TELEFONICA S A
Form 20-F
April 30, 2009

As filed with the Securities and Exchange Commission on April 30, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the fiscal year ended December 31, 2008

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
for the transition period from _____ to _____

Commission file number: 001-09531

TELEFÓNICA, S.A.
(Exact name of Registrant as specified in its charter)

KINGDOM OF SPAIN
(Jurisdiction of incorporation or organization)

Distrito C, Ronda de la Comunicación, s/n
28050 Madrid, Spain
(Address of principal executive offices)

Lucila Rodriguez Jorge, Securities Legal Department
Distrito C, Ronda de la Comunicación, s/n, 28050 Madrid, Spain
Tel. +34 91 482 3734, Fax. +34 91 482 3768, e-mail: amv@telefonica.es

María García-Legaz Ponce, Head of Investor Relations,
Distrito C, Ronda de la Comunicación, s/n, 28050 Madrid, Spain
Tel. +34 91 482 8700, Fax. +34 91 482 8600, e-mail: ir@telefonica.es
(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares, nominal value €1.00 per share*	New York Stock Exchange
American Depositary Shares, each representing three Ordinary Shares	New York Stock Exchange
Guarantees** by Telefónica, S.A. of the $1,000,000,000 Floating Rate Guaranteed Senior Notes Due 2009; $1,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2011; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; $2,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2036; $850,000,000 Floating Rate Guaranteed Senior Notes Due 2013; $750,000,000 Fixed Rate Guaranteed Senior Notes Due 2013; and $700,000,000 Fixed Rate Guaranteed Senior Notes Due 2017, each of Telefónica Emisiones, S.A.U.	New York Stock Exchange

* Not for trading, but only in connection with the listing of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.

** Not for trading, but only in connection with the listing of the $1,000,000,000 Floating Rate Guaranteed Senior Notes Due 2009; $1,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2011; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; $2,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2036; $850,000,000 Floating Rate Guaranteed Senior Notes Due 2013; $750,000,000 Fixed Rate Guaranteed Senior Notes Due 2013; and $700,000,000 Fixed Rate Guaranteed Senior notes Due 2017 each of Telefónica Emisiones, S.A.U. (a wholly-owned subsidiary of Telefónica, S.A.).

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

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The number of outstanding shares of each class of capital stock of Telefónica, S.A. at December 31, 2008 was:

Ordinary Shares, nominal value €1.00 per share: 4,704,996,485

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o International Financial Reporting Standards as Issued by the international Accounting Standards Board x Other o

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this Annual Report can be identified, in some instances, by the use of words such as "expect", "aim", "hope", "anticipate", "intend" "believe" and similar language or the negative thereof or by the forward-looking nature of discussions of strategy, plans or intentions. These statements appear in a number of places in this Annual Report including, without limitation, certain statements made in "Item 3. Key Information—Risk Factors", "Item 4. Information on the Company" , "Item 5. Operating and Financial Review and Prospects" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk" and include statements regarding our intent, belief or current expectations with respect to, among other things:

- the effect on our results of operations of competition in the Spanish telecommunications market and our other principal markets;
- trends affecting our financial condition or results of operations;
- acquisitions or investments which we may make in the future;
- our capital expenditures plan;
- our estimated availability of funds;
- our ability to repay debt with estimated future cash flows;
- our shareholder remuneration policies;
- supervision and regulation of the Spanish telecommunications sector and of the telecommunications sectors in other countries where we have significant operations;
- our strategic partnerships; and
- the potential for growth and competition in current and anticipated areas of our business.

Such forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties, and actual results may differ materially from those anticipated in the forward-looking statements as a result of various factors. The risks and uncertainties involved in our business that could affect the matters referred to in such forward-looking statements include but are not limited to:

- changes in general economic, business or political conditions in the domestic or international markets (particularly in Latin America) in which we operate or have material investments that may affect demand for our services;
- changes in currency exchange rates, interest rates or in credit risk in our treasury investments or in some of our financial transactions;
- general economic conditions in the countries in which we operate;
- existing or worsening conditions in the international financial markets;

- failure to maintain satisfactory working relationships with our joint venture partners;
- the actions of existing and potential competitors in each of our markets;
- the impact of current, pending or future legislation and regulation in countries where we operate;

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- failure to renew or obtain the necessary licenses, authorizations and concessions to carry out our operations;
- the potential effects of technological changes;
- unanticipated service network interruptions;
- the impact of limitations in spectrum capacity;
- failure of suppliers to provide necessary equipment and services on a timely basis;
- the impact of unanticipated network interruptions;
- the effect of reports suggesting that radio frequency emissions cause health problems;
- the impact of impairment charges on our goodwill and assets as a result of changes in the regulatory, business or political environment; and
- the outcome of pending litigation.

Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date of this Annual Report including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

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CERTAIN TERMS AND CONVENTIONS

Our ordinary shares, nominal value €1.00 per share, are currently listed on each of the Madrid, Barcelona, Bilbao and Valencia stock exchanges and are quoted through the Automated Quotation System under the symbol "TEF". They are also listed on various foreign stock exchanges such as the London, Buenos Aires and Tokyo stock exchanges. Our American Depositary Shares ("ADSs") are listed on the New York Stock Exchange and on the Lima Stock Exchange. ADSs, each representing the right to receive three ordinary shares, are issued under a Deposit Agreement with Citibank, N.A., as depositary in the form of certificated ADSs (American Depositary Receipts, or ADRs) or uncertificated ADSs. Brazilian Depositary Shares ("BDSs"), each representing the right to receive one ordinary share, are listed on the São Paulo Stock Exchange. BDSs are evidenced by Brazilian Depositary Receipts ("BDRs") issued under a Deposit Agreement with Banco Bradesco, S.A., as depositary.

We delisted our shares from the Paris and Frankfurt stock exchanges in the first quarter of 2008.

As used herein, "Telefónica", "Telefónica Group", "Group" and terms such as "we", "us" and "our" mean Telefónica, S.A. and consolidated subsidiaries, unless the context requires otherwise.

As used herein, "Atento" means Atento Holding, Inversiones y Teleservicios, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

As used herein, "O2 Group" means Telefónica O2 Europe Plc and its consolidated subsidiaries, "Telefónica O2 UK" means O2 (UK) Ltd. and its consolidated subsidiaries and "Telefónica O2 Germany" means O2 (Germany) GmbH & Co OHG and its consolidated subsidiaries, unless the context requires otherwise.

Below are definitions of certain technical terms used in this Annual Report:

- "Access" refers to a connection to any of the telecommunications services offered by the Telefónica Group. We present our customer base using this model because the integration of telecommunications services in bundled service packages has changed the way residential and corporate customers contract or purchase our services. Because a single customer may contract for multiple services, we believe it is more accurate to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of our customers. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than a single customer. In addition, we fully count the accesses of all companies over which we exercise control or joint control. The following are the main categories of accesses:

  o Fixed telephony accesses: includes public switched telephone network, or PSTN, lines (including public use telephony), and integrated services digital network, or ISDN, lines and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines in service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, x20 or x10); 2/6 digital accesses (x30).

  o Internet and data accesses: includes broadband accesses (retail asymmetrical digital subscriber line, or ADSL, satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (Internet service through the PSTN lines) and other accesses, including the remaining non-broadband final client circuits.

  o Pay TV: includes cable TV, direct to home satellite TV, or DTH, and Internet Protocol TV, or IPTV.

  o Mobile accesses: includes contract and pre-pay mobile telephony.

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Unbundled local loop, or ULL: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL) or only DSL service (shared unbundled loop, or shared UL).

- Wholesale ADSL: means wholesale asymmetrical digital subscriber line.

- Other: includes other circuits for other operators.

Certain technical terms used with respect to our business are as follows:

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- "ARPU" is the average revenue per user per month. ARPU is calculated by dividing total service revenue (excluding inbound roaming revenue) from sales to customers for the preceding 12 months by the weighted average number of customers for the same period, and then divided by 12 months. ARPU is calculated using gross service revenue before deduction of wholesale discounts.
- "CDMA" means Code Division Multiple Access, which is a type of radio communication technology.
- "Commercial activity" includes the addition of new lines, replacement of handsets and changes in types of contracts.
- "Customer revenue" means service revenue less interconnection revenue.
- "Duo bundle" means broadband plus voice service. We measure "Duo bundles" in terms of units, where each bundle of broadband and voice service counts as one unit.
- "Final clients accesses" means accesses provided to residential and corporate clients.
- "Gross adds" means the gross increase in the number of accesses in a period.
- "HSDPA" means High Speed Downlink Packet Accesses, which is a 3G mobile telephony communications protocol in the High-Speed Packet Access (HSPA) family, which allows networks based on UMTS to have higher data transfer speeds and capacity.
- "Interconnection revenue" means revenues received from other operators which use our networks to connect to our customers.
- "ISP" means Internet service provider.
- "LMDS" means local multipoint distribution service.
- "Local loop" means the physical circuit connecting the network termination point at the subscriber's premises to the main distribution frame or equivalent facility in the fixed public telephone network.
- "MOU", or minutes of use per month, is calculated by dividing the total number of voice minutes for the preceding 12 months by the weighted average number of mobile accesses for the same period, and then divided by 12 months.
- "MVNO" means mobile virtual network operator, which is a mobile operator that is not entitled to use spectrum for the provision of mobile services. Consequently, an MVNO must subscribe to an access agreement with a mobile network operator in order to provide mobile access to their customers. An MVNO pays such mobile network operator for using the infrastructure to facilitate coverage to their customers. There are two types of MVNOs: (i) "pure MVNOs", which are typically telecommunications companies without licensed frequency allocation and want to complete their telecommunications service portfolio (for example, ONO in Spain); and (ii) "reseller MVNOs". which are companies that purchase wholesale mobile minutes and resell to end-users, and use their brand and distribution channel (for example, Carrefour in Spain).
- "Net adds" means the difference between the number of accesses at the end of the period and the beginning of a period.
- "Revenues" means net sales and rendering of services.

- "Service revenues" means revenues less revenues from handset sales.

- "Trio bundle" means broadband plus voice service plus IPTV. We measure "Trio bundles" in terms of units, where each bundle of broadband, voice service and IPTV counts as one unit.

- "UMTS" means Universal Mobile Telecommunications System.

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- “VoIP” means voice over Internet protocol.

- “Wholesale accesses” means accesses we provide to our competitors, who then sell such accesses to their residential and corporate clients.

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PRESENTATION OF CERTAIN FINANCIAL INFORMATION

In this Annual Report, references to “U.S. dollars”, “dollars” or “$”, are to United States dollars, references to “pounds sterling”, “sterling” or “£” are to British pounds sterling, references to “reais” refer to Brazilian reais and references to “euro” or “€” are to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union pursuant to the treaty establishing the European Community, as amended from time to time.

Our consolidated financial statements as of December 31, 2007 and 2008, and for the years ended December 31, 2006, 2007 and 2008 included elsewhere in this Annual Report including the notes thereto (the “Consolidated Financial Statements”), are prepared in conformity with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), which do not differ from IFRS as adopted by the European Union.

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PART I

Item 1. Identity of Directors, Senior Management and Advisors

A. Directors and Senior Management

Not applicable.

B. Advisers

Not applicable.

C. Auditors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following table presents our selected consolidated financial data. It is to be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and the Consolidated Financial Statements. The consolidated income statement and cash flow data for the years ended December 31, 2006, 2007 and 2008 and the consolidated balance sheet data as of December 31, 2007 and 2008 set forth below are derived from, and are qualified in their entirety by reference to, the Consolidated Financial Statements. The consolidated income statement and cash flow data for the years ended December 31, 2004 and 2005 and the consolidated balance sheet data as of December 31, 2004, 2005 and 2006 set forth below are derived from Telefónica, S.A.'s consolidated financial statements for such years, which are not included herein.

Our Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB.

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The basis of presentation and principles of consolidation are described in detail in Notes 2 and 3.q., respectively, to our Consolidated Financial Statements.

	As of or for the year ended December 31,				
	2004(1)	2005(1)	2006(1)	2007	2008
	(in millions of euros, except share data)				
Revenues	29,809	37,383	52,901	56,441	57,946
Other income	1,134	1,416	1,571	4,264	1,865
Supplies	(7,577)	(9,999)	(16,629)	(17,907)	(17,818)
Personnel expenses	(4,976)	(5,532)	(7,622)	(7,893)	(6,762)
Other expenses	(6,373)	(8,212)	(11,095)	(12,081)	(12,312)
Depreciation and amortization	(5,642)	(6,693)	(9,704)	(9,436)	(9,046)
Operating income	6,375	8,363	9,422	13,388	13,873
Share of profit (loss) of associates	(50)	(128)	76	140	(161)
Net financial expenses	(1,456)	(1,790)	(2,795)	(2,851)	(2,821)
Net exchange differences	(177)	162	61	7	24
Net financial income (expense)	(1,633)	(1,628)	(2,734)	(2,844)	(2,797)
Profit before taxes from continuing operations	4,692	6,607	6,764	10,684	10,915
Corporate income tax	(1,451)	(1,904)	(1,781)	(1,565)	(3,089)
Profit for the year from continuing operations	3,241	4,703	4,983	9,119	7,826
Profit from discontinued operations after taxes	245	124	1,596	—	—
Profit for the year	3,486	4,827	6,579	9,119	7,826
Minority interests	(310)	(381)	(346)	(213)	(234)
Profit for the year attributable to equity holders of the parent	3,176	4,446	6,233	8,906	7,592
Weighted average number of shares (thousands)	4,987,751	4,870,852	4,778,999	4,758,707	4,645,852
Basic and diluted earnings per share from continuing operations attributable to equity holders (euros)(2)	0.60	0.90	0.97	1.87	1.63
Basic and diluted earnings per share attributable to equity holders of the parent (euros)(2)	0.64	0.91	1.30	1.87	1.63
Earnings per ADS (euros)(2)(3)	1.91	2.74	3.91	5.62	4.90
Weighted average number of ADS (thousands)	1,662,584	1,623,617	1,592,999	1,586,236	1,548,617
Cash dividends per ordinary share (euros)	0.40	0.50	0.55	0.65	0.90
Consolidated Balance Sheet Data					
Cash and cash equivalents	914	2,213	3,792	5,065	4,277
Property, plant and equipment	23,193	27,993	33,887	32,460	30,545
Total assets	60,079	73,174	108,982	105,873	99,896
Non-current liabilities	27,743	35,126	62,645	58,044	55,202
Equity (net)	12,342	16,158	20,001	22,855	19,562
Consolidated Cash Flow Data					
Net cash from operating activities	10,131	11,139	15,414	15,551	16,366
Net cash used in investing activities	(5,808)	(9,592)	(28,052)	(4,592)	(9,101)
Net cash (used in) from financing activities	(3,937)	(435)	14,572	(9,425)	(7,765)

(1) Telefónica Publicidad e Información, S.A. (TPI) was sold in 2006 and its results of operations for 2006 and the gain we recorded on its sale are included under "Profit from discontinued operations after taxes" for 2006. Figures for 2005 and 2004 have been restated to present TPI's results under the same caption.

(2) The per share and per ADS computations for all periods presented have been presented using the weighted average number of shares and ADSs, respectively, outstanding for each period, and have been adjusted to reflect the stock dividends which occurred during the periods presented, as if these had occurred at the beginning of the earliest period presented.

(3) Each ADS represents the right to receive three ordinary shares. Figures do not include any charges of the depositary.

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Exchange Rate Information

As used in this Annual Report, the term "Noon Buying Rate" refers to the rate of exchange for euros, expressed in U.S. dollars per euro, in the City of New York for cable transfers payable in foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes. The Noon Buying Rate certified by the New York Federal Reserve Bank for the euro on April 24, 2009 was $1.2978 = €1.00. The following tables describe, for the periods and dates indicated, information concerning the Noon Buying Rate for the euro. Amounts are expressed in U.S. dollars per €1.00.

	Noon Buying Rate			
Year ended December 31,	Period end	Average(1)	High	Low
2004	1.3538	1.2478	1.3625	1.1801
2005	1.1842	1.2400	1.3476	1.1667
2006	1.3197	1.2661	1.3327	1.1860
2007	1.4603	1.3797	1.4862	1.2904
2008	1.3919	1.4698	1.6010	1.2446

Source: Federal Reserve Bank of New York.

(1) The average of the Noon Buying Rates for the euro on the last day reported of each month during the relevant period.

	Noon Buying Rate	
Month ended	High	Low
October 31, 2008	1.4058	1.2446
November 30, 2008	1.3039	1.2525
December 31, 2008	1.4358	1.2634
January 31, 2009	1.3946	1.2804
February 29, 2009	1.3064	1.2547
March 31, 2009	1.3730	1.2549
April 24, 2009	1.3458	1.2978

Source: Federal Reserve Bank of New York.

Monetary policy within the member states of the euro zone is set by the European Central Bank. The European Central Bank has set the objective of containing inflation and will adjust interest rates in line with this policy without taking account of other economic variables such as the rate of unemployment. It has further declared that it will not set an exchange rate target for the euro.

Our ordinary shares are quoted on the Spanish stock exchanges in euro. Currency fluctuations may affect the dollar equivalent of the euro price of our shares listed on the Spanish stock exchanges and, as a result, the market price of our ADSs, which are listed on the New York Stock Exchange. Currency fluctuations may also affect the dollar amounts received by holders of ADSs on conversion by the depositary of any cash dividends paid in euro on the underlying shares.

Our consolidated results are affected by fluctuations between the euro and the currencies in which the revenues and expenses of some of our consolidated subsidiaries are denominated (principally the Brazilian real, pounds sterling, the Venezuelan bolivar, the Czech koruna (crown), the Argentine peso, the Chilean peso, the Peruvian nuevo sol, the

Colombian peso and the Mexican peso).

B. Capitalization and Indebtedness

Not applicable.

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C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

In addition to the other information contained in this Annual Report, prospective investors should carefully consider the risks described below before making any investment decision. The risks described below are not the only ones that we face. Additional risks not currently known to us or that we currently deem immaterial may also impair our business and results of operations. Our business, financial condition, results of operations and cash flow could be materially adversely affected by any of these risks, and investors could lose all or part of their investment.

Risks Relating to Our Business

A material portion of our operations and investments are located in Latin America, and we are therefore exposed to risks inherent in operating and investing in Latin America.

At December 31, 2008, approximately 36.3% of our assets were located in Latin America. In addition, approximately 38.7% of our revenues for 2008 were derived from our Latin American operations. Our operations and investments in Latin America (including the revenues generated by these operations, their market value and the dividends and management fees expected to be received therefrom) are subject to various risks linked to the economic, political and social conditions of these countries, including risks related to the following:

- government regulation or administrative polices may change unexpectedly and negatively affect our interests in such countries;
- currencies may be devalued or may depreciate or currency restrictions and other restraints on transfer of funds may be imposed;
- the effects of inflation or currency depreciation may result in certain of our subsidiaries having negative equity, which would require them to undertake a mandatory recapitalization or commence dissolution proceedings;
- governments may expropriate or nationalize assets or increase their participation in the economy and companies;
- governments may impose burdensome taxes or tariffs;
- political changes may lead to changes in the economic conditions and business environment in which we operate; and
- economic downturns, political instability and civil disturbances may negatively affect our operations.

Finally, our operations are dependent, in many cases, on concessions and other agreements with existing governments in the countries in which we operate. These concessions and agreements, including their renewal, could be directly affected by economic and political instability, altering the terms and conditions under which we operate.

Our financial condition and results of operations may be adversely affected if we do not effectively manage our exposure to foreign currency exchange rate, interest rate or financial investment risks.

We are exposed to various types of market risk in the normal course of our business, including the impact of changes in foreign currency exchange rates and the impact of changes in interest rates, as well as the impact of changes of credit risk in our treasury investments or in some of our financial transactions. We employ risk management strategies to manage this exposure, in part through the use of financial derivatives such as foreign currency forwards, currency swap agreements and interest rate swap agreements. If the financial derivatives market is not sufficiently liquid for our risk management purposes, or if we cannot enter into arrangements of the type and for the amounts necessary to limit our exposure to currency exchange rate fluctuations or if our counterparties fail to deliver on their commitments due to lack of solvency or otherwise, such failure could adversely affect our financial condition, results of operations and cash flow. Also, our other risk management strategies may not be successful, which could adversely affect our financial condition, results of operations and cash flow. Moreover, if the rating of our counterparties in treasury investments or in our financial transactions deteriorates significantly or if any of such counterparties were to fail in its obligations to us, we may suffer a loss of value in our investments, incur unexpected losses and assume additional financial obligations under these transactions, and such failure could adversely affect our business, financial condition, results of operations and cash flow.

For a more detailed description of our financial derivatives transactions, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk" and Note 16 to our Consolidated Financial Statements.

Adverse economic conditions could reduce the purchase of our products and services.

Our business is impacted by general economic conditions and other similar factors in each of the countries in which we operate. The current adverse economic environment and uncertainty about present global economic conditions may negatively affect the level of demand of existing and prospective customers, as our services may not be deemed critical for these customers. Other factors that could influence customer demand include access to credit, consumer confidence and other general macroeconomic factors.

In addition, there could be other possible follow-on effects from the financial crisis on our business, including insolvency of key suppliers or customers. A loss of customers or a reduction in purchases by our current customers could have a material adverse effect on our business, financial condition, results of operations and cash flow and may negatively affect our ability to meet our growth targets.

Existing or worsening conditions in the international financial markets may limit our ability to carry out our business plan.

The development and distribution of our services as well as the operation, expansion and upgrading of our networks and the fulfillment of our dividend payout commitment to our shareholders, require substantial financing. Moreover, our liquidity and capital resource requirements may increase if we participate in other fixed line or mobile license award processes or make acquisitions. We also have major capital resource requirements relating to, among other things, the development of distribution channels in new countries of operations and the development and implementation of new technologies.

If our ability to generate cash flow were to decrease, whether due to the current financial and economic crisis or otherwise, we may need to incur additional debt or raise other forms of capital to support our liquidity and capital resource requirements for the ongoing development and expansion of our business.

The current financial crisis affecting the international banking system and financial markets generally has resulted in a significant tightening of credit markets, a low level of liquidity in many financial markets and high volatility in credit, equity and currency markets. Existing or worsening conditions in the international credit markets may make it more difficult and more expensive to refinance our financial debt (of which €7,014 million matures in 2009) or to incur additional debt. For example, in February 2009 we issued €2 billion in principal amount of five-year bonds with a spread of 250 basis points over swaps, approximately 150 basis points higher than what we paid on bonds issued with the same tenor in May 2008, although in a lower principal amount (€1.25 billion). In addition, our capacity to raise capital in the international capital markets would be impaired if our credit ratings were downgraded, whether due to decreases in our cash flow or otherwise. Further, current market conditions may make it more difficult to renew our unused bilateral credit facilities scheduled to expire prior to December 31, 2009 (for an aggregate amount of €2,720 million).

The current financial and economic crisis may also make it more difficult and costly for us to launch a rights issue to our current shareholders or to raise additional equity capital if further funds were needed for pursuing our business plans.

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The successful implementation of our strategy for our mobile operations in Brazil depends on the development of our joint venture company with Portugal Telecom, SGPS, S.A.

Our mobile business in Brazil is conducted through a 50/50 joint venture company, Brasilcel, N.V., or Brasilcel, which is jointly controlled by us and Portugal Telecom SGPS, S.A., or Portugal Telecom. As a result of our less than controlling interest in this joint venture, we do not have absolute control over the operations of the venture. As a result, there is an inherent risk for management or operational disruptions whenever a disagreement between us and our partner arises. Therefore, we must cooperate with Portugal Telecom in order to implement and expand upon our business strategies and to finance and manage the operations of the joint venture. If we do not manage to obtain the cooperation of Portugal Telecom or if a disagreement or deadlock arises we may not achieve the expected benefits from this joint venture, including economies of scale and opportunities to achieve potential synergies and cost savings.

Risks Relating to Our Industry

We face intense competition in most of our markets, which could result in decreases in current and potential customers, revenues and profitability.

We face significant competition in all of the markets in which we operate, and we are therefore subject to the effects of actions by our competitors in these markets. Our competitors could:

- offer lower prices, more attractive discount plans or better services and features;
- develop and deploy more rapidly new or improved technologies, services and products;
- launch bundle offerings of one type of service with others;
- in the case of the mobile industry, subsidize handset procurement; or
- expand and enhance their networks more rapidly.

Furthermore, some of our competitors in certain markets have, and some potential competitors may enjoy, in certain markets, competitive advantages, including the following:

- greater brand name recognition;
- greater financial, technical, marketing and other resources;
- dominant position or significant market power;
- better strategic alliances;
- larger customer bases; and
- well-established relationships with current and potential customers.

To compete effectively with our competitors, we need to successfully market our products and services and to anticipate and respond to various competitive factors affecting the relevant markets, such as the introduction of new products and services by our competitors, pricing strategies adopted by our competitors and changes in consumer preferences and in general economic, political and social conditions. If we are unable to effectively compete, it could result in price reductions, lower revenues, under-utilization of our services, reduced operating margins and loss of market share, any of which could have a material adverse effect on our business, financial condition, results of operations and cash flow.

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We operate in a highly regulated industry, which could adversely affect our businesses.

As a multinational telecommunications company that operates in regulated markets, we are subject to different laws and regulations in each of the jurisdictions in which we provide services. Furthermore, the licensing, construction, operation and interconnection arrangements of our communications systems are regulated to varying degrees by the European Union, national, state, regional and local authorities. Furthermore, our activities are subject to strict regulation in many of the countries and market segments in which we operate, particularly in many areas of the fixed telephony business.

Regulatory authorities regularly intervene in the offering and pricing of our products and services. Furthermore, they could also adopt regulations or take other actions that could adversely affect us, including revocation of or failure to renew any of our licenses, authorizations or concessions, changes in the spectrum allocation, revocation of or failure to renew authorizations or concessions to offer services in a particular market, changes in the regulation of international roaming prices and mobile termination rates, introduction of virtual mobile operators, and regulation of the local loop. Such regulatory actions could place significant competitive and pricing pressure on our operations, and could have a material adverse effect on our business, financial condition, results of operations and cash flow.

Regulatory policies applicable in many of the countries in which we operate are designed to increase competition in most of our market segments, especially in the fixed telephony, broadband and mobile telephony segments, including by, among other methods, granting new licenses in existing licensed territories in order to permit the entry of new competitors or imposing special rules and obligations upon currently present operators, such as the requirement for number portability in those countries where it has not yet been implemented. Since these regulatory policies are designed to favor the entry and establishment of new operators, they are likely to have the effect, over time, of reducing our market share in the relevant markets in which we operate.

In addition, since we hold a leading market share in many of the counties where we operate, we could face regulatory actions by the European Union or national antitrust or competition authorities if it is determined that we have prevented restricted or distorted competition in such markets. These authorities could prohibit us from taking further actions such as making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on us, which, if significant, could result in loss of market share and harm to our financial performance and future growth.

Furthermore, we can expect the regulatory landscape to change in Europe as a consequence of the revised regulations resulting from the review of the common regulatory framework currently in place in the European Union. These revised regulations are expected to be approved at the end of 2009 or the beginning of 2010 and could result in increases in the regulatory pressure on the competitive environment in every national market. This could lead national regulatory authorities to impose as a remedy in certain and exceptional circumstances the functional separation of the retail and wholesale operations of operators with significant market power, or the regulation and supervision of the wholesale and retail markets via the creation of a new European body composed of national regulatory authorities.

We may also face new regulatory initiatives in the area of mobile telecommunications in Europe, including increased regulatory pressure on international roaming tariffs for data and SMS services and on mobile termination rates. In addition, we may also face pressure from regulatory initiatives in some European countries regarding the reform of spectrum rights of use and spectrum allocation.

Finally, the recent adoption of new regulations regarding wholesale services (such as access to ducts or dark fiber) in Spain may result in an increase of competitive pressures in the provision of high speed telecommunication services. For further information regarding the matters discussed above and other aspects of the regulatory environments in which our businesses operate, see “Item 4. Information on the Company—Business

Overview—Regulation”.

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We operate under licenses, authorizations and concessions granted by government authorities.

Most of our operating companies require licenses, authorizations or concessions from the governmental authorities of the countries in which they operate. These licenses, authorizations and concessions specify the types of services permitted to be offered by the operating company holding such license, authorization or concession. The continued existence and terms of our licenses, authorizations and concessions are subject to review by regulatory authorities in each country and to interpretation, modification or termination by these authorities. Moreover, authorizations, licenses and concessions as well as their renewal terms and conditions may be affected by political and regulatory factors.

The terms of these licenses, authorizations and concessions granted to our operating companies and conditions of the renewals of such licenses, authorizations and concessions vary from country to country. Although license, authorization and concession renewal is not usually guaranteed, most licenses, authorizations and concessions do address the renewal process and terms. As licenses, authorizations and concessions approach the end of their terms, we intend to pursue their renewal to the extent provided by the relevant licenses, authorizations or concessions, although we cannot guarantee that we will always complete this process successfully.

Many of our licenses, authorizations and concessions are revocable for public interest reasons. The rules of some of the regulatory authorities with jurisdiction over our operating companies require us to meet specified network build-out requirements and schedules. In particular, our existing licenses, authorizations and concessions typically require us to satisfy certain obligations, including, amongst others, minimum specified quality standards, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines or revocation or forfeiture of the license, authorization or concession for the relevant area. In addition, the need to meet scheduled deadlines may require our companies to expend more resources than otherwise budgeted for a particular network build-out.

For further information regarding the licenses and concessions of our operating companies, see "Item 4. Information on the Company—Business Overview—Regulation".

The industry in which we operate is subject to rapid technological changes, which requires us to continuously adapt to such changes and to upgrade our existing networks. If we are unable to adapt to such changes, our ability to provide competitive services could be materially adversely affected.

Our future success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We expect that new products and technologies will emerge on a continuous basis and that existing products and technologies will further develop. These new products and technologies may reduce the prices for our existing services or may be superior to, and render obsolete, the products and services we offer and the technologies we use and may consequently reduce the revenues generated by our products and services and require investment in new technology. In addition, we may be subject to competition in the future from other companies that are not subject to regulation as a result of the convergence of telecommunications technologies. As a result, it may be very expensive for us to upgrade our products and technology in order to continue to compete effectively with new or existing competitors. Such increased costs could adversely affect our business, financial condition, results of operations and cash flow.

In particular, we must continue to upgrade our existing mobile and fixed line telephony networks in a timely and satisfactory manner in order to retain and expand our customer base in each of our markets, to enhance our financial performance and to satisfy regulatory requirements. Among other things, we could be required to upgrade the functionality of our networks to accommodate increased customization of services, to increase coverage in some of our markets, or to expand and maintain customer service, network management and administrative systems.

Many of these tasks are not entirely under our control and may be affected by applicable regulations. If we fail to execute these tasks successfully, our services and products may be less attractive to new customers and we may lose existing customers to our competitors, which would adversely affect our business, financial condition, results of operations and cash flow.

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Spectrum capacity may become a limiting factor.

Our mobile operations in a number of countries may rely on our ability to acquire additional spectrum. The failure to obtain sufficient capacity and spectrum coverage could have a material adverse impact on the quality of our services and on our ability to provide new services, adversely affecting our business, financial condition, results of operations and cash flow.

Our business could be adversely affected if our suppliers fail to provide necessary equipment and services on a timely basis.

We depend upon a small number of major suppliers for essential products and services, mainly network infrastructure and mobile handsets. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. Furthermore, these suppliers may be adversely affected by current economic conditions. If these suppliers fail to deliver products and services on a timely basis, our business and results of operations could be adversely affected. Similarly, interruptions in the supply of telecommunications equipment for our networks could impede network development and expansion, which in some cases could adversely affect our ability to satisfy our license terms and requirements.

We may be adversely affected by unanticipated network interruptions.

Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including due to network, hardware or software failures, which affect the quality of or cause an interruption in our service, could result in customer dissatisfaction, reduced revenues and traffic and costly repairs and could harm our reputation. We attempt to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and building security. However, these measures are not effective under all circumstances and cannot avert every action or event that could damage or disrupt our technical infrastructure. Although we carry business interruption insurance, our insurance policy may not provide coverage in amounts sufficient to compensate us for any losses we may incur.

The mobile industry may be harmed by reports suggesting that radio frequency emissions cause health problems.

Over the last few years, the debate about the alleged potential effects of radio frequency emissions on human health has increased significantly. In many cases, this has hindered the deployment of the infrastructures necessary to ensure quality of service.

Institutions and organizations, such as the World Health Organization (WHO), have stated that exposure to radio frequency emissions generated by mobile telephony, within the limits established, has no adverse effects on health. In fact, a number of European countries, including Spain among others, have drawn up complete regulations reflecting the Recommendation of the Council of the European Union dated July 12, 1999. These add planning criteria for new networks, thus ensuring compliance with the limits on exposure to radio frequency emissions.

Whether or not other research or studies conclude there is a link between radio frequency emissions and health, popular concerns about radio frequency emissions may discourage the use of mobile communication devices and may result in significant restrictions on both the location and operation of cell sites, either or both of which could have a detrimental impact on our mobile companies and consequently on our financial condition, results of operations and cash flow. While we are not aware of any evidence confirming a link between radio frequency emissions and health problems and we continue to comply with good practices codes and relevant regulations, there can be no assurance of what future medical research may suggest.

Developments in the telecommunications sector have resulted, and may in the future result, in substantial write-downs of the carrying value of certain of our assets.

We review on an annual basis, or more frequently where the circumstances require, the value of each of our assets and subsidiaries to assess whether the carrying values of such assets and subsidiaries can be supported by the future cash flows expected to be derived from such assets and subsidiaries, including in some cases synergies included in their acquisition costs. The current economic environment and changes in the short and medium term,

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as well as changes in the regulatory, business or political environment may result in the necessity of recognizing impairment charges on our goodwill, intangible assets or fixed assets.

Although the recognition of impairments of tangible, intangible and financial assets result in a non-cash charge on the income statement, such charge would adversely affect our results of operations and consequently, our ability to achieve our growth targets.

Other Risks

We are involved in disputes and litigation with regulators, competitors and third parties.

We are party to lawsuits and other legal, regulatory and antitrust proceedings in the ordinary course of our business, the final outcome of which is generally uncertain. Litigation and regulatory proceedings are inherently unpredictable. An adverse outcome in, or any settlement of, these or other proceedings (including any that may be asserted in the future) could result in significant costs to us. Such disputes and litigation (or settlements thereof) may have a material adverse effect on our business, financial condition, results of operations and cash flow. Moreover, our involvement in these disputes or proceedings may adversely affect our reputation.

For a more detailed description of current legal proceedings, see "Item 8. Financial Information—Legal Proceedings".

Item 4. Information on the Company

A. History and Development of the Company

Overview

Telefónica, S.A., is a corporation duly organized and existing under the laws of the Kingdom of Spain, incorporated on April 19, 1924. We are:

- a diversified telecommunications group which provides a comprehensive range of services through one of the world's largest and most modern telecommunications networks;
- mainly focused on providing fixed and mobile telephony services; and
- present principally in Spain, Europe and Latin America.

The following significant events occurred in 2008:

- In March 2008, Telco, S.p.A., or Telco, acquired 0.9% of Telecom Italia S.p.A.'s, or Telecom Italia's, ordinary share capital for an aggregate purchase price of €149.8 million, and as a result Telco's voting rights in Telecom Italia's ordinary share capital increased from 23.6% to 24.5% and its dividend rights to 16.9%. Our indirect stake in Telecom Italia's ordinary share capital as a result of this transaction has increased to 10.4%.

- On April 3, 2008, Vivo Participaçoes, S.A., or Vivo, completed the acquisition of 53.90% of the voting stock and 4.27% of the preferred stock of Telemig Celular Participaçoes, S.A., the controlling shareholder of Telemig Celular, S.A. The total purchase price was 1,163 million Brazilian reais (equivalent to approximately €429 million at the transaction date). Vivo also acquired the right held by the seller to subscribe in the future for paid up shares in Telemig Celular Participaçoes, S.A. for a price of approximately 70 million Brazilian reais (equivalent to approximately €26 million at the agreement date).

- On April 8, 2008, Vivo, through its subsidiary Tele Centro Oeste IP, S.A., or TCO, launched a voluntary tender offer for shares representing up to one-third of the free float represented by the preferred stock of Telemig Celular Participaçoes, S.A. and its subsidiary Telemig Celular, S.A. at a price of 63.9 and 654.7 Brazilian reais per share, respectively. This offer, which concluded on May 15, 2008, had an acceptance rate of close

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to 100%, which resulted in the acquisition by TCO of 31.9% and 6% of the preferred shares of Telemig Celular Participaçoes, S.A. and Telemig Celular, S.A., respectively.

- On July 15, 2008, we executed a deed of capital reduction to reflect the reduction of our capital through the cancellation of 68,500,000 of our treasury shares. After such capital reduction our share capital stood at €4,704,996,485, made up of an equal number of ordinary shares.

- On September 17, 2008, we launched a tender offer through our Inversiones Telefónica Internacional Holding, Ltda. subsidiary to acquire all the outstanding shares of Compañía de Telecomunicaciones de Chile, S.A., or CTC, that we did not already control directly or indirectly, amounting to 55.1% of CTC's share capital. This included all CTC shares listed on the Santiago de Chile and New York Stock Exchanges (represented by American Depositary Shares).

Upon completion of the acceptance period of the tender offer, a total of 496,341,699 shares issued by CTC were tendered, representing 94.11% of the shares to which the offer related and a total investment by us of approximately €640 million.

Upon settlement of the transaction, we increased our indirect ownership in CTC's share capital from 44.9% to 96.75%.

On December 1, 2008 we, through our subsidiary Inversiones Telefónica Internacional Holding, Ltda., made a second tender offer to acquire all the outstanding shares of CTC that we did not own, directly or indirectly, after settlement of the first offer (representing the remaining 3.25% of CTC's share capital), on the same economic terms as the initial bid. In January 2009, upon completion of the acceptance period of the second offer, our indirect ownership in CTC had increased from 96.75% of the total outstanding shares to 97.89%.

Business areas

We have implemented a regional, integrated management model based on three business areas, with each area in charge of the fixed and mobile telephone and other businesses within its borders:

- Telefónica Spain: oversees the fixed and mobile telephone, broadband, Internet, pay TV and valued added services and data businesses in Spain.

- Telefónica Europe: oversees the fixed and mobile telephone, broadband, Internet, pay TV and value added services and data businesses in the United Kingdom, Germany, Ireland, the Czech Republic, Slovakia and the Isle of Man.

- Telefónica Latin America: oversees the fixed and mobile telephone, broadband, Internet, pay TV and value added services and data businesses in Latin America.

We are also involved in the media and contact center segments through Telefónica de Contenidos and Atento, respectively.

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The following chart shows the organizational structure of the principal subsidiaries of the Telefónica Group at December 31, 2008, including their jurisdictions of incorporation and our ownership interest. For further detail, see Exhibit 8.1 to this Annual Report.

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(1) Ownership in Telefónica Móviles España, S.A.U. is held directly by Telefónica, S.A.

(2) 85.5% representing voting interest.

(3) Ownership in Telefónica International Wholesale Services. S.L. (Spain) is held 92.51% by Telefónica, S.A. (Spain) and 7.49% by Telefónica Datacorp, S.A.U (Spain).

(4) Ownership in O2 (Europe) Ltd. is held directly by Telefónica, S.A.

(5) Companies held indirectly by Telefónica, S.A.

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Telefónica, S.A., the parent company of the Telefónica Group, also operates as a holding company with the following objectives:

- coordinate the Group's activities;
- allocate resources efficiently among the Group;
- provide managerial guidelines for the Group;
- manage the Group's portfolio of businesses;
- foster cohesion within the Group; and
- foster synergies among the Group's subsidiaries.

Our principal executive offices are located at Distrito C, Ronda de la Comunicación, s/n, Las Tablas, 28050 Madrid, Spain, and our registered offices are located at Gran Vía, 28, 28013 Madrid, Spain. Our telephone number is +34 900 111 004.

Capital Expenditures and Divestitures

Our principal capital expenditures excluding acquisitions during the three years ended December 31, 2008 consisted of additions to property, plant and equipment and additions to intangible assets. In 2006, 2007 and 2008, our capital expenditures were €8,010 million, €8,027 million and €8,401 million, respectively.

Year ended December 31, 2008

Our capital expenditures increased 4.7% to €8,401 million in 2008 compared to €8,027 million in 2007, mainly as a result of investments made to support the growth in Telefónica Latin America's broadband and pay TV businesses and to further develop ADSL and adapt existing loops to FTTx (fiber optic) technology in order to enhance coverage for new services in Spain and expand the coverage and capacity of our mobile networks in all regions.

Year ended December 31, 2007

Capital expenditures increased by 0.2% to €8,027 million in 2007 from €8,010 million in 2006 principally related to our investments in Spain in our growing Internet and broadband businesses, with significant investments related to ADSL and IP services, such as Imagenio, our IPTV business. In Latin America capital expenditures were directed toward satisfying increased customer demand in our fixed line business (particularly in broadband and pay TV) and increasing coverage and capacity of our second generation, or GSM, networks and acquiring spectrum in Venezuela, Brazil and Panama to expand coverage and guarantee service quality in areas where traffic is heaviest. In 2007, capital expenditures in Europe decreased primarily as a result of Telefónica O2 Germany bringing forward capital investment from 2007 into 2006 as part of our build-out of our mobile third generation, or 3G, network.

Year ended December 31, 2006

In 2006, capital expenditures increased by 46.4% from 2005, impacted by the acquisition of the O2 Group in 2006 and principally due to expenditures relating to investment in broadband networks in Spain and Latin America in response to the need to bring higher capacity and new services to households, triggered by higher-than-forecast customer and market growth. We also made expenditures associated with a faster roll out of 3G networks, mainly in Germany. In order to meet growing traffic and customer needs, investments were also made in GSM in Latin America (mainly Brazil).

Financial Investments and Divestitures

Our principal financial investments in 2008 were made by Inversiones Telefónica Internacional Holding, Ltda., which invested €640 million for the acquisition of the additional 51.85% of CTC, and Vivo, which invested Brazilian reais 1,163 million (equivalent to approximately €429 million at the transaction date) for the acquisition of

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53.90% of the voting stock and 4.27% of the preferred stock of Telemig Celular Participaçoes, S.A.

Our principal financial investments in 2007 were made by Telefónica (€2,314 million for the acquisition of indirect shareholding in Telecom Italia). Our principal financial divestitures in 2007 were the sale of Airwave and Endemol N.V., or Endemol, for £1,932 million (equivalent to approximately €2,841 million at the transaction date) and €2,629 million, respectively.

Our principal financial investments in 2006 were made by Telefónica (€23,553 million for the acquisition of O2 plc, or O2). Our principal financial divestitures in 2006 were the sale of TPI and a 6.6% stake in Sogecable, S.A., or Sogecable, for €1,816 million and €330 million, respectively.

Public Takeover Offers

The principal public takeover offers which occurred in 2008 and in 2009 through the date of this Annual Report were the following:

- On September 17, 2008, we launched a tender offer through our Inversiones Telefónica Internacional Holding, Ltda. subsidiary to acquire all the outstanding shares of CTC that we did not already control directly or indirectly. For more information on this transaction, see "—Overview", above.

- On April 3, 2008, Vivo completed the acquisition of 53.90% of the voting stock and 4.27% of the preferred stock of Telemig Celular Participaçoes, S.A. as well as the rights held by the seller to subscribe in the future for paid up shares in Telemig Celular Participaçoes, S.A. For more information on this transaction, see "—Overview", above.

- On April 8, 2008, Vivo, through its subsidiary TCO, launched a voluntary tender offer for shares representing up to one third of the free float represented by the preferred stock of Telemig Celular Participaçoes, S.A. and in its subsidiary Telemig Celular, S.A. For more information on this transaction, see "—Overview", above.

Furthermore, in accordance with Brazilian Corporations law, TCO submitted a mandatory tender offer on July 15, 2008, for all of the remaining voting stock of Telemig Celular Participaçoes, 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 Participaçoes, S.A., Telemig Celular, S.A. and Vivo in their respective extraordinary meetings to reorganize the Vivo Group, whereby TCO IP was spun off. Its assets were subsequently integrated under Telemig Celular, S.A. and Telemig Celular Participaçoes, S.A., making Vivo a shareholder in both of these Brazilian companies, with direct and indirect stakes at December 31, 2008 amounting to 90.65% of Telemig Celular, S.A. and 58.9% of Telemig Celular Participaçoes, S.A. Both companies are included in the Telefónica Group's consolidation perimeter using proportionate consolidation.

Recent Developments

The principal events that have occurred since December 31, 2008 are set forth below:

- On January 7, 2009, upon completion of the acceptance period for the second tender offer we made for CTC's shares, our indirect stake in CTC increased to 97.89%. For more information on this transaction, see "—Overview" above.

- On January 7, 2009, after the Italian courts rejected Ipse 2000 S.p.A.'s case regarding the UMTS license this company held, we paid an aggregate amount of €241.3 million corresponding to the annual license payments for

2006, 2007 and 2008. At the date of this Annual Report, we owe an additional €151.7 million in this respect. See Note 21.b to the Consolidated Financial Statements.

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- At its meeting of January 28, 2009, the Board of Directors approved a proposal to increase the amount of dividend corresponding to the 2009 fiscal year to €1.15 per share, to be payable in two tranches subject to the appropriate corporate resolutions.

- In accordance with the above, at its meeting of February 25, 2009, the Board of Directors agreed to propose to the 2009 annual shareholders' meeting the payment of a dividend with a charge to reserves of a gross amount of €0.50 per outstanding share carrying dividend rights.

- On March 23, 2009, we signed an agreement with Vodafone to share network infrastructure in Germany, Spain, Ireland and the United Kingdom with detailed discussions ongoing in the Czech Republic. This agreement is expected to reduce the environmental impact of both companies' roll out activities due to the consolidation of existing sites and joint building of new sites.

    - On April 1, 2009, we announced that the second tranche of the 50 million share buyback program announced on October 13, 2008 (as an extension of the share buyback program then in place) was completed on March 31, 2009. Therefore, the share buyback program initiated on February 2008 for a total amount of 150 million shares has been concluded.

- On April 29, 2009, the Board of Directors resolved to pay an interim dividend of €0.50 per share from 2009 net income, such dividend to be paid on May 12, 2009. With this dividend and the last one paid in November 2008, we have achieved our commitment to distribute a dividend of €1.00 per share prior to the end of the first half of 2009.

For information related to our significant financing transactions completed in 2008 and through the date of this Annual Report, see "Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Anticipated Sources of Liquidity".

B. Business Overview

We increased our customer base, measured in terms of total accesses, by 13.2% to 258.9 million accesses at December 31, 2008 from 228.7 million accesses at December 31, 2007. This growth was primarily driven by a 16.6% increase in mobile accesses, a 20.9% increase in broadband accesses and a 29.7% increase in pay TV accesses. By geographic area, Telefónica Latin America increased its accesses by 18.0% to 158.3 million at December 31, 2008 from 134.1 million at December 31, 2007, primarily as a result of strong growth in broadband, net adds in its mobile business and an expanding pay TV customer base.

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The following table shows our total accesses at the dates indicated. The classifications and explanatory notes below also apply, to the extent applicable, to the tables detailing our accesses by business area and country elsewhere in this section.

	At December 31,		
	2006	2007 (1)	2008 (1)(2)
		(in thousands)	
Fixed telephony accesses (3)	42,340.7	43,433.6	42,930.8
Internet and data accesses	12,170.9	13,156.6	14,654.3
Narrowband accesses	3,997.7	2,678.7	1,997.2
Broadband accesses (4)	7,974.8	10,320.2	12,472.1
Other accesses (5)	198.4	157.7	185.0
Mobile accesses (6)	145,125.1	167,781.1	195,598.9
Pay TV accesses	1,064.0	1,748.1	2,267.5
Final clients accesses	200,700.7	226,119.4	255,451.4
Unbundled local loop accesses	962.2	1,396.5	1,748.1
Shared UL accesses	527.7	776.4	602.3
Full UL accesses	434.5	620.1	1,145.8
Wholesale ADSL accesses (7)	1,288.6	571.7	534.7
Other accesses (8)	228.6	656.0	1,150.1
Wholesale accesses	2,479.4	2,624.2	3,433.0
Total accesses	203,180.2	228,743.6	258,884.4

(1) At January 1, 2007, Iberbanda accesses are included. At January 1, 2007, Group accesses have been reclassified, to include “fixed wireless” accesses under the caption of fixed telephony. These accesses were previously classified, depending on the country, under mobile or fixed accesses.

(2) At January 1, 2008, fixed wireless public use telephony accesses are included under the caption “fixed telephony accesses”.

(3) PSTN (including public use telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 access x30. Includes the Group’s accesses for internal use.

(4) Includes ADSL, satellite, fiber optic, cable modem and broadband circuits.

(5) Includes remaining non-broadband final client circuits.

(6) Includes accesses of Telemig from April 2008.

(7) Includes unbundled lines by Telefónica O2 Germany.

(8) Includes circuits for other operators.

Our Services and Products

Fixed business

The principal services we offer in our fixed businesses in Spain, Europe and Latin America are:

- Traditional fixed telecommunication services. Our principal traditional fixed telecommunication services include PSTN lines; ISDN accesses; public telephone services; local, domestic and international long distance and fixed-to-mobile communications services; corporate communications services; supplementary value-added services (including call waiting, call forwarding, voice and text messaging, advanced voicemail services and conference-call facilities); video telephony; business-oriented value-added services; intelligent network services; leasing and sale of terminal equipment; and telephony information services.

- Internet and broadband multimedia services. Our principal Internet and broadband multimedia services include narrowband switched access to Internet; Internet service provider service; portal and network services; retail and wholesale broadband access through ADSL, LMDS and satellite technologies; residential-oriented value-added services (including instant messaging, concerts and video clips by

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streaming video, e-learning, parental control, firewall protection, anti-virus protection, content delivery and personal computer sales); television services such as Imagenio, our IPTV business, cable television and satellite television; companies-oriented value-added services, like puesto integral o puesto informático, which includes ADSL, computer and maintenance for a fixed price and VoIP services.

- Data and business-solutions services. Our data and business-solutions services principally include leased lines; virtual private network, or VPN, services; fiber optics services; the provision of hosting and application, or ASP, service, including web hosting, managed hosting, content delivery and application, and security services; outsourcing and consultancy services, including network management, or CGP; and desktop services and system integration and professional services.

- Wholesale services for telecommunication operators. Our wholesale services for telecommunication operators principally include domestic interconnection services; international wholesale services; leased lines for other operators' network deployment; and local loop leasing under the unbundled local loop regulation framework.

Mobile business

We offer a wide variety of mobile and related services and products to personal and business customers. Although the services and products available vary from country to country, the following are our principal services and products:

- Mobile voice services. Our principal service in all of our markets is mobile voice telephony.

- Value added services. Customers in most of our markets have access to a range of enhanced mobile calling features, including voice mail, call hold, call waiting, call forwarding and three-way calling.

- Mobile data and Internet services. Current data services offered include Short Messaging Services, or SMS, and Multimedia Messaging Services, or MMS, which allow customers to send messages with images, photographs and sounds. Customers may also receive selected information, such as news, sports scores and stock quotes. We also provide mobile broadband connectivity and Internet access. Through mobile Internet access, our customers are able to send and receive e-mail, browse the Internet, download games, purchase goods and services in m-commerce transactions and use our other data services.

- Wholesale services. We have signed network usage agreements with several MVNOs in different countries.

- Corporate services. We provide business solutions, including mobile infrastructure in offices, private networking and portals for corporate customers that provide flexible on-line billing. Telefónica Móviles España, S.A.U., or Telefónica Móviles España, offers corporate services through MoviStar Corporativo, and other advanced solutions for data developed for specific sectors.

- Roaming. We have roaming agreements that allow our customers to use their mobile handsets when they are outside of our service territories, including on an international basis.

- Fixed wireless. We provide fixed voice telephony services through mobile networks in Venezuela, Argentina, Peru, Mexico, Ecuador, El Salvador, Guatemala and Nicaragua.

- Trunking and paging. In Spain and Guatemala, we provide digital mobile services for closed user groups of clients and paging services.

- M-payment. Through our subsidiary, Telefónica Móviles España, and together with Vodafone España, Orange and financial institutions and payment processing companies, we have a 13.36% interest in Mobipay España, a company incorporated to develop micro-payments via mobile technology. We also have a 50% interest in Mobipay International, a company incorporated to expedite payments through mobile phones in an international setting. Banco Bilbao Vizcaya Argentaria, S.A. is the other 50% shareholder in Mobipay International.

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The following sections provide a description of the main markets in which we operate. Customer information on the markets in which we operate, including our market share based on accesses, are estimates that we have made based on annual reports and press releases made public by our competitors or information from local regulators in the respective markets.

Telefónica Spain Operations

Telefónica Spain provides fixed and mobile telephony services, Internet and data and pay TV services in Spain.

Telefónica Spain's total accesses increased 2.0% to 47.3 million accesses at December 31, 2008 from 46.4 million accesses at December 31, 2007. Total accesses at December 31, 2008 included 23.6 million mobile accesses, 15.3 million fixed telephony accesses, 5.7 million Internet and data accesses and 0.6 million pay TV accesses. Additionally, it included 1.7 million unbundled local loop accesses and 0.4 million of wholesale ADSL accesses.

The following table presents, at the dates indicated, selected statistical data relating to our operations in Spain.

	At December 31,		
	2006	2007 (1)	2008 (1)
	(in thousands)		
Fixed telephony accesses	15,949.9	15,918.8	15,326.3
Internet and data accesses	4,842.0	5,321.8	5,670.0
Narrowband accesses	1,040.5	660.8	388.0
Broadband accesses	3,742.7	4,614.0	5,246.4
Other accesses	58.8	47.0	35.6
Mobile accesses	21,446.0	22,826.6	23,604.8
Pre-pay accesses	9,303.0	9,181.8	9,037.0
Pay TV accesses	383.0	511.1	612.5
Final clients accesses	42,620.8	44,578.2	45,213.6
Wholesale accesses	1,531.8	1,855.5	2,136.1
Total accesses	44,152.6	46,433.6	47,349.7

(1) At January 1, 2007, Iberbanda accesses are included.

Telefónica Spain - Fixed business

Telefónica Spain provides fixed telephony services in Spain through the operator Telefónica de España, S.A., or Telefónica de España.

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Operations

The following table presents, at the dates indicated, selected statistical data relating to the operations of Telefónica de España:

	At December 31, 2006	2007	2008
		(in thousands)	
Fixed telephony accesses	15,949.9	15,918.8	15,326.3
Internet and data accesses	4,842.0	5,321.8	5,670.0
Narrowband accesses	1,040.5	660,8	388.0
Broadband accesses	3,742.7	4,614.0	5,246.4
Other accesses	58.8	47.0	35.6
Pay TV accesses	383.0	511.1	612.5
Final clients accesses	21,174.9	21,751.6	21,608.8
Wholesale line rental accesses	–	–	9.5
Unbundled local loop accesses	939.0	1,353.9	1,698.0
Shared UL accesses	527.7	776.4	602.3
Full UL accesses	411.3	577.6	1,095.7
Wholesale ADSL accesses	586.4	495.5	423.8
Other accesses	6.4	6.0	4.7
Wholesale accesses	1,531.8	1,855.5	2,136.1
Total accesses	22,706.7	23,607.1	23,744.8

The total Spanish fixed telephony market grew by an estimated 0.7% in 2008 in terms of number of accesses. During the same period, Telefónica Spain's fixed telephony accesses decreased by 3.7% to 15.3 million accesses at December 31, 2008 from 15.9 million accesses at December 31, 2007. Telefónica Spain had net fixed telephony accesses losses of 0.6 million in 2008, higher than the 31.1 thousand net fixed telephony accesses losses recorded in 2007.

Estimated net adds in the total Spanish broadband market decreased 23.0% to 1.1 million in 2008 from 1.4 million in 2007. The total Spanish broadband access market stood at an estimated 9.3 million accesses at December 31, 2008. Telefónica Spain's broadband accesses increased 13.7% to 5.2 million at December 31, 2008 from 4.6 million accesses at December 31, 2007.

Beginning January 1, 2008, Telefónica Spain changed the business model for its Public Use Telephony, or PUT, service and related contracts in order to maximize its operations within the scope of the applicable regulatory framework (PUT revenues were 0.7% of Telefónica Spain's 2007 revenues). As a result, this business is now managed on a pure wholesale basis, with only net margin booked as revenues. Prior to January 1, 2008, this business was managed on a retail basis and we recorded both gross revenues and the associated sales and marketing expenses required to promote PUT traffic through resellers as separate line items.

The estimated market share of unbundled local loops in the broadband access market in Spain increased to 18.3% at December 31, 2008 from almost 17% at December 31, 2007. Unbundled local loops at December 31, 2008 amounted to 1.7 million accesses, of which 35.5% were shared access loops.

Telefónica Spain's total wholesale ADSL accesses decreased 14.5% to 0.4 million accesses at December 31, 2008 from 0.5 million accesses at December 31, 2007, mainly because of the migration to unbundled local loops. In 2008, Telefónica Spain continued to increase its presence in the pay TV market, achieving a customer base of 0.6 million accesses at December 31, 2008 from 0.5 million accesses at December 31, 2007.

Since 2005 Telefónica Spain has bundled ADSL products with other products in Duo bundles, which include voice services, and Trio bundles, which include voice and IPTV services. The total number of Duo and Trio bundles increased by 19.7% to 4.5 million units at December 31, 2008 from 3.8 million

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units at December 31, 2007. At December 31, 2008, 85% of Telefónica Spain's broadband accesses were included in Duo or Trio bundles compared to 80% at December 31, 2007.

Sales and marketing

One of our main priorities has been to satisfy customer needs and increase customer loyalty by improving the quality of our customer service and offering a wide range of integrated telecommunications services. We have reinforced our strategy of customer segmentation in order to tailor our services to best meet the specific needs of each customer segment. In addition, with the purpose of increasing our ability to distribute our products and services, we have signed agreements with large Spanish department stores to complement our traditional channels of distribution.

In 2008 we marketed new products and promotions to strengthen our position in the market for fixed-mobile convergence, both for residential and business customers.

In 2008 we were also very active in capturing new fixed telephony customers (which, in many cases, includes broadband customers as well) through "free-connection fee" campaigns. These campaigns stimulated new adds, decreasing the net loss of fixed telephony lines.

During 2008 Telefónica Spain continued marketing bundled ADSL products, which included voice and IPTV services, and communicated to the Comisión del Mercado de las Telecomunicaciones, or the CMT, its intention to start marketing Quadruple bundles, which include fixed telephony, mobile telephony, broadband access and IPTV services.

In July 2008 Telefónica Spain launched a new ADSL offer at 6Mb intended for the residential market and upgraded the existing base of 3Mb customers (for loops compatible with such speed) to 6Mb.

ADSL commercial campaigns carried out to capture new broadband customers were very intense during 2008, in particular the Semana Loca campaigns, which had very positive results for Telefónica Spain. These campaigns introduced new promotions with attractive and competitive prices.

In 2008 Telefónica Spain also launched Fiber to the Home (FTTH) based services, including a new range of products and services named "FUTURA". This line of products includes high speed Internet (currently up to 30Mb), which allows Telefónica Spain to provide its customers with advanced IPTV services such as High Definition (HDTV) channels, Multiroom (allowing clients to watch different TV channels in different rooms) and Digital Video Recording (DVR). This offer was launched in November 2008, once Telefónica Spain received permission from the CMT allowing it to commercialize such products.

In the business segment, we continued to promote our Puesto de Trabajo services, which is a package of services designed to meet the voice, data and IT needs for small- and medium-sized businesses.

The corporate customer service model employed by Telefónica Spain, which is focused on achieving the highest degree of efficiency in customer service, has the following features:

- a 24-hour personal customer service line for purchasing any type of product and service and handling customer queries;

- Telefónica stores (Tiendas Telefónica) where customers can test and buy the products we market, including the opening in 2008 of our flagship store at the historic Telefónica headquarters building on the Gran Vía (Madrid), which is the largest telecommunications store in Spain;

- the Telefónica “virtual” store (Telefónica On Line), accessible by Internet, which offers customers the ability to order and purchase online the majority of services and products we offer; and

- a customer service system for corporate customers, ranging from a telephone help line for businesses to the assignment of sales managers to address the needs of larger corporate clients.

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Competition

Telefónica Spain's main competitors in the fixed telephony market fall within three main categories:

- cable operators, such as Spanish nationwide cable operator ONO, which offers trio bundles, and regional cable operators;
- ULL operators, such as Orange and Ya.com (both directly or indirectly owned by France Telecom), Jazztel and Tele2 (owned by Vodafone); and
- large-business oriented operators, such as British Telecom and Colt, which offer voice and data VPNs.

With the acquisition of Tele2, Vodafone now offers bundles of "naked" ADSL plus home zone mobile voice and fixed numbering.

Telefónica Spain's estimated market share at December 31, 2008 was as follows:

- fixed telephony accesses market share amounted to approximately 77% of retail accesses (down from approximately 81% at December 31, 2007);
- broadband market share amounted to approximately 57% of retail accesses (up from approximately 56% at December 31, 2007); and
- pay TV market share amounted to approximately 14% of the market in terms of accesses (up from approximately 13% at December 31, 2007).

In November 2008, the CMT approved "Wholesale Access for Telephone Lines", or AMLT, a new product that allows operators to resell telephone lines to their final customers.

Network and technology

Telefónica Spain has made significant investments to develop its broadband access business through ADSL technology, strongly increasing the coverage and the development of Imagenio, our IPTV service. Additionally Telefónica Spain has begun deploying a new fiber access network, or FTTX, which currently offers only limited coverage.

Telefónica Spain - Mobile business (Spain)

Telefónica Spain provides mobile services in Spain through the operator Telefónica Móviles España.

Operations

The Spanish mobile market exceeded 53.1 million accesses at December 31, 2008, which represented a penetration rate of 116%, an increase of more than 5 percentage points from December 31, 2007. The Spanish mobile market showed growth as a result of a decline of mobile handset prices and per minute call rates, and the success of pre-pay calling plans, with strong competition in number portability and pressure on pricing, including termination rate reductions along with the entry of new competitors such as MVNOs.

The following table presents, at the dates or for the periods indicated, selected statistical data relating to Telefónica Spain's mobile business.

	At or for the year ended December 31,		
	2006	2007	2008
Total mobile accesses (in thousands)	21,446.0	22,826.6	23,604.8
Pre-pay accesses (in thousands)	9,303.0	9,181.8	9,037.0
MOU (minutes)	156	161	156
ARPU (in euros)	32.9	32.3	30.4

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Our mobile customer base in Spain, measured in terms of accesses, increased 3.4% to 23.6 million accesses at December 31, 2008 compared to 22.8 million accesses at December 31, 2007. This growth was primarily driven by a 6.8% increase in accesses in the contract segment. At December 31, 2008, approximately 61.7% of our mobile accesses in Spain were through a contract, which represents an increase of 1.9 percentage points from December 31, 2007.

In the context of an increasingly competitive market, with strong competition in number portability and pressure on pricing, along with the entry of new competitors, Telefónica Móviles España estimated that it had the highest share of net adds in the Spanish mobile market in 2008 (approximately 31.3% based on accesses), thanks to its competitive tariff scheme, strong focus on high value customers and effective marketing and advertising strategies. Telefónica Spain's mobile business achieved net adds of 0.8 million accesses in 2008, down from net adds of 1.4 million accesses in 2007, with a noteworthy number of net accesses gains in the contract segment, 0.9 million accesses in 2008, down sharply from 1.5 million in 2007.

Commercial activity fell by 2.4% to 11.7 million commercial actions in 2008.

In terms of portability, which is customers transferring their number to Telefónica Móviles España from a competitor, Telefónica Móviles España's total net adds was a negative figure of 61.3 thousand lines in 2008. However, by continuing to focus on the higher value customer segments, net portability adds of contract lines was a positive figure of 38.8 thousand lines in 2008.

In terms of usage, the volume of traffic carried by Telefónica Móviles España grew 3.3% to more than 65,000 million minutes in 2008 from over 63,300 million minutes in 2007. "On net traffic", which means traffic originated and terminated on our network, rose 2.8% in 2008 compared to 2007. MOU decreased 2.8% to 156 minutes in 2008 from 161 minutes in 2007.

ARPU for Telefónica Spain's mobile business decreased 5.9% to €30.4 in 2008 from €32.3 in 2007. The decrease was partially driven by a decrease in voice ARPU of 8.5% to €25.2 in 2008 from €27.6 in 2007 as a result of increased competition, interconnection price cuts and roaming-out regulation. Outgoing voice ARPU also decreased 7.4% to €21.2 in 2008 from €22.9 in 2007. These decreases were partially offset by an increase in data ARPU of 9.3% to €5.2 in 2008 from €4.8 in 2007, with outgoing data ARPU growing 10.5% to €4.7 in 2008 from €4.2 in 2007.

At December 31, 2008, Telefónica Spain's customers held more than 6.2 million UMTS/HSDPA handsets, representing a penetration of 27% of our accesses base, excluding machine to machine, or M2M, an increase of 11.5 percentage points from December 31, 2007.

Sales and marketing

Telefónica Spain is focused on key initiatives to preserve its position as a leading mobile operator in the market, leading it to increase commercial efforts with measures including:

- in-depth market segmentation, with a focus on customer value;
- programs to promote customer loyalty;
- pricing policy to stimulate usage, including launching segmented packages and innovative tariff options; and
- leveraging of UMTS to develop new services, deploying the network ahead of competitors.

Since Telefónica Spain began providing mobile services in Spain, its sales and marketing strategy has been to generate increased brand awareness and customer satisfaction to achieve customer growth and increased revenues. Telefónica Spain utilizes several types of marketing channels, including television, radio, exterior billboards, telemarketing, direct mail and Internet advertising. Telefónica Spain also sponsors several cultural and sporting events in order to increase its brand recognition.

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During 2008 Telefónica Spain's main marketing campaigns focused on boosting demand for mobile broadband, with the launch of data flat rates, and by serving as the exclusive distributor in Spain of high-capacity data transmission devices such as the iPhone. Also, we exclusively launched, during the launch campaign, the high-capacity data transmission devices "Nokia N96" and "Nokia N5800". In addition, Telefónica Spain offers ASSUS laptops, which allow customers to access mobile broadband services. These favorable data rates and mobile broadband capable devices have been bundled by Telefónica Spain in order to promote an increase in the number of accesses and level of use of mobile broadband services in Spain.

With respect to mobile voice service, Telefónica Spain promoted access to medium-range mobile phones for pre-pay customers with the launch of "Movistar Mix", and responded to the needs of cost control of different customer segments with different ranges of flat rate plans including: Planazos launched in October 2008 for residential customers that are high users of voice services, Autónomos Tú Eliges launched in September 2008 for independent professional customers, Megabonos in May 2008 for residential customers who are high users of messaging and Tarifa Plana Familiar in October 2008, designed for residential customers calling between family members.

Competition

Telefónica Spain's main competitors in the Spanish market for mobile communications service are: Vodafone España, a subsidiary of Vodafone plc, Orange, which is the trade name of France Telecom España S.A., Yoigo, whose principal shareholder is TeliaSonera, and other MVNO operators.

Telefónica Spain's estimated market share in Spain in terms of mobile accesses was approximately 44% at December 31, 2008 (down from approximately 45.1% at December 31, 2007.)

Network and technology

Telefónica Spain's digital network in Spain is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica Spain's international roaming agreements, enable its mobile customers to make and receive calls in more than 200 countries worldwide. Telefónica Spain's GSM/UMTS based network provides its customers with access to many of the most advanced mobile handsets and a full range of services and products.

In 2007 and 2008, Telefónica Spain invested an aggregate amount of approximately €1,333 million in building out and enhancing its networks in Spain and developing its technological platforms and information systems. At December 31, 2008, Telefónica Spain's GSM/GPRS digital network in Spain, which consisted of 113 switching centers and approximately 22,000 base stations, provided coverage to approximately 99% of the Spanish population. In 2008, Telefónica Spain accelerated the expansion of its UMTS network with 1,324 new base stations with a total of more than 9,200 UMTS base stations installed at the end of the year.

Telefónica Europe

Telefónica Europe's principal activities are the provision of fixed and mobile telephony services, Internet and data and pay TV services in the United Kingdom, Germany, the Czech Republic and the Isle of Man and of mobile telecommunications services in Ireland and Slovakia.

The Telefónica Europe business area was created in 2006 following our acquisition of the O2 Group.

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The following table presents, at the dates indicated, selected statistical data relating to our operations in Europe.

	At December 31, 2006	2007	2008
		(in thousands)	
Fixed telephony accesses	2,462.9	2,130.0	1,952.7
Internet and data accesses	607.1	880.0	1,354.5
Narrowband accesses	143.7	202.4	163.4
Broadband accesses	451.9	670.3	1,158.7
Other accesses	11.6	7.3	32.4
Mobile accesses	35,225.2	38,263.8	41,182.1
Pay TV accesses	15.6	73.2	114.5
Final clients accesses	38,310.9	41,347.0	44,603.8
Wholesale accesses	243.8	706.2	1,237.9
Total accesses	38,554.7	42,053.2	45,841.7

Telefónica Europe's total accesses increased 9.0% to 45.8 million accesses at December 31, 2008 from 42.1 million accesses at December 31, 2007. Total accesses at December 31, 2008 included 41.2 million mobile accesses, 2.0 million fixed telephony accesses, 1.4 million Internet and data accesses and 0.1 million pay TV accesses. Additionally, it included 1.2 million ADSL wholesale accesses.

United Kingdom – Telefónica O2 UK

Operations

The following tables present, at the dates or for the periods indicated, selected statistical data relating to our operations in the United Kingdom.

	At December 31, 2006	2007	2008
		(in thousands)	
Internet and data accesses	16.8	70.7	340.9
Broadband accesses	16.8	70.7	340.9
Mobile accesses	17,633.2	18,382.1	19,470.0
Pre-pay accesses	11,415.1	11,573.4	11,862.5
Final clients accesses	17,650.0	18,452.8	19,810.8
Total accesses	17,650.0	18,452.8	19,810.8

	Year ended December 31, 2006	2007	2008
MOU (minutes)	171	190	207
ARPU (in eros)	33.4	34.4	30.0

The mobile penetration rate in the United Kingdom increased four percentage points to 123% at December 31, 2008 from December 31, 2007.

Telefónica O2 UK, Telefónica Europe's operating company in the United Kingdom, had total net adds of 1.4 million accesses in 2008, 69.1% more than its net adds in 2007. Total accesses increased 7.4% to 19.8 million accesses at

December 31, 2008 compared to 18.5 million accesses at December 31, 2007 (excluding the Tesco mobile customer base, which is the result of a joint venture in which Telefónica O2 UK holds a 50% stake and whose customers use the Telefónica O2 UK network).

Telefónica O2 UK added 0.8 million contract accesses in 2008, bringing the total at December 31, 2008 to 7.6 million contract accesses, an increase of 11.7% from December 31, 2007. Pre-pay accesses increased by 0.3 million accesses from December 31, 2007 to 11.9 million accesses at December 31, 2008. At December 31, 2008 contract

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accesses made up 39.1% of Telefónica O2 UK's mobile customer base, compared to 37.0% at December 31, 2007. At December 31, 2008 Telefónica O2 UK had 0.3 million broadband accesses compared to 0.1 million broadband accesses at December 31, 2007.

Contract ARPU decreased to €53.3 in 2008 from €63.2 in 2007 (a decrease of 2.1% in local currency). Pre-pay ARPU decreased to €15.5 in 2008 from €18.1 in 2007 (a decrease of 0.6% in local currency). ARPU was €30.0 in 2008 down from €34.4 in 2007 (an increase of 1.4% in local currency). This increase in local currency ARPU was caused by the higher proportion of contract accesses in the customer base, customer adoption of new products and services and the continued growth in data ARPU. MOU increased 9.1% to 207 minutes in 2008 from 190 minutes in 2007.

Sales and marketing

In the United Kingdom, we use a broad range of marketing channels, including television, radio, billboards, telemarketing, direct mail and Internet advertising to market Telefónica O2 UK's products and services.

In 2008, Telefónica O2 UK continued its focus on high-value customers across various segments with offerings such as "Simplicity", the 3G iPhone and mobile broadband. In 2008, Telefónica O2 UK topped the list of fixed and mobile broadband Internet service providers (ISPs) in the United Kingdom for customer satisfaction, according to a recent report by JD Power and Associates published in February 2009. The marketing firm conducted two customer satisfaction studies based on five factors that drive overall satisfaction with the provision of mobile and fixed broadband: performance and reliability, billing, cost, customer service/technical support, and offerings/promotions.

Competition

Telefónica O2 UK, estimated market share was approximately 25.9% at December 31, 2008 compared with approximately 24.6% at December 31, 2007, based on the number of mobile accesses.

In addition to Telefónica O2 UK, there are currently four other network operators in the UK mobile telecommunications market: Vodafone UK, a subsidiary of Vodafone plc, T-Mobile, a subsidiary of Deutsche Telecom, Orange, owned by France Telecom, and 3, owned by Hutchison Whampoa. MVNOs operating in the UK market include Virgin Mobile and Fresh, owned by Virgin Media and The Carphone Warehouse Group, respectively, which both use T-Mobile's network, and Tesco Mobile, a joint venture in which Telefónica O2 UK holds a 50% stake and which uses the Telefónica O2 UK network.

Network and technology

Telefónica O2 UK's digital network in the United Kingdom is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica O2 UK's international roaming agreements, enables Telefónica O2 UK customers to make and receive calls in more than 200 countries worldwide. At December 31, 2008, Telefónica O2 UK's GSM/GPRS digital network consisted of approximately 11,482 base stations.

Telefónica O2 UK had rolled out ULL capabilities to 1,218 exchanges by the end of 2008, giving its broadband network population coverage of 65.9% in terms of the UK population.

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Germany – Telefónica O2 Germany

Operations

The following tables present, at the dates or for the periods indicated, selected statistical data relating to our operations in Germany.

	At December 31,		
	2006	2007	2008
		(in thousands)	
Internet and data accesses	19.0	74.7	214.8
Broadband accesses	19.0	74.7	214.8
Mobile accesses	11,024.8	12,471.5	14,198.5
Pre-pay accesses	5,544.1	6,235.0	7,231.5
Final clients accesses	11,043.8	12,546.2	14,413.3
Wholesale accesses	149.3	596.0	1,128.4
Total accesses	11,193.1	13,142.3	15,541.7

	Year ended December 31,		
	2006	2007	2008
MOU (minutes)	127	131	138
ARPU (in euros)	24.2	20.4	17.4

The mobile penetration rate in Germany increased to 132.4% at December 31, 2008, an increase of 16.2 percentage points compared to the penetration rate at December 31, 2007.

Telefónica O2 Germany’s total customer base, in terms of accesses, increased by 2.4 million accesses from December 31, 2007 to 15.5 million accesses at December 31, 2008. Telefónica O2 Germany’s joint venture with Tchibo Mobile was responsible for 0.1 million of this increase in accesses from December 31, 2007 to 1.3 million accesses at December 31, 2008, while Telefónica O2 Germany’s “Fonic” low-cost brand, added 0.5 million accesses from December 31, 2007, giving it a customer base of 0.7 million accesses at December 31, 2008. In addition at December 31, 2008, 3.1 million of Telefónica O2 Germany’s accesses were on the “Genion S/M/L/XL” tariff structure, which is a flat rate tariff for calls made within and outside of the “Homezone”.

Throughout 2008 Telefonica O2 Germany continued its program of migrating customers from legacy to new tariffs such as “Genion S/M/L/XL” and “Inklusivpakete”, which offer significantly better value to the customer.

Telefónica O2 Germany had net adds of 0.7 million contract accesses and 1.0 million pre-pay accesses in 2008, bringing the pre-pay customer base at December 31, 2008 to 7.2 million accesses.

ARPU continued to decline in 2008, decreasing 14.9% to €17.4 in 2008 from €20.4 in 2007, partly as a result of an approximately 10% cut in the interconnection rate in November 2007, the level of competition in the German market and the previously described migration program. Contract ARPU decreased 15.0% to €29.0 in 2008 from €34.1 in 2007. Pre-pay ARPU decreased 11.0% to €5.9 in 2008 from €6.7 in 2007. MOU in 2008 was 138 minutes, an increase of 5.3% compared to 131 minutes in 2007.

At December 31, 2008 Telefónica O2 Germany had a customer base of 0.2 million broadband accesses. Telefónica O2 Germany reported 1.1 million ULL lines at December 31, 2008, up from 0.6 million lines at December 31, 2007.

Sales and marketing

In 2008, Telefonica O2 Germany continued to build on its core strategy of increasing its distribution network, which was ahead of target with 725 shops at year end. During 2008 Telefónica O2 Germany also launched the “O2 Handy flatrate” with a minimum contract duration of only six months. This contract offers a flat rate for calls to

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other Telefónica O2 Germany customers and to fixed lines with a monthly flat fee of €15. Calls to other networks and SMSs are charged at 19 euro cents per minute or message.

Competition

Telefónica O2 Germany's estimated market share in Germany was approximately 13.5% at December 31, 2008 compared to approximately 13.0% at December 31, 2007, based on number of mobile accesses.

Telefónica O2 Germany competes primarily with three other companies in the German market for mobile telecommunications. These are T-Mobile, which is owned by Deutsche Telecom, Vodafone Germany, a subsidiary of Vodafone plc, and E-Plus, which is owned by KPN. Telefónica O2 Germany also competes with several MVNOs.

Network and technology

Telefónica O2 Germany's digital network in Germany is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica O2 Germany's international roaming agreements, enables Telefónica O2 Germany customers to make and receive calls in more than 200 countries worldwide.

At December 31, 2008, Telefónica O2 Germany's GSM/GPRS digital network consisted of approximately 8,951 base stations, the UMTS network consisted of approximately 3,161 base stations and there were approximately 5,887 shared GSM and UMTS base stations.

Czech Republic and Slovakia – Telefónica O2 Czech Republic and Telefónica O2 Slovakia

Telefónica Europe provides fixed and mobile telephony services in the Czech Republic and mobile telephony services in Slovakia, where it launched operations during the first quarter of 2007.

Operations

The following tables present, at the dates or for the periods indicated, selected statistical data relating to our operations in the Czech Republic.

	At December 31,		
	2006	2007	2008
		(in thousands)	
Fixed telephony accesses	2,402.5	2,069.2	1,893.4
Internet and data accesses	560.3	719.1	779.5
Narrowband accesses	143.7	202.4	163.4
Broadband accesses	405.1	509.4	583.7
Other accesses	11.6	7.3	32.4
Mobile accesses	4,864.5	5,125.4	5,257.2
Pre-Pay accesses	2,989.7	2,881.5	2,737.9
Pay TV accesses	15.6	73.2	114.5
Final clients accesses	7,842.9	7,986.8	8,044.6
Wholesale accesses	94.5	110.2	109.5
Total accesses	7,937.4	8,097.0	8,154.1

	Year ended December 31,		
	2006	2007	2008

MOU (minutes)	102	117	121
ARPU (in eros)	18.0	18.9	20.7

The mobile penetration rate in the Czech Republic increased to 131% at December 31, 2008, five percentage points higher than the penetration rate at December 31, 2007.

Telefónica O2 Czech Republic's fixed telephony accesses decreased by 8.5% to 1.9 million accesses at December 31, 2008 from 2.1 million accesses at December 31, 2007, mainly as the result of fixed-to-mobile

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substitution. On a net basis, Telefónica O2 Czech Republic lost 47.3% less fixed telephony accesses in 2008 compared to 2007. This improvement compared to 2007 is the result of our strategy of enhancing the quality of fixed lines by improving broadband (basic speed was upgraded up to 8 Mbps, four times higher than the previous speed offered at the same price) and aggressively priced bundled offers.

Telefónica O2 Czech Republic's broadband accesses increased 14.6% compared to December 31, 2007 to 0.6 million accesses at December, 31 2008. The IPTV customer base increased to 0.1 million accesses at December 31, 2008. These increases are primarily as a result of increased demand for these services in the Czech Republic.

Telefónica O2 Czech Republic's mobile accesses increased 2.6% to 5.3 million accesses at December 31, 2008, from 5.1 million accesses at December 31, 2007. Contract accesses accounted for 47.9% of these accesses at December 31, 2008, up from 43.8% at December 31, 2007. The number of pre-pay accesses decreased 5.0% to 2.7 million accesses at December 31, 2008 from 2.9 million accesses at December 31, 2007.

ARPU increased to €20.7 in 2008 from €18.9 in 2007 (a reduction of 0.9% in local currency). Pre-pay ARPU increased to €9.8 in 2008 from €8.9 in 2007 (a reduction of 2.0% in local currency). Contract ARPU increased to €33.5 in 2008 from €32.7 in 2007 (a decrease of 6.7% in local currency primarily due to the introduction of flat-rate tariffs).

MOU for the year stood at 121 minutes, an increase of 3.6% compared to the 117 minutes in 2007. The increase in traffic is due to the growing number of contract customers generating higher average MOU and the launch of "O2 Neon" tariffs.

Sales and marketing

The launch of "O2 Neon" tariffs designed to stimulate traffic through a simplified, flat tariff structure resulted in increased usage in 2008. By the end of December 2008, 0.3 million customers subscribed for one of the O2 Neon tariffs and O2 Neon accesses accounted for 11% of mobile voice contract accesses.

Competition

There are currently two other primary competitors in the Czech Republic mobile telecommunications market. These are Vodafone Czech Republic, which is owned by Vodafone plc, and T-Mobile, which is part of Deutsche Telecom AG.

Telefónica O2 Czech Republic had an estimated mobile market share of approximately 38.6% at December 31, 2008 compared to approximately 39.2% at December 31, 2007, based on number of mobile accesses.

The fixed telephony market consists of six large operators and a number of other smaller providers. In voice the major competitors are Ceske Radiokomunikacie, U:fon, UPC and other cable operators which also provide integrated voice, Internet and pay TV offers. Internet service is offered by all major mobile operators as well as a large volume of WiFi providers. Pay TV is dominated by a number of cable and satellite companies, the biggest being UPC.

Network and technology

Telefónica O2 Czech Republic's digital network in the Czech Republic is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica O2 Czech Republic's international roaming agreements, enables its customers to make and receive calls in more than 200 countries worldwide.

At December 31, 2008, Telefónica O2 Czech Republic's GSM/GPRS digital network consisted of 12,676 base stations.

Slovakia

At December 31, 2008, Telefónica O2 Slovakia's total number of mobile accesses amounted to 0.5 million accesses, a decrease of 19.5% compared to December 31, 2007. In the second half of 2008 Telefónica O2 Slovakia

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launched the "O2 Fér" plan, a simple tariff which unifies pre-pay and contract rates and offers SIM-only products without a handset subsidy.

In 2008, Telefónica O2 Slovakia continued to roll out its own network infrastructure and by December 31, 2008 the company had more than 850 base stations, which fulfilled its license conditions. Its network currently covers close to 90 percent of the population, which is nearly double that required by its license.

Ireland – Telefónica O2 Ireland

Operations

The following tables present, at the dates or for the periods indicated, selected statistical data relating to our operations in Ireland:

	At December 31,		
	2006	2007	2008
		(in thousands)	
Total mobile accesses	1,631.7	1,646.1	1,727.7
Pre-pay accesses	1,146.7	1,090.9	1,084.6

	Year ended December 31,		
	2006	2007	2008
MOU (minutes)	236	248	245
ARPU (in euros)	45.2	45.9	43.2

The mobile penetration rate in Ireland reached 121% at December 31, 2008, a five percentage point increase over the penetration rate at December 31, 2007.

Telefónica O2 Ireland had net adds of 0.1 million mobile accesses in 2008. Telefónica O2 Ireland's customer base, in terms of mobile accesses, increased 5.0% from December 31, 2007 to 1.7 million mobile accesses at December 31, 2008. Of Telefónica O2 Ireland's total customer base, there were 0.1 million mobile broadband accesses at December 31, 2008, after a successful launch in July 2007.

Telefónica O2 Ireland had net adds of 0.1 million contract accesses in its mobile business in 2008, including the mobile broadband accesses mentioned above, an increase of 25.3% on December 31, 2007.

ARPU decreased by 5.9% in 2008 to €43.2 from €45.9 in 2007. Contract ARPU decreased 11.9% to €72.5 in 2008 from €82.3 in 2007 due to the introduction of new customer offers and promotions. Pre-pay ARPU decreased by 7.0% in 2008 to €27.0 in 2008 from €29.0 in 2007. MOU for the year was 245 minutes, a decrease of 1.1% from the 248 minutes in 2007.

Sales and marketing

During the second quarter of 2008, Telefónica O2 Ireland launched "O2 Clear" an innovative new monthly pay option that gives customers the opportunity to sign up to post pay tariffs on a SIM-only basis without having to commit to a long-term contract. It was the first tariff of its kind in the Irish market. Later in the year Telefónica O2 Ireland introduced the 3G version of the iPhone and in December launched the "O2 Treats" program, a card which allows customers to spend up to €100 on different treats/activities for themselves or a friend.

Competition

There are currently three other primary competitors in the Irish mobile telecommunications market: Vodafone Ireland, which is part of Vodafone plc, Meteor, which is part of Babcock and Brown, and 3 Ireland, which is part of Hutchison Wampoa Ltd.

Telefónica O2 Ireland had an estimated market share of the Irish mobile market of approximately 32.5% at December 31, 2008 compared to approximately 32.3% at December 31, 2007 based on number of mobile accesses.

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Network and technology

Telefónica O2 Ireland’s digital network in Ireland is based upon the GSM/UMTS standard. The prevalence of the GSM standard, together with Telefónica O2 Ireland’s international roaming agreements, enables Telefónica O2 Ireland customers to make and receive calls in more than 200 countries worldwide.

At December 31, 2008, Telefónica O2 Ireland’s GSM/GPRS digital network consisted of approximately 1,662 base stations.

Telefónica Latin America

Telefónica Latin America provides fixed and mobile telephony, Internet and data services and pay TV services through the operators described in the following sections in the main Latin American markets. In addition, Telefónica Latin America’s other members include: Telefónica Empresas, Telefónica International Wholesale Services, or TIWS, the business unit responsible for other telecommunications operators and for managing our international services and the network which supports these services, and Terra Networks Latin América.

The following table presents, at the dates indicated, selected statistical data relating to our operations in Latin America.

	At December 31,		
	2006	2007 (1)	2008 (1)(2)
		(in thousands)	
Fixed telephony accesses	23,916.9	25,381.0	25,644.5
Internet and data accesses	6,723.7	6,954.8	7,629.8
Narrowband accesses	2,813.5	1,815.6	1,445.8
Broadband accesses	3,780.3	5,035.9	6,067.0
Other accesses	130.0	103.4	117.0
Mobile accesses (3)	83,298.4	100,542.2	123,385.2
Pay TV accesses	665.3	1,163.8	1,540.5
Final clients accesses	114,604.4		