-on-year to 1,301 million euros (+13.6% in constant terms) and 7.9% in the fourth quarter. Revenue growth was driven by an increase in the activity with Telefónica, mainly in Brazil, Peru, Morocco and Central America. The customer portfolio was further diversified over the year, with multi-sector customers (outside the Telefónica Group) accounting for 53% of revenues. These customers belong mainly to the telecommunications and financial sectors in Mexico, Brazil, Venezuela and Argentina.

With regard to the geographical breakdown of revenues, Brazil is the largest contributor to total revenues, with 46% (41% in 2007), followed by Spain with 17% (down from 22% last year due to growing delocalisation in 2008) and Mexico with 12% (13% in December 2007). Offshored revenues account for 7% of the Atento Group's total revenues, mainly from Spain to Colombia, Peru and Morocco.

Operating income before depreciation and amortisation (OIBDA) grew 15.4% in the full year (+18.6% in constant terms) to 186 million euros and 16.3% year-on-year in the fourth quarter of 2008. This growth was driven in one hand by the increased business and in the other by the containment of operating expenses (+9.8% in 2008 vs. +10.8% in the first nine months of the year), especially in the final quarter which saw a particularly decline in personnel expenses.

The **OIBDA margin** stood at 14.3% in 2008 (+0.6 percentage points from December 2007) and at 15.6% in the fourth quarter, an increase of 1.1 percentage points vs. the same period a year earlier.

CapEx stood at 56 million euros (+46.3% in constant terms) and **operating cash flow (OIBDA - CapEx)** totalled 130 million euros, up 6.5% in current terms and 9.7% in constant terms. The CapEx was devoted mainly to build new platforms (Brazil, Venezuela and Peru), refurbish centres and purchase equipment (Brazil, Mexico, Peru and Spain).

The Atento Group ended 2008 with 60,714 positions in place, 14% more than in December 2007.

Atento Group Consolidated income statement

Unaudited figures (euros in millions)	January - December			October - December		
	2008	2007	% Chg	2008	2007	% Chg
Revenues	1,301	1,174	10.8	329	305	7.9
Internal exp capitalized in fixed assets	0	0	n.m.	0	0	n.m.
Operating expenses	(1,117)	(1,017)	9.8	(279)	(261)	6.8
Other net operating income (expense)	2	2	10.6	1	(0)	c.s.
Gain (loss) on sale of fixed assets	(0)	2	c.s.	(0)	0	c.s.
Operating income before D&A (OIBDA)	186	161	15.4	51	44	16.3
OIBDA Margin	14.3%	13.7%	0.6 p.p.	15.6%	14.5%	1.1 p.p.
Depreciation and amortization	(33)	(30)	7.0	(8)	(8)	3.6
Operating income (OI)	154	131	17.4	43	36	19.1

Addenda

Key Holdings of the Telefónica Group detailed by regional business units

Telefónica España

	% Part
Telefónica de España	100.00
Telefónica Móviles España	100.00
Telyco	100.00
Telefónica Telecomunic. Públicas	100.00
T. Soluciones de Informática y Comunicaciones de España	100.00
Iberbanda	58.94
Medi Telecom	32.18

Telefónica Europe

	% Part
Telefónica O2 United Kingdom	100.00
Telefónica O2 Germany ¹	100.00
Telefónica O2 Ireland	100.00
Manx	100.00
Be	100.00
Group 3G (Germany) ²	100.00
Telefónica O2 Czech Republic ³	69.41
Telefónica O2 Slovakia ³	100.00

¹ Company owned through Telefónica S.A.

² Company owned through Telefónica O2 Germany.

³ Company owned through Telefónica O2 Czech Republic.

Telefónica Latinoamérica

	% Part
Telesp ¹	87.95
Telefónica del Perú	98.18
Telefónica de Argentina	98.20
TLD Puerto Rico	98.00
Telefónica Chile ²	96.75
Telefónica Telecom	52.03
Telefónica USA	100.00
T. Intern. Wholesale Serv. (TIWS) ³	100.00
Brasilcel ⁴	50.00
T. Móviles Argentina	100.00
T. Móviles Perú	98.63
T. Móviles México	100.00
Telefónica Móviles Chile	100.00
T. Móviles El Salvador	99.08
T. Móviles Guatemala	100.00
Telcel (Venezuela)	100.00
T. Móviles Colombia	100.00
Otecel (Ecuador)	100.00
T. Móviles Panamá	100.00
T. Móviles Uruguay	100.00
Telefonía Celular Nicaragua	100.00
T. Móviles Soluciones y Aplicac. (Chile)	100.00

¹ Effective participation 88.01%.

² Telefónica Internacional de Chile S.A. owns 44.89% and Inversiones Telefónica Internacional Holding Ltda. owns 51.86%. On 9 January 2009 the second takeover offer was completed increasing Telefónica Group participation over the Chilean company to 97.89%.

³ Telefónica, S.A. owns 92.51% and Telefónica DataCorp owns 7.49%.

⁴ Joint Venture which fully consolidates the subsidiary Vivo, S.A., through participation at Vivo Participações, S.A. (63.73%).

Other participations

	% Part
3G Mobile AG (Switzerland)	100.00
Grupo Atento	100.00
Telefónica de Contenidos (Spain)	100.00
Mobipay Internacional	50.00
Telco Spa (Italy) ¹	42.30
IPSE 2000 (Italy) ²	39.92
Mobipay España ²	13.36
Lycos Europe	32.10
Hispasat	13.23
Portugal Telecom ³	9.86
China Unicorn Limited (Hong Kong, China)	5.38
ZON Multimedia ⁴	5.40
BBVA	0.97
Amper	6.10

¹ Telefónica holds an indirect participation of the ordinary share capital (with voting rights) of Telecom Italia through Telco of 10.36%. If we take into account the saving shares (azioni di risparmio), which do not have voting rights, the indirect participation of Telefónica over Telecom Italia would be 7.15%.

² Ownership directly or indirectly held by Telefónica Móviles España.

³ Telefónica's Group effective participation. Telefónica Group participation would be 10% if we exclude the minority interests.

⁴ Telefónica's Group effective participation. Telefónica Group participation would be 5.46% if we exclude the minority interests.

Addenda

Significant Events

- The Board of Directors of TELEFÓNICA, S.A., at its meeting held on January 28th, 2009, has analyzed and approved a proposal to increase the dividend corresponding to 2009 fiscal year to a total amount of euro 1.15 per share. The appropriate corporate resolutions for that purpose will be passed at the relevant time.
- On September 17th, 2008, Telefónica announced its intention to launch a Tender Offer through its wholly-owned subsidiary Inversiones Telefónica Internacional Holding Ltda., to acquire all of the outstanding shares of Compañía de Telecomunicaciones de Chile S.A ('CTC') that TELEFÓNICA did not control direct or indirectly, which amounted to 55.1% of CTC's share capital.

The offer was addressed to all CTC shares listed on Santiago de Chile and New York Stock Exchanges (represented by American Depository Shares), and was structured as a purchase of shares in cash, at a price of 1,000 Chilean Pesos for class A shares and 900 Chilean Pesos for class B. On October 11th, 2008 the offer price was increased to 1,100 Chilean Pesos for class A shares and 990 Chilean Pesos for class B.

Upon completion of the acceptance period of the tender offer, a total of 496,341,699 shares issued by CTC were tendered, representing 94.1% of the shares to which the offer related which represented a total investment of approximately 640 million euros. After settlement of the transaction, Telefónica's indirect ownership in CTC's share capital increase from 44.9% to 96.75%.

Subsequently, pursuant to Chilean law, on December 1, 2008 Telefónica, through subsidiary Inversiones Telefónica Internacional Holding, Ltda., presented a second tender offer (second offer) to acquire all the outstanding shares of Compañía de Telecomunicaciones de Chile, S.A. (CTC) it did not already hold, directly or indirectly, (representing 3.25% of CTC's capital), in the same economic terms of the initial offer. The second tender offer was completed on January 9, 2009. Upon completion of the second offer, Telefónica's indirect stake in CTC increased to 97.89%.

Addenda

Changes to the Perimeter and Accounting Criteria of Consolidation

The following changes took place in the consolidation perimeter in 2008:

Telefónica Latinoamérica

- On September 17th, 2008, Telefónica announced its intention to launch a Tender Offer through its wholly-owned subsidiary Inversiones Telefónica Internacional Holding Ltda., to acquire all of the outstanding shares of Compañía de Telecomunicaciones de Chile S.A. ('CTC') that TELEFÓNICA did not control direct or indirectly, which amounted to 55.1% of CTC's share capital.

After settlement of the transaction Telefónica's indirect ownership in CTC's share capital increased from 44.9% to 96.75%. This is the participation recorded in the consolidated financial statements. The Chilean company continues to be consolidated in Telefónica Group by the full method.

For more information about this transaction please refer to the Addenda: 'Significant Events'.

- On April 3, 2008, in accordance with the terms of a sale and purchase agreement entered into on August 2, 2007, after the pertinent administration authorizations were obtained, Vivo Participações, S.A. ('VIVO') completed the acquisition of 53.90% of the voting stock (ON) and 4.27% of the preferred stock (PN) of Telemig Celular Participações, S.A., the controlling shareholder of Telemig Celular, S.A., a mobile telephony operator in the State of Minas Gerais (Brazil). According to the terms of the sale and purchase agreement, the total purchase price was 1,163 million reais

(approximately 429 million euros). VIVO also acquired the right held by the seller, Telpart Participações, S.A. ('TELPART') to subscribe in the future for paid up shares in Telemig Celular Participações S.A. for a price of approximately 70 million reais (26 million euros).

In addition, on April 8, 2008, VIVO, through its subsidiary Tele Centro Oeste IP, S.A., launched a voluntary tender offer for shares representing up to one third of the free float of represented by the preferred stock in Telemig Celular Participações, S.A. and in its subsidiary Telemig Celular, S.A. at a price of 63.90 and 654.72 Brazilian reals, respectively. Take-up of the offer, which concluded on May 15, 2008, was satisfactory, reaching a level of acceptance of close to 100%, which implied the acquisition by TCO IP, S.A. of 31.9% and 6% of the preferred shares of Telemig Celular Participações, S.A. and Telemig Celular, S.A., respectively. Furthermore, in accordance with Brazilian Corporations law, TCO IP, S.A. submitted a mandatory tender offer on July 15, 2008, for all the voting stock in Telemig Celular Participações, S.A. and Telemig Celular, S.A. at a price per share equivalent to 80% of the purchase price of the voting stock of these companies.

On December 19, 2008, approval was given by shareholders of Telemig Celular Participações, S.A., Telemig Celular, S.A. and Vivo Participações, S.A. (Vivo) in their respective extraordinary meetings to reorganize the Vivo Group, with TCO IP, S.A. spinning off its assets to merge with Telemig Celular, S.A. and Telemig Celular Participações, S.A., thereby making VIVO a shareholder in both companies, with direct and indirect stakes at December 31, 2008 amounting to 90.65% and 58.9%,

respectively. Both companies are included in the Telefónica Group's consolidation perimeter using proportionate consolidation.

Anexos

Changes to the Perimeter and Accounting Criteria of Consolidation

Other companies

- In December, Portuguese company Portugal Telecom, S.G.P.S., S.A. (PT) bought back and cancelled 46,082,677 shares in line with its share buyback program. This raised the Telefónica Group's direct and indirect ownership interest to 10.48%. In accordance with article 20 of the Portuguese stock market code, Telefónica sold 4,264,394 shares of PT, thereby lowering its stake to 10%. This company is still included in the consolidation perimeter using the equity method.
- In March 2008, Telco S.p.A., in which Telefónica holds a stake of 42.3%, acquired 121.5 million shares at a price of 1.23 euros per share in the Italian company Telecom Italia (equivalent to 0.9% of its share capital), bringing its total direct interest to 24.5% of the voting rights and 16.9% of the dividend rights. The transaction implied a payment of 149.8 million euros.

As a result, the Telefónica Group indirectly holds 10.4% of Telecom Italia's voting rights and 7.1% of its dividend rights. Telco, S.p.A. is included in the Telefónica Group's consolidated financial statements by the equity method.

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This document contains statements that constitute forward looking statements about the Company including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as 'expects', 'anticipates', 'intends', 'believes', and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

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Management of risks

Management of risks

Financial instruments and risk management policy

The Telefónica Group is exposed to various financial market risks as a result of (i) its ordinary business activity, (ii) debt taken on to finance its business, (iii) investments in companies, and (iv) other financial instruments related to the above commitments.

The main market risks affecting the Group are as follows:

1. Exchange rate risk

Exchange rate risks arise mainly from two sources. The first is Telefónica's international presence, through its investments and businesses in countries that use currencies other than the euro (these are largely in Latin America, but also in the Czech Republic and the UK). The second is debt denominated in currencies other than the one that it is placed on the country where the business is conducted or the home country of the company taking on the debt.

2. Interest rate risk

This arises from changes in (i) financial expenses on floating rate debt (or short-term debt likely to be renewed), due to changes in interest rates and (ii) the value of long-term liabilities at fixed interest rates.

3. Share price risk

This arises from changes in the value of equity investments that may be bought, sold or otherwise involved in transactions, from changes in the value of derivatives associated with such investments, from treasury shares and from equity derivatives.

The Group is also exposed to liquidity risk if a mismatch arises between its financing needs (operating and financial expense, investment, debt redemptions and dividend commitments) and its sources of finance (revenues, divestments, credit lines from financial institutions and capital market operations). The cost of finance could also be affected by movements in the credit spreads (over benchmark rates) demanded by lenders.

Finally, there is the so-called 'country risk' (which overlaps with market and liquidity risks). This refers to the possible decline in assets, cash flows generated or cash flows returned to the parent company as a result of political, economic or social instability in the countries where the Telefónica Group operates, especially in Latin America.

The Telefónica Group actively manages these risks with a view to reducing changes in cash flows and the income statement, or offsetting them with opposite changes in debt. In this way, it attempts to protect the Group's solvency, facilitate financial planning and take advantage of investment opportunities.

Telefónica uses derivatives to manage risks, basically on exchange rates, interest rates and shares.

Exchange rate risk

The fundamental objective of the exchange rate risk management policy is to offset (at least partly) potential losses of cash flows caused by declines in exchange rates vis-à-vis the euro, with savings on the lower euro value of foreign-denominated debt (from currency depreciation). The degree of hedging varies depending on the type of investment.

At December 31, 2008, net debt in Latin American currencies was nearly 5,827 million euros. However, this debt is not distributed in proportion to the cash flows generated in each country. Its future effectiveness as a hedge of exchange rate risks therefore depends on which currencies depreciate.

The Company further protects itself against declines in Latin American exchange rates affecting its assets through the use of dollar-denominated debt, either in Spain (where such debt is associated with the investment as long as it is considered to be an effective hedge) and in the country itself, where the market for local currency financing or hedges may be inadequate or non-existent. At December 31st, 2008, the Group's net dollar-denominated debt amounts to the equivalent of 2,222 million euros, net of the effect of the derivative contracts and financial assets in dollars, of which 1,317 million euros are related to assets in Latin America and the rest (906 million euros) are hedges of the Group's investment in China Unicom.

To protect its investment in the Czech Republic, the Group has net debt denominated in czech crowns, which at December 31st, 2008 amounted to 3,034 million euros, nearly 75% of the original cost of the investment.

Debt in pounds sterling stands close to 2 times the OIBDA of the Telefónica Europe business unit in the UK. The aim is to maintain the same proportion as the Group's net debt/OIBDA ratio, thereby helping to reduce its sensitivity to changes in the pound sterling/euro exchange rate. Pound sterling-denominated debt at December 31st, 2008 was equivalent to 3,855 million euros, far below the 6,667 million euros at year-end 2007, partly due

to the pound's 30% depreciation in 2008 and partly to pounds sterling generated by the business.

The Group also manages exchange rate risk by seeking to minimize the negative impact of any remaining exchange rate exposure on the income statement, regardless of whether it has open positions. Such exposure can arise for any of three reasons: (i) a thin market for local derivatives or difficulty in obtaining financing in local currency which does not allow for a low-cost hedge to be arranged (as in Argentina and Venezuela), (ii) financing through intra-group loans, where the accounting treatment of exchange rate risk is different from that for financing through capital contributions, (iii) as the result of a deliberate policy decision to avoid the high cost of hedges that are not warranted by expectations or high risk of depreciation.

In 2008, exchange rate management resulted in gains totally 23.7 million euros.

If the exchange rate position affecting the income statement at the end of 2008 were constant in 2009 and Latin American currencies depreciated against the US dollar and the rest of the currencies against the euro by 10%, the impact on the income statement would be a negative 107 million euros. Nonetheless, the Group dynamically manages its exposure to such changes to mitigate their impact.

As management's objective is not an accounting indicator, no sensitivity analysis is performed regarding potential impact of exchange rate changes on translation differences (equity).

Interest rate risk

Telefónica's financial expenses are exposed to changes in interest rates. In 2008, the rates applied to the largest volumes of short-term debt were mainly based on the Euribor, the Czech crown Pribor, the Brazilian SELIC, the dollar Libor and the Colombian UVR in nominal terms. At December 31st, 2008, 43.8% of the net debt (or 46.3% of net long-term debt) was at rates fixed for more than one year, compared to 50.4% of net debt (46.3% of long-term net debt) in 2007. Of the remaining 56.2% (net debt at floating or

fixed rates maturing in less than one year), the interest rate on 28 percentage points was set for a period of more than one year (17% of long-term net debt), compared to 46 percentage points on debt at floating or fixed rates maturing in less than one year (27% of long-term debt) at December 31st, 2007. This is due to the cancellation and maturity (without renewal) of an amount equivalent to 3,422 million euros of *Caps and Floors* in 2008 in euros, US dollars and pounds sterling in anticipation of a fall in interest rates.

In addition, in discounting early retirement liabilities the fall in interest rates led to an increase in the amount of these liabilities. However, this increase was nearly completely offset by the increase in the value of the hedges on these positions.

The net financial expense in 2008 totaled 2,797 million euros, slightly (1.6%) below the prior year figure (2,844 million euros). Excluding exchange rate differences, net interest expense in 2008 and 2007 was 2,821 million euros and 2,851 million euros, respectively, implying a slight 1.1% decrease in adjusted finance costs in 2008 compared to 2007. This decrease is the result of two offsetting factors: 1) a 7.6% decline in average net debt in 2008 (3,868 million euros), which led to a saving of 240 million euros; and 2) an increase in finance costs of 165 million euros as a result of a 31 basis points increase in the average cost of debt, mostly because: (i) average net debt in 2008 was at higher rates than the average for 2007 due to the higher relative weight of Latin American debt and the hikes in rates in euros, pounds sterling, czech crowns and US dollars versus 2007, and (ii) a 44 million euro decrease in non-recurring income related to positions measured at fair value. The figure for financial expenses in 2008 implies an average cost of average total net debt of 5.95%, or 6.00% stripping out exchange rate gains.

To illustrate the sensitivity of finance costs to variability in short-term interest rates, assuming a 100 basis point rise in all currencies in which there are financial positions and no change in the currency make-up and balance of the position at year end, the finance cost at December 31st, 2008 would increase by 178 million euros.

Share price risk

The Telefónica Group is exposed to changes in the value of equity investments that may be bought, sold or otherwise involved in transactions, from changes in the value of derivatives associated with such investments, from treasury shares and from equity derivatives.

The Telefónica Group has core, long-term direct and indirect holdings in companies exposed to the risk of changes in their share price, such as PT Multimedia, S.G.P.S., S.A. (Zon), China Unicom Hong Kong, Ltd and Banco Bilbao Vizcaya Argentaria (BBVA) (see Note 9).

As part of its shareholder remuneration policy, in February 2008, Telefónica announced a plan to buy back up to 100 million shares, representing approximately 2.095% of its share capital at that time. In October 2008, Telefónica announced the extension of this program by 50%, or another 50 million shares. Telefónica Group manages the share price risk of the share buyback programs by setting the timetable for execution in accordance with the pace of cash flow generation, the share price and other market conditions, while complying with applicable legal, regulatory and bylaw limits.

At the Shareholders' Meeting of Telefónica, S.A. on June 21, 2006, shareholders approved the introduction of a long-term incentive plan for Managers and Senior Executives of Telefónica, S.A. and other Telefónica Group companies (the 'PSP'). Under this plan, selected participants who met the qualifying requirements were given the rights to earn a certain number of Telefónica, S.A. shares as a form of variable remuneration (see Note 20.a).

According to the plan, the shares may be either (a) treasury shares in Telefónica, S.A., acquired by either Telefónica, S.A. itself or any of the Telefónica Group companies, in compliance with the legal requirements in force in this connection; or (b) newly-issued shares. The possibility of delivering shares to employees in the future, in accordance with relative shareholder remuneration or profit, implies a risk since there could be an obligation to hand over a maximum number of shares at the end of each cycle, whose

Note: Notes are included in the Telefónica S.A. 2008 Financial Report.

Management of risks

acquisition (in the event of acquisition in the market) in the future could imply a higher cash outflow than required on the start date of each cycle if the share price is above the corresponding price on the cycle start date. In the event that new shares are issued for delivery to the beneficiaries of the plan, there would be a dilutive effect for the ordinary shareholder as a result of the higher number of shares outstanding.

To reduce this risk and ensure that enough shares are available, the Telefónica Group has acquired derivatives that replicate the risk profile of the shares (see Note 20). In addition, part of the treasury shares acquired at the end of the year could be earmarked to cover the plan. At December 31st, 2008, the Group held 125,561,011 shares of Telefónica, S.A. (see Note 12). The liquidation value of the treasury shares could increase or decrease depending on variations in the Telefónica share price.

Liquidity risk

Telefónica seeks to match the schedule for its debt maturity payments to its capacity to generate cash flows to meet these maturities, allowing some flexibility. In practice, this means monitoring two key criteria:

1. Group debt must have a longer average maturity than the time it will take to earn the cash to pay it (assuming internal projections are met, and all cash flows generated go to pay down debt rather than on dividends or acquisitions).
2. The Group must be able to pay all commitments over the next 12 months without accessing new borrowing or tapping the capital markets (although including firm credit lines arranged with banks), assuming budget projections are met.

As of December 31st, 2008, the average maturity of the Group's (42,733 million euros) net financial debt was 5.9 years. The Group would need to generate around 7,243 million euros per year to repay the debt in this period if it used all its cash for this purpose. Cash generation in 2008 amply exceeded this amount, so that if it

maintains the same pace of cash generation during the average lifetime of the debt, the Group would repay the debt in its entirety before 4.67 years if it used all its cash for this purpose.

Gross debt maturities in 2009, of approximately 7,014 million euros (including the net position of derivative financial instruments), are lower than the amount of funds available, calculated as the sum of: a) current financial investments and cash at December 31st, 2008 (5,408 million euros excluding derivative financial instruments), b) annual cash generation projected for 2009; and c) undrawn credit facilities arranged with banks whose original maturity is over one year (more than 3,800 million euros at December 31st, 2008). This gives the Telefónica Group flexibility with regard to tapping capital or credit markets in the next 12 months.

The principal financing transaction in 2008 (to ensure compliance with the management criteria indicated above) consisted of an issue of 1,250 million euros worth of five-year bonds with an annual coupon of 5.58% (equivalent to 94 basis points above the benchmark '5-year Mid-swap rate'). See Note 24 'Events after the balance sheet date' for a description of other financial transactions carried out as part of these measures after the end of 2008.

In 2008, the Group reduced its net financial debt by 2,551 million euros to 42,733 million euros, extending the trend of the previous two years (45,284 and 52,145 million euros at December 31, 2007 and 2006, respectively) (see Note 'Key performance indicators'). Meanwhile, at December 31st, 2008, the Telefónica Group had total unused credit facilities from various sources amounting to over 7,400 million euros (9,250 million euros at December 31st, 2007 and 8,000 million euros at December 31st, 2006).

Country risk

Telefónica has managed or mitigated country risk by pursuing two lines of action (in addition to its normal business practices):

1. Partly matching assets to liabilities (those not guaranteed by the parent company)

in its Latin American companies such that any potential asset impairment would be accompanied by a reduction in liabilities,

2. Repatriating funds generated in Latin America that are not required for the pursuit of new, profitable business development opportunities in the region.

Regarding this first point, Telefónica's Latin American companies now have external net debt not guaranteed by the Spanish companies of 4,075 million euros, i.e. 9.5% of the Group's total net financial debt, with Colombia (2,946 million euros), Brazil (1,276 million euros) and Peru (910 million euros), accounting for the bulk of the total.

Regarding the repatriation of funds, 1,839 million euros was received from Latin America in 2008, of which 1,115 million euros was from dividends and 724 million euros from inter-group loans (repayment of principal and payment of interest) and capital decreases. Meanwhile, funds were sent to Latin American, mainly Colombia (155 million euros) in connection with the Telefónica Móviles Colombia's capital increase, and Chile (664 million euros) for the buyout of CTC's minorities (see Note 21.b). Net funds repatriated from Latin America amount to the equivalent of 899 million euros.

In this regard, it is worth noting that since February 2003, Venezuela has had an exchange control mechanism in place. The Currency Administration Commission (CADIVI) was set up to manage the exchange control system and determine authorizations of currency sales. This body has issued a number of regulations ('providencias') governing the modalities of currency sales in Venezuela at official exchange rates. Foreign companies which are duly registered as foreign investors are entitled to request approval to acquire currencies at the official exchange rate by the CADIVI, in line with regulation number 029, article 2, section c) 'Remittance of earnings, profits, income, interest and dividends from international investment.' Telcel, the Group's subsidiary in Venezuela, obtained approval on 137 million US dollars under this heading in 2006, 240 million US dollars in 2007 and 365 million US dollars in 2008. The final dividend to be paid out of 2006 profit of 536 million US dollars

Note: Notes are included in the Telefónica S.A. 2008 Financial Report.

proposed recently is pending approval. Once this is approved, the Group will seek authorization to pay the dividends related to 2007 profit. Accordingly, the Group will have to continue obtaining the necessary authorizations in future for requests submitted to the CADIVI. It expects this to occur with the same diligence and frequency as in the past, enabling it to continue carrying out its businesses in Venezuela as normal and to repatriate funds from this country.

Credit risk

The Telefónica Group trades in derivatives with creditworthy counterparties. Therefore, Telefónica, S.A. trades with credit entities with senior debt ratings of at least 'A.' In Spain, where most of the Group's derivatives portfolio is, there are netting agreements with financial institutions, with debtor or creditor positions offset in case of bankruptcy, limiting the risk to the net position. For other subsidiaries, particularly those in Latin America, given the stable sovereign rating provides a ceiling and is below 'A,' trades are with local financial entities whose rating by local standards is considered to be of High Creditworthiness.

The Telefónica Group considers managing commercial credit risk as crucial to meeting its business and customer base growth targets in a manner that is consistent with its risk-management policy.

Therefore, the Group's commercial credit risk-management approach is based on continuous monitoring of the risk assumed and the resources necessary to manage the Group's various units, in order to optimize the risk-reward relationship in the development and execution of their business plans in their ordinary management.

For this, uniform policies, procedures, authorization lines and management practices are established for all Group companies bearing in mind the individual needs and international best practice in this area, and including the commercial credit-risk management model in the Group's decision-making process, at both the strategic and the day-to-day operations level.

Meanwhile, with credit risk arising from cash and cash equivalents, the Telefónica Group places its cash surpluses in high quality and highly liquid money-market assets. These placements are regulated by a General Framework, revised annually based on conditions of the market and countries where the Group operates. The General Framework sets: (i) the maximum amounts to be invested by counterparty based on its rating (long-term debt rating); (ii) the maximum period of the investment; and (iii) the instruments in which the surpluses may be invested. For Telefónica, S.A., the Company which places the bulk of the Group's surpluses, the maximum placement in 2008 was 180 days and the creditworthiness of the counterparties used, measured by their debt ratings, remained above A- and/or A3 by S&P and Moody's, respectively.

The Group's maximum exposure to credit risk is initially represented by the carrying amounts of the financial assets (Notes 11 and 13) and the guarantees given by the Group.

Capital management

Telefónica's finance department, which is in charge of the Group's capital management, takes into consideration several factors when determining the Company's capital structure.

The first is the consideration of cost of capital at all times to achieve a combination that optimizes this. For this, the company monitors the financial markets and updates to standard industry approaches for calculating cost of capital (WACC, weighted average cost of capital) in determining this variable. The second, a gearing ratio that enables the Company to obtain and maintain the desired credit rating over the medium term, and through which Telefónica can match its potential cash flow generation and the alternative uses of this cash flow at all times.

These general arguments are rounded off with other considerations and specifics, such as country risk in the broadest sense, tax efficiency and volatility in cash flow generation, when determining the Group's financial structure.

Derivatives policy

At December 31st, 2008, the nominal value of outstanding derivatives with external counterparties came to 141,984 million euros. This amount is just 8.6 % higher than in 2007 (130,715 million equivalent euros). This figure is inflated by the use in some cases of several levels of derivatives applied to the nominal value of a single underlying liability. For instance, a foreign currency loan can be hedged into floating rate, and then each interest rate period can be fixed using a forward rate agreement. Even using such techniques to reduce the position, it is still necessary to take extreme care in the use of derivatives to avoid problems arising through error or a failure to understand the real position and its associated risks.

The Group's derivatives policy emphasizes the following points:

1) *Derivatives based on a clearly identified underlying.*

Acceptable underlyings include profits, revenues and cash flows in either a company's functional currency or another different currency. These flows can be contractual (debt and interest payments, settlement of foreign currency payables, etc.), reasonably certain or foreseeable (investment program, future debt issues, commercial paper programs, etc.). The acceptability of an underlying asset in the above cases does not depend on whether it complies with IFRS requirements for hedge accounting, as is required in the case of certain intra-group transactions, for instance. Parent company investments in subsidiaries with functional currencies other than the euro also qualify as acceptable underlying assets.

Economic hedges, i.e. hedges with a designated underlying asset and which in certain circumstances offset fluctuations in the underlying asset value, do not always meet the requirements and effectiveness tests laid down by accounting standards for treatment as hedges. The decision to maintain positions that cease to qualify as effective or fail to meet other requirements will depend on the marginal impact on the income statement and how far this might compromise the goal of a stable income statement. In any event, the variations are recognized in the income statement.

Management of risks

2) Matching of the underlying to one side of the derivative.

This matching basically applies to foreign currency debt and derivatives hedging foreign currency payments by Group subsidiaries. The aim is to eliminate the risk arising from changes in foreign currency interest rates. Nonetheless, even when the aim is to achieve perfect hedging for all cash flows, the lack of breadth to certain markets, especially in Latin American currencies, has meant that historically there have been mismatches between the terms of the hedges and those of the debts they are meant to hedge. The Telefónica Group intends to reduce these mismatches, provided that doing so does not involve disproportionate costs. In this regard, if adjustment does prove too costly, the financial timing of the underlying asset in foreign currency will be modified in order to minimize interest rate risk in foreign currency.

Sometimes, the timing of the underlying as defined for derivative purposes may not be exactly the same as the timing of the contractual underlying.

3) Matching the company contracting the derivative and the company that owns the underlying.

Generally, Telefónica aims to ensure that the hedging derivative and the hedged asset or liability belong to the same company. Sometimes, however, the holding companies (Telefónica, S.A. and Telefónica Internacional, S.A.) have arranged hedges on behalf of a subsidiary that owns the underlying asset. The main reasons for separating the hedge and the underlying asset were possible differences in the legal validity of local and international hedges (as a result of unforeseen legal changes) and the different credit ratings of the counterparties (whether Group companies or the banks).

4) Ability to measure the derivative's fair value using the valuation systems available to the Group.

Telefónica uses a number of tools to measure and manage risks in derivatives and debt. The main ones are Kondor+, licensed by Reuters, which is widely used by financial institutions, and MBRM specialist financial calculator libraries.

5) Sale of options only when there is an underlying exposure.

Options can only be sold when: i) there is an underlying exposure (on the balance sheet or associated with a highly probable cash outflow) that would offset the potential loss for the year if the counterparty exercised the option, or ii) the option is part of a structure in which another derivative offsets any loss. The sale of options is also permitted in option structures where, at the moment they are taken out, the net premium is either positive or zero.

For instance, it would be possible to sell short-term options on interest rate swaps that entitle the counterparty to receive a certain fixed interest rate, below the level prevailing at the time the option was sold. This would mean that if rates fell and the counterparty exercised its option, Telefónica would swap part of its debt from floating rate to a lower fixed rate, having received a premium.

6) Hedge accounting

The main risks that may qualify for hedge accounting are as follows:

- Variations in market interest rates (either money-market rates, credit spreads or both) that affect the value of the underlying asset or the measurement of the cash flows.
 - Variations in exchange rates that change the value of the underlying asset in the company's functional currency and affect the measurement of the cash flow in the functional currency.
 - Variations in the volatility of any financial variable, asset or liability that affect either the valuation or the measurement of cash flows on debt or investments with embedded options, whether or not these options are separable.
 - Variations in the valuation of any financial asset, particularly shares of companies included in the portfolio of 'Available-for-sale financial assets'.
- Regarding the underlying:
- Hedges can cover all or part of the value of the underlying.

- The risk to be hedged can be for the whole period of the transaction or for only part of the period.
- The underlying may be a highly probable future transaction, or a contractual underlying (loan, foreign currency payment, investment, financial asset, etc.) or a combination of both that defines an underlying with a longer term.

This may on occasion mean that the hedging instruments have longer terms than the related contractual underlying. This happens when Telefónica enters into long-term swaps, caps or collars to protect itself against interest rate rises that may raise the financial expense of its promissory notes, commercial paper and some floating rate loans which mature earlier than their hedges. These floating rate financing programs are highly likely to be renewed and the Company commits to this by defining the underlying asset in a more general way as a floating rate financing program whose term coincides with the maturity of the hedge.

Hedges can be of three types:

- Fair value hedges.
- Cash flow hedges, which can be set at any value of the risk to be hedged (interest rates, exchange rates, etc.) or for a defined range (interest rates between 2% and 4%, above 4%, etc.). In this last case, the hedging instrument used is options and only the intrinsic value of the option is recognized as an effective hedge. Changes in the time value of the option are taken to the income statement. To prevent excessive swings in the income statement from changes in time value, the hedging ratio (amount of options for hedging relative to the amount of options not treated as hedged) is assigned dynamically, as permitted by the standard.
- Hedges of net investment in consolidated foreign subsidiaries. Generally such hedges will be arranged by Telefónica, S.A. and the other Group holding companies. Wherever possible, these hedges are implemented through real debt in foreign currency. Often, however, this is not

always possible as many Latin American currencies are non-convertible, making it impossible for non-resident companies to issue local currency debt. It may also be that the debt market in the currency concerned is too thin to accommodate the required hedge (czech crown, pound sterling), or that an acquisition is made in cash with no need for market finance. In these circumstances derivatives, either forwards or cross-currency swaps are used to hedge the net investment.

Hedges can comprise a combination of different derivatives.

There is no reason to suppose management of accounting hedges will be static, with an unchanging hedging relationship lasting through maturity. In fact, hedging relationships may change to allow appropriate management that serves the stated principles of stabilizing cash flows, stabilizing net financial income/expense and protecting the share capital. The designation of hedges may therefore be cancelled, before maturity, because of a change in the underlying, a change in perceived risk on the underlying or a change in the market's view.

Derivatives included in these hedges may be reassigned to new hedges where they meet the effectiveness test and the new hedge is well documented. To gauge the efficiency of transactions defined as accounting hedges, the Company analyzes the extent to which the changes in the fair value or in the cash flows attributable to the hedged item would offset the changes in fair value or cash flows attributable to the hedged risk using a linear regression model.

The main guiding principles for risk management are determined by the Telefónica Group's Corporate Finance Department and implemented by company CFOs (responsible for balancing the interests of each company and those of the Group). The Corporate Finance Department may allow exceptions to this policy where this can be justified, normally when the market is too thin for the volume of transactions required or on clearly limited and small risks. New companies joining the Group as a result of mergers or acquisitions may also need time to adapt.

Telefónica: 85 years history of continual progress

Telefónica was created in 1924 in Spain, with a stake held by a North-American multinational (ITT). 85 years on, the Company has surpassed other companies that were references in their time: it is the world's largest integrated operator in terms of customer access numbers (259 million), operates in 25 countries, has a workforce of over 257,000 employees and has maintained its identity as the most important Spanish multinational under the Telefónica trademark.

Telefónica, which closed 2008 with a market capitalisation of 74,574 million euros, maintaining its fourth position worldwide amongst other companies in the sector, is also a driving force for progress in those countries where it is present.



1971



"Five million" Telephones

Telefónica starts up the first Special Network for Data Transmission in Europe

1981



"Twelve million" telephones

The transmission of data is already considered a key part of Telefónica's strategy

1988

The Communications Planning Law (LOT) comes into force.

1990



1974

The CTNE turns 50. The rise in demand for data transmission circuits would spur the development of the TESYS system a few years later.

1985

The Company receives a new image and is renamed: Telefónica de España, S.A.

Telefónica launches the analogue wireless service MoviLine

Which covers 98% of the territory and population by the end of 1994

1978



The technological advance continues

Telefónica with ten million telephones installed adopts TCP/IP protocol and remodels the cable network to adapt it to fibre optics

1988



Full automation of the telephone service in Spain reaches its climax

The company, which this year changes its name to Telefónica de España S.A., concludes this process in Polopos (Granada)

1993

Commercial launch of the first Spanish satellite Hispasat; Telefónica, already present in six American countries, takes the decisive step of participating in trans-European networks.

1994

Digital mobile telephony is launched.

1995

First partial privatisation of Telefónica.

1995

Movistar begins operations

Telefónica launches Infovia, a network for Internet access



1990/1998



Expansion into Latin America

The company establishes itself in countries such as Argentina, Brazil, Chile, Peru, Puerto Rico and Venezuela

History

1997



Privatisation
is completed

The State floats its shareholding of 20.9%
on the stock exchange

1924



1984



1993



1998



1998

A consortium headed by Telefónica is awarded the tender for Telesp, which operates in the state of São Paolo.

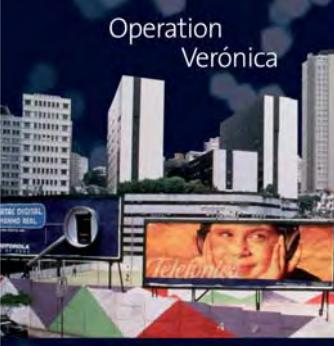
Telefónica unveils its new corporate image.

1999

Broadband becomes available employing ADSL technology.

Telefónica is completely privatised and is reorganised as a holding in order to be able to manage business interests on global scale.

2000



Operation Verónica

Telefónica manages the integrated management of fixed telephony in Latin America, with a public share offer

2002

Telefónica starts disinvesting in communication companies. It merges its platform with TV Digital.

2003

Telefónica and Portugal Telecom establish a joint company bringing together all their mobile communications assets in Brazil.

2003/2006
Massive expansion



Telefónica carries out important acquisitions, especially in the mobile telephony market, where the purchase of O2 becomes the largest operation of a Spanish company in a foreign country

2004

Acquisition of BellSouth's mobile communications assets in Latin America.

2005

Acquisition of Cesky Telecom.

2005

Telefónica becomes a partner with China Netcom



sorpréndeme

World launch of the new Movistar identity

2006

Telefónica buys 51% of Colombia Telecom.

Telefónica acquires the European assets of the mobile telephony operator O2 in the United Kingdom, Germany and Ireland.

It is awarded the mobile licence in Slovakia.

Telefónica reorganises its structure to offer its customers an integrated management model, creating three geographical areas: Spain, Latin America and Europe.

2007

Telefónica O2 Slovakia begins operating.

Telefónica and China Netcom broaden their strategic cooperation



2008

259 million customer accesses

Telefónica launches Trío Futura, its first pre-commercial optical fibre service.

trío futura

Telefónica, an important private partner in the new China Unicom.



Telefónica launches keteke.com, the first multi-platform social network open to users of all mobile operators.

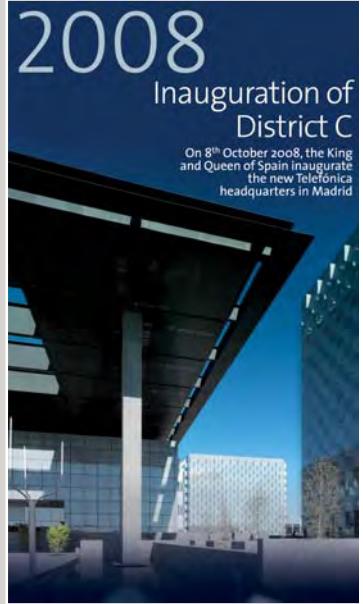


Unanimous backing of shareholders for the Company's public takeover bid for the Chilean subsidiary CTC.



Telefónica ends 2008 with an equity market capital of 74,574 million euros, in fourth position amongst companies in its sector globally.

2008



Chronology

First quarter

Technological Progress

January

Telefónica del Perú is awarded two new bandwidths (450 and 900 MHz) allowing it to install over one million wireless lines for lower income sectors.

New music portal for Broadband customers in Argentina.

February

The telephone *MOTO Q™ GSM* is launched in Ecuador, incorporating state-of-the-art mobile multimedia features.

Agreement with Microsoft to offer its *Windows Life* services to Movistar customers in 12 Latin American countries.

Telefónica and Samsung revolutionise the mobile phone by allowing the user to create his/her own content on line.

The new ultramobile *PC HTC Shift* gives a boost to mobile working methods.

Uruguay and Chile unveil the first *3G roaming* service in Latin America.

Marketing of the *iPhone™* in Ireland.

Telefónica Germany recognised as the number 1 mobile operator in terms of global satisfaction.

Noted presence at the Mobile World Congress in Barcelona: pioneering agreement with Microsoft for music and deal with Samsung to market an *Ultra Mobile PC*.

March

Telefónica breaks new ground in Brazil by marketing 30 MB ADSL.

Colombia increases its Internet access capacity by 50%

Telefónica Latinoamérica launches Sigres, a system for improving management of services.

Telefónica leads testing for mobile phone TV using different standards.

Economic Progress

Telefónica increases its stake in China Netcom to 7.22%.

Telefónica, the only company in the 'teleco' sector of the S&P Global Pick 2008

Telefónica climbs to second position in the Eurostoxx 50.

Annual investment plan of 20 million euros to invest in new innovative technology companies.

Historic results in 2007: net benefits of 8,906 million euros, a 42% increase.

Telefónica announces a new buy-back plan for 100 million shares.

Telefónica participates in Bolsalia, Madrid's main shareholders forum.

Between 2005 and 2007 Telefónica dedicates 21,500 million euros to growing businesses.

'Telefónica Summit': the Company directors commit to lead the sector's progress and the Information Society.

Social and Responsible Contribution

The Broadband service provided by Telefónica O2 in the United Kingdom, one of the best according to the British.

The Company reduces the digital divide in 80 popular districts in Chile.

Telefónica's intermediation service for people with acoustic disabilities in Argentina receives 30,000 calls a month.

Telefónica R+D encourages the use of videoconferences to reduce CO₂ emissions.

Telefónica's commitment to sustainable development, one of the main themes at the VII movilforum trade fair.

Fundación Telefónica receives first prize in the competition 'Chile Somos Todos' (Chile is Everyone) for its support of disabled people.

Thanks to its Volunteer programme, the Foundation joins the Global Corporate Volunteer Council.

Movistar launches the first mobile-to-fixed flat-rate tariff that can be used anywhere in Spain.

The Campus Party reaches America thanks to Telefónica.  **Campus Party™**

The Ministry for Industry, Tourism and Commerce signs an agreement with Telefónica to promote the Information Society in Spain.

Telefónica announces its participation in the GSMA alliance designed to combat child pornography on the Internet.

Telefónica Europe launches websites dedicated to the protection of children and teenagers in all countries in which it operates.

The projects 'ICT serving the interests of eHealth' and EducaRed receive the AUTELSI 07 prize (Spanish Association of Users of Telecommunications and of the Information Society).

6,500 children start school in Guatemala thanks to Proniño.

The Mobile Internet kit is launched, allowing access to Mobile Internet without any minimum contract or usage stipulations.

Telefónica calculates its Digital Footprint using the GHG Protocol, an internationally recognised methodology.

Fundación Telefónica, Virtual Educa and RELPE will develop an Ibero-American Virtual Network of Educational Centres to facilitate the educational integration of the offspring of Latin American immigrants.

EducaRed of Chile receives an award from AHCIET in recognition of its creativity, interactivity and contribution to education.

educated

Second quarter

Technological Progress

April

Telefónica reinforces its strategic relationship with Microsoft in order to strengthen their joint commercial offering all over the world.

Telefónica O2 Germany joins forces with Huawei to offer network coverage approaching 100%.



May

Telefónica concludes an agreement with Huawei, a leading provider of new generation networks for telecommunications operators, to create a centre for innovation in Spain.

June

Company Response revolutionises fixed telephony in Spain with flat-rate Mobile Internet tariffs.



respuestaempresarios.com

Telefónica launches an exclusive portal for its global customers in Latin America.

Telefónica makes one of the largest catalogues of independent music available to its customers following an agreement with IODA in 24 countries.

Economic Progress

Telefónica brings forwards its growth estimates for Latin America by one year and hopes to break the barrier of 150 million accesses in 2008.

Vivo closes the purchase of Telemig mobile and consolidates its leadership in Brazil.

Telefónica gains a new mobile concession in Ecuador, which includes 3G services.

Social and Responsible Contribution

The fifth version of *Play Pack* comes out, a mobile phone for young people with services geared towards responsible use.

Agreement with the IDB to offer banking services to the less well off in Latin America.

Presentation in Brussels of the educational web Teach Today, sponsored by Telefónica and other leading companies.

Telefónica leads the ethical index compiled by 'Economistas sin Fronteras'.

Telefonica Foundation accredited as a Socially Responsible Business.

Telefónica México and Microsoft join forces to extend the *on line* educational network for teachers in Latin America.

Agreement between Fundación Telefónica and CEPAL to encourage the use of ICT to promote growth in Latin America and the Caribbean.

Telefónica, recognised by the organisation Investor Relations as the leading European teleoperator in terms of relations with investors.

Telefónica receives the 'Annual Golden Award 2008' from the Official Chamber of Commerce of Spain in Great Britain for its commercial successes

Telefónica, the company included in the Ibex-35 with the best on line financial information, according to the Spanish Accounting and Business Administration Association (AECA).

Telefónica España launches *Canguro Móvil*, a new service that allows access via mobile phone to content not recommended for those underage to be restricted.

Telefónica facilitates access to mobile banking for 175 million lower income people.

Presentation of a pioneering study on disability in the Spanish and European health sectors.

Telefónica combines music and environment in the UN campaign 'Plant for the Planet'

Telefónica publishes its Annual Corporate Social Responsibility Report 2007.



Telefónica donates one million euros to China to help alleviate the aftermath of the Sichuan earthquake.

The Company sponsors Internet Day and promotes activities designed to popularise the use of the Internet.

A new multimedia messaging service by Movistar unites Chileans and Argentines.

Telefónica, one of the first companies to adhere to the 'European Transparency Initiative', the register created by the European Commission to promote transparency.

The Chairman of Telefónica, César Alierta, announces the creation of a Climate Change Office at the Zaragoza Exhibition in order to reduce greenhouse gases.

Telefónica takes the Campus Party to Colombia.

Proniño, the Telefónica programme aimed at eradicating child labour in Latin America, brings together intellectuals and artists under the slogan 'Juntos Podemos', (Together we can) and launches the 'Proniño Caravan' to heighten public awareness of this problem.

pronino

Chronology

Third quarter

Technological Progress

July

Telefónica begins to exclusively market the new iPhone™ 3G by Apple in Spain; and brings the handset out in Ireland.

Telefónica opens the most avant-garde telephony shop in the world at its historic headquarters in Gran Vía, 28 (Madrid).



Launch of a global platform capable of placing advertising on any sort of mobile support.

Telefónica provides its five million ADSL in Spain.

Telefónica, first company to market the first Asus NetBook a pioneering launch that popularised mini PC's.

August

Terra exclusively broadcasts the Olympic Games for all Latin America, obtaining audience figures of 22.7 million users.

Telefónica takes the iPhone™ to Latin America and the Czech Republic and adds up to 16 countries worldwide.

The Czech Republic quadruples the speed of its ADSL.

Telefónica Chile creates a convergent platform of communication services.

O2 continues to reduce prices for roaming services.

Telefónica launches Trio Futura, its first pre-commercial offer of fibre optic services.

September

The number of channels offered by Cable Mágico, the Peruvian television, reaches 70.



Exclusive launch of the Joystick Zeemote, which converts the mobile phone into a pocket video console and of the N96 smartphone.

Economic Progress

Telefónica, the first Spanish company in the FT Global 500-2008, the ranking of the 500 largest companies in terms of market capitalization.

Telefónica reaches 245 million clients worldwide.

Telefónica keeps its promise and increases its stake in China Netcom to 9.9%.

Telefónica exceeds 150 million accesses in Latin America

Social and Responsible Contribution

Movistar launches 'Solución Familiar' (Family Solution), with tariffs and services designed for Spanish families.



Agreement with the CNSE Foundation (State Confederation of Deaf People) to set up a video interpretation platform for deaf people.

Telefónica markets the Nokia 3110 Evolve, the world's first ecological handset.

Ecuador, the best company in the country in terms of Corporate Social Responsibility.

Telefónica presents the report 'ICT in Local Government of the future.'

11th edition of the electronic art awards VIDA, which will lead to the creation of a Virtual Museum on the Internet.

Telefónica signs a cooperation agreement with the National Development Institute - INADE in Peru to improve coverage in rural areas.

'Intégrame', the digital inclusion programme in Peru, receives a prize in the 'International Business Awards' as one of the best telecommunication products worldwide.

Collaboration in the 'Study on services in corporate ecosystems', which is presented during the congress of the International Union for Nature Preservation.

Telefónica Europe applies the global report model in its Corporate Responsibility Reports 2007.

For the first time, the Volunteers of Telefónica Europe participate in 'Solidarity Holidays' in order to collaborate with Proniño.

The Telefónica Arts Stand at the Zaragoza International Exhibition receives over half a million visitors.

The project 'Educar para Crear' (Educate to Create) is unveiled in Madrid, aimed at informing young people about intellectual property rights.

Telefónica teaches elderly people 'lo fácil que es el móvil' (how easy it is to use a mobile phone) through educational chats.

Telefónica joins the initiative 'El Salvador Verde' to promote good environmental practices in companies.

For the fifth year running, Telefónica appears in the Dow Jones Sustainability Index.

Telefónica attends the United Nations forum on progressing towards achieving the Millennium Goals.

The multi-discipline arena 'O2 WORLD' opens its doors in Berlin.

Fourth quarter

Technological Progress

Economic Progress

Social and Responsible Contribution

October

The European Commission singles out Telefónica as the Spanish company that invests most in R+D.

Agreement with Nortel to bring the Mobile Exchange to Latin America and take another step towards convergence of fixed and mobile telephony.

Telefónica concludes a global agreement with Facebook to include direct access on its mobile phones.

Telefónica announces that in autumn, it will market the *Blackberry Pearl Flip*, the first foldable device.

Telefónica Europe and Huawei begin their cooperation to extend 3G coverage.

Telefónica O2 Germany celebrates 10 years of having been licensed as a transmission operator.



The new China Unicom is born, with Telefónica as the most important private partner.

November

Exclusive marketing rights for the mobile phone with the largest screen on the market, the HTC Touch HD.

keteke.com is born, the first multiplatform social network open to users of all mobile operators.



The O2 Telefónica network reaches 88.6% of the population.

Telefónica O2 Germany covers nearly 100% of the population with its mobile network.

December

First global launch of the Nokia 5800 XpressMusic to popularise access to touch screens and to music.

For the first time in Spain, Telefónica will use 3D stereoscopic technology when advertising in cinemas.

The sixth version of Play Pack comes out, a mobile phone for young people with services geared towards responsible use.

Telefónica takes part in the first edition of the Campus Party Iberoamérica (El Salvador) during the Summit for Heads of State and Government.

Telefónica participates in the Latin-American Carbon Forum, taking part in the debate on climate change.

The King and Queen of Spain inaugurate the new headquarters of Telefónica in Madrid, District C, a sustainable industrial park.

Over 10,000 Telefónica Volunteers, family members and friends take part in the activities held on 'Volunteer Day'.

The King and Queen of Spain present Fundación Telefónica with the 'Gold Medal of Merit in Fine Arts'.

Fundación Telefónica takes part in a study sponsored by the OECD on innovation in Latin America.

O2, an example for the protection of children and teenagers: sets up self-regulation in place in Germany to establish protection.



Unanimous backing from shareholders for the public takeover bid for the Chilean subsidiary CTC.

Fitch raises its credit rating for Telefónica to A-/stable outlook.

Telefónica ends 2008 with a market capitalization of 74,574 million euros, becoming the fourth company in its sector worldwide.

S&P recognises Telefónica's good financial health with an 'A-'.

The Company announces the launch in Spain of the 'O2 Ability Awards', which recognise sustainable business models involving the disabled.

The Interactive Generations Forum is set up to promote the responsible use of ICT by children.

Telefónica is a founding member of the Foundation of the National Centre of Technologies for Accessibility (CENTAC).

The 'Day of Telefónica Interest Groups' is celebrated in Brussels.

The Brazil-Spain Chamber of Commerce recognises the work carried out by Proniño programme.

Telefónica presents the report 'The Information Society in Spain 2008'.

Telefónica makes a call to the new European Alliance to confront the economic crisis.

Telefónica, S.A.
Annual Report 2008

This report is available on the Telefónica website at:
www.telefonica.com

Shareholders may also request copies of this report from the **Shareholders' Office** by using the free phone number **900 111 004** (in Spain) or by sending an e-mail to: **accion.telefonica@telefonica.es**

Likewise, the mandatory information that must be provided under prevailing legislation is also available to shareholders and the general public.

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