TELEFONICA S A
Form 6-K
July 29, 2010

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FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934
For the month of July, 2010
Commission File Number: 001-09531
Telefónica, S.A.
(Translation of registrant s name into English)
Gran Vía, 28
28013 Madrid, Spain
3491-459-3050
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F þ Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes þ No o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes o No þ

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes o No þ

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

Telefónica, S.A.

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Review Report
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Consolidated Interim Management Report
for the six-month period ended
June 30, 2010

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Translation of a report and condensed consolidated interim financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails (see Note 15)

REPORT ON REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders of
Telefónica, S.A., at the request of Management

1. We have carried out a review of the accompanying condensed consolidated interim financial statements (hereinafter the interim financial statements) of Telefónica, S.A. (hereinafter the Parent Company) and subsidiaries (hereinafter the Group), which comprise the interim statement of financial position at June 30, 2010, the interim income statement, the interim statement of comprehensive income, the interim statement of changes in equity, the interim statement of cash flows, and selected explanatory notes, all of which are consolidated, for the six-month period then ended. It is the Parent Company s directors responsibility to prepare said interim financial statements in accordance with the requirements established by International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union for the preparation of condensed interim financial reporting as per article 12 of Royal Decree 1362/2007. Our responsibility is to issue a report on these condensed consolidated interim financial statements based on our review.

2. Our review was performed in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Reporting Performed by the Independent Auditor of the Entity . A review of the interim financial statements consists of making inquiries, primarily of personnel responsible for financial and accounting matters, and applying certain analytical and other review procedures. A review is substantially less in scope than an audit and therefore, does not enable us to obtain assurance that we have become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

3. As explained in the Note 2 of the accompanying interim financial statements, these statements do not include all the information that would be required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and therefore the accompanying interim financial statements should be read together with the Group s consolidated financial statements for the year ended December 31, 2009.

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4. During the course of our review, which under no circumstances can be considered an audit of financial statements, nothing has come to our attention which would lead us to conclude that the accompanying condensed consolidated interim financial statements for the six-month period ended June 30, 2010 have not been prepared, in all material respects, in accordance with the requirements established by International Accounting Standard (IAS) 34, Interim Financial Reporting , as adopted by the European Union in conformity with article 12 of Royal Decree 1362/2007 for the preparation condensed interim financial statements.
5. The accompanying consolidated interim management report for the six-month period ended June 30, 2010 contains such explanations as the Parent Company s directors consider necessary regarding the events which occurred during said period and their effect on the interim financial statements, of which it is not an integral part, as well as on the information required in conformity with article 15 of Royal Decree 1362/2007. We have checked that the accounting information included in the abovementioned report agrees with the condensed consolidated interim financial statements for the six-month period ended June 30, 2010. Our work is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the consolidated companies accounting records.
6. This report has been prepared at the request of Management of the Parent Company with regard to the publication of the semi-annual financial report required by article 35 of Securities Market Law 24/1988, of July 28, by Royal Decree 1362/2007, of October 19.

ERNST & YOUNG, S.L.

/s/ José Luis Perelli Alonso

José Luis Perelli Alonso

July 28, 2010

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TELEFÓNICA GROUP
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONDENSED ANNUAL ACCOUNTS) AND CONSOLIDATED INTERIM MANAGEMENT REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2010

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CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Millions of euros)	Note	UNAUDITED 06/30/2010	AUDITED 12/31/09
A) NON-CURRENT ASSETS		**91,507**	**84,311**
Intangible assets	7	17,816	15,846
Goodwill	7	20,489	19,566
Property, plant and equipment	7	33,820	31,999
Investment properties		4	5
Investments in associates	8	4,889	4,936
Non-current financial assets	10	8,227	5,988
Deferred tax assets		6,262	5,971
B) CURRENT ASSETS		**23,447**	**23,830**
Inventories		1,130	934
Trade and other receivables		11,769	10,622
Current financial assets	10	2,059	1,906
Tax receivables		1,385	1,246
Cash and cash equivalents	10	6,654	9,113
Non-current assets held for sale		480	9
TOTAL ASSETS (A + B)		**114,984**	**108,141**
A) EQUITY		**21,990**	**24,274**
Equity attributable to equity holders of the parent		19,375	21,734
Non-controlling interests		2,615	2,540
B) NON-CURRENT LIABILITIES		**55,537**	**56,931**
Interest-bearing debt	10	45,734	47,607
Trade and other payables		1,189	1,249
Deferred tax liabilities		3,631	3,082
Provisions		4,983	4,993
C) CURRENT LIABILITIES		**37,457**	**26,936**
Interest-bearing debt	10	15,876	9,184
Trade and other payables		17,386	14,023
Current tax payables		3,142	2,766
Provisions		1,053	963

TOTAL EQUITY AND LIABILITIES (A+B+C)	**114,984**	**108,141**

Condensed notes 1 to 15 and Appendix I are an integral part of these consolidated statements of financial position.

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INTERIM CONSOLIDATED INCOME STATEMENTS

Unaudited (Millions of euros)	Note	Six months ended June 30 2010	2009
Revenues from operations	5	29,053	27,565
Other income		868	501
Supplies		(8,334)	(8,023)
Personnel expenses		(3,793)	(3,258)
Other expenses		(6,889)	(5,885)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	**5**	**10,905**	**10,900**
Depreciation and amortization	5	(4,449)	(4,407)
OPERATING INCOME	**5**	**6,456**	**6,493**
Share of profit of associates		72	30
Finance income		312	340
Exchange gains		5,494	2,663
Finance expenses		(1,507)	(1,561)
Exchange losses		(5,553)	(2,895)
Net financial expenses		**(1,254)**	**(1,453)**
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**5,274**	**5,070**
Corporate income tax		(1,428)	(1,554)
PROFIT FOR THE PERIOD		**3,846**	**3,516**
Non-controlling interests		(71)	(64)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**3,775**	**3,452**
		0,83	**0,76**

Basic and diluted earnings per share attributable to equity holders of the parent (euros)

Condensed notes 1 to 15 and Appendix I are an integral part of these interim consolidated income statements.

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INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited (Millions of euros)	Six months ended June 30 2010	2009
Profit for the period	**3,846**	**3,516**
Other comprehensive income		
Loss (gain) on measurement of available-for-sale investments	(98)	257
Income tax	33	(51)
	(65)	206
Loss on hedges	(504)	(1,082)
Reclassification of gain/(losses) included in the income statement	40	(2)
Income tax	136	315
	(328)	(769)
Translation differences	1,740	1,670
Actuarial gains and losses and impact of limit on assets for defined benefit pension plans	(52)	12
Income tax	11	(3)
	(41)	9
Share of losses recognized directly in equity of associates	(109)	(46)
Income tax	30	3
	(79)	(43)
Total other comprehensive income	**1,227**	**1,073**
Total comprehensive income recognized in the period	**5,073**	**4,589**
Attributable to:		
Equity holders of the parent	4,782	4,282
Non-controlling interests	291	307
	5,073	**4,589**

Condensed notes 1 to 15 and Appendix I are an integral part of these interim consolidated statements of comprehensive income.

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INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Atributable to equity holders of the parent												
Jnaudited) Millions of euros	Share capital	Share premium	Legal reserve	Revaluation reserve	Treasury shares	Retained earnings	Available-for-sale investments	Hedges	Equity of associates	Translation differences	Total	Non-controlling interests	Total equity
nancial position at ecember 31, 2009	**4,564**	**460**	**984**	**157**	**(527)**	**16,685**	**(39)**	**804**	**19**	**(1,373)**	**21,734**	**2,540**	**24,27**
ofit for the period						3,775					3,775	71	3,84
ther comprehensive income oss)						(41)	(59)	(328)	(79)	1,514	1,007	220	1,22
otal comprehensive income						**3,734**	**(59)**	**(328)**	**(79)**	**1,514**	**4,782**	**291**	**5,07**
et movement in treasury ares					(730)						(730)		(73
vidends paid						(5,872)					(5,872)	(273)	(6,14
ther movements						(539)					(539)	57	(48
nancial position at ne 30, 2010	**4,564**	**460**	**984**	**157**	**(1,257)**	**14,008**	**(98)**	**476**	**(60)**	**141**	**19,375**	**2,615**	**21,99**
nancial position at ecember 31, 2008	**4,705**	**460**	**984**	**172**	**(2,179)**	**16,069**	**(566)**	**1,413**	**(216)**	**(3,611)**	**17,231**	**2,331**	**19,56**
ofit for the period						3,452					3,452	64	3,51
ther comprehensive income oss)						9	206	(770)	(43)	1,428	830	243	1,07
otal comprehensive income						**3,461**	**206**	**(770)**	**(43)**	**1,428**	**4,282**	**307**	**4,58**
yperinflation restatement to /01/2009										613	613		61
et movement in treasury ares					(509)						(509)		(50
vidends paid						(4,551)					(4,551)	(255)	(4,80
ther movements						(162)					(162)	60	(10
nancial position at ne 30, 2009	**4,705**	**460**	**984**	**172**	**(2,688)**	**14,817**	**(360)**	**643**	**(259)**	**(1,570)**	**16,904**	**2,443**	**19,34**

Condensed notes 1 to 15 and Appendix I are an integral part of these interim consolidated statements of changes in equity.

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INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (Millions of euros)	Six-month ended June 30 2010	2009
Cash received from customers	34,363	32,850
Cash paid to suppliers and employees	(24,827)	(22,916)
Dividends received	110	88
Net interest and other financial expenses paid	(1,325)	(1,355)
Taxes paid	(1,213)	(1,344)
Net cash from operating activities	**7,108**	**7,323**
Proceeds on disposals of property, plant and equipment and intangible assets	38	234
Payments on investments in property, plant and equipment and intangible assets	(5,028)	(4,083)
Proceeds on disposals of companies, net of cash and cash equivalents disposed	544	12
Payments on investments in companies, net of cash and cash equivalents acquired	(396)	(19)
Proceeds on financial investments not included under cash equivalents	181	
Payments made on financial investments not included under cash equivalents	(1,368)	(133)
Net flows on cash surpluses not included under cash equivalents	(211)	(692)
Capital grants received	1	19
Net cash used in investing activities	**(6,239)**	**(4,662)**
Dividends paid	(3,003)	(2,330)
Transactions with equity holders	(730)	(476)
Proceeds on issue of debentures and bonds	4,056	4,186
Proceeds on loans, receivables and promissory notes	2,073	570
Cancellation of debentures and bonds	(1,990)	(1,860)
Repayments of loans, credits and promissory notes	(3,350)	(1,678)
Net cash used in financing activities	**(2,944)**	**(1,588)**
Effect of foreign exchange rate changes on collections and payments	**(391)**	**147**
Effect of changes in consolidation methods and other non-monetary effects	**7**	
Net decrease (increase) in cash and cash equivalents during the period	**(2,459)**	**1,221**

Cash and cash equivalents at January 1	**9,113**	**4,277**
CASH AND CASH EQUIVALENTS AT JUNE 30	**6,654**	**5,498**
Reconciliation of cash and cash equivalents with the consolidated statement of financial position		
BALANCE AT JANUARY 1	**9,113**	**4,277**
Cash on hand and at banks	3,830	3,236
Other cash equivalents	5,283	1,041
BALANCE AT JUNE 30	**6,654**	**5,498**
Cash on hand and at banks	5,313	3,421
Other cash equivalents	1,341	2,077

Condensed notes 1 to 15 and Appendix I are an integral part of these interim consolidated statements of cash flows.

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TELEFÓNICA, S.A. AND SUBSIDIARIES COMPOSING THE TELEFÓNICA GROUP

CONDENSED EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONDENSED ANNUAL ACCOUNTS) FOR THE SIX MONTHS ENDED JUNE 30, 2010

(1) INTRODUCTION AND GENERAL INFORMATION

Telefónica Group organizational structure

Telefónica, S.A. and its subsidiaries and investees make up an integrated group of companies (the Telefónica Group, Telefónica , or the Group) operating primarily in the telecommunications, media and contact center industries.

The parent company of the Group is Telefónica, S.A. (Telefónica or the Company), a public limited company incorporated for an indefinite period on April 19, 1924. Its registered office is at calle Gran Vía 28, Madrid (Spain).

Corporate structure of the Group

Telefónica s basic corporate purpose, pursuant to Article 4 of its by-laws, is the provision of all manner of public or private telecommunications services, including ancillary or complementary telecommunications services or related services. All the business activities that constitute this stated corporate purpose may be performed either in Spain or abroad and wholly or partially by the Company, either through shareholdings or equity interests in other companies or legal entities with an identical or a similar corporate purpose.

The Telefónica Group follows a regional, integrated management model based on three business areas by geographical market and integrated wireline and wireless businesses:

- Telefónica Spain
- Telefónica Latin America
- Telefónica Europe

The business activities carried out by most of the Telefónica Group companies are regulated by broad-ranging legislation, pursuant to which permits, concessions or licenses must be obtained in certain circumstances to provide the various services.

In addition, certain wireline and wireless telephony services are provided under regulated rate and price systems.

(2) BASIS OF PRESENTATION OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The condensed consolidated interim financial statements for the six months ended June 30, 2010 (the interim financial statements) have been prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting* and Article 12 of Royal Decree 1362/2007. Therefore, they do not contain all the information and disclosures required in complete annual consolidated financial statements and, for adequate interpretation, should be read in conjunction with the consolidated annual financial statements for the year ended December 31, 2009.

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The accompanying interim financial statements were approved by the Company s Board of Directors at its meeting on July 28, 2010.

Unless indicated otherwise, the figures in these interim financial statements are expressed in millions of euros and rounded.

(3) COMPARATIVE INFORMATION

Comparative information in the accompanying interim financial statements refers to the six-month periods ended June 30, 2010 and 2009, except for the consolidated statement of financial position, which compares information at June 30, 2010 and at December 31, 2009.

The main events affecting comparability of the consolidated information for the six months ended June 30, 2010 are described below.

The principal changes in the consolidation perimeter that occured in the first half of 2010 are described in Note 6 and Appendix I.

With respect to seasonality, the historical performance of consolidated results does not indicate that Group s operations, taken as a whole, are subject to significant variations between the first and second halves of the year.

Devaluation of the Venezuelan bolivar

Regarding the devaluation of the Venezuelan bolivar on January 8, 2010, the two main factors to consider with respect to the Telefónica Group s 2010 financial statements are:

- The decrease in the Telefónica Group s net assets in Venezuela as a result of the new exchange rate, with a balancing entry in translation differences under equity of the Group, generated an effect of approximately 1,810 million euros at the date of devaluation.
- The translation of results and cash flows from Venezuela at the new devalued closing exchange rate.

Classification of Venezuela as a hyperinflationary economy in 2009

Once the Group concluded that Venezuela should be classified as a hyperinflationary economy, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months ended June 30, 2009 were adjusted to include the impact of hyperinflation and therefore differ from the statements originally issued for that period. The most significant adjustments are decreases in Revenues from operations , OIBDA and Profit for the period attributable to equity holders of the parent of 23 million euros, 58 million euros and 167 million euros, respectively, and an increase in Equity of 747 million euros.

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(4) ACCOUNTING POLICIES

The accounting policies applied in the preparation of the interim financial statements for the six months ended June 30, 2010 are consistent with those used in the preparation of the Group s consolidated annual financial statements for the year ended December 31, 2009, except for the adoption of new standards, amendments to standards and interpretations published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC), and adopted by the European Union, effective as of January 1, 2010, and noted below:

IFRS 3, *Business Combinations* (Revised)

The revised version of IFRS 3 includes significant changes in the recognition of business combinations, mainly with respect to directly attributable acquisition costs, the recognition and measurement of contingent consideration related to the combination, the measurement of non-controlling interests and the accounting treatment of business combinations achieved in stages (step acquisitions). The changes introduced by the revised IFRS 3 affect acquisitions and transactions carried out on or after January 1, 2010, as well as the subsequent recognition of tax assets acquired in business combinations prior to that date, as provided for in the transitional provisions.

Amendment to IAS 27*, Consolidated and separate financial statements*

Pursuant to the amendments to IAS 27 arising from the revision of IFRS 3 *Business combinations*, changes in a subsidiary equity interests that do not result in the loss of control are accounted for as equity transactions. In addition, in accordance with the amendments to IAS 27, loss of control triggers remeasurement of the residual holding to fair value at the date when control is lost. These amendments affect redundant transactions with non-controlling interests taking place on or after January 1, 2010.

Improvements to IFRSs (April 2009)

These improvements establish a series of amendments to current IFRSs with the aim of removing inconsistencies and clarifying wording. These amendments did not have any impact on the results or financial position of the Group.

Amendment to IFRS 2, *Group cash-settled share-based payment transactions*

This amendment limits the scope of IFRS 2 and incorporates guidance previously included in IFRIC 8. As a result, IFRIC has been withdrawn. It also clarifies the accounting for group cash-settled share-based payment transactions between Group companies in the separate financial statements of the entity receiving the goods or services when another entity in the group or shareholder must pay for them (thereby incorporating the guidance previously included in IFRIC 11, which has also been withdrawn). The adoption of this amendment has not had any impact on the financial position or results of the Group.

Amendments to IAS 39, *Eligible hedged items*

The amendments were made to clarify two hedge accounting issues: the identification of inflation as a hedged item in a hedging relationship, and the designation of options purchased that hedge financial or non-financial items as hedging instruments. The adoption of these amendments has not had any impact on the financial position or results of the Group.

IFRIC 17, *Distributions of non-cash assets to owners*

This interpretation establishes the accounting treatment for non-cash assets, clarifying when to recognize the dividend payable, the measurement criteria for the non-cash assets and the accounting treatment for differences in the carrying amounts of the assets distributed and the carrying amount of the payment obligation that could rise upon settlement of the non-cash asset. The adoption of this amendment has not had any impact on the financial position or results of the Group.

New Standards amendments and IFRIC interpretations issued but not effective as of June 30, 2010

At the date of preparation of the interim financial statements, the following IFRS and IFRIC interpretations had been published, but their application was not mandatory:

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IFRS 9	*Financial instruments*	January 1, 2013
IAS 24 (Revised)	*Related Party Disclosures*	January 1, 2011
IAS 32 Amendment	*Financial Instruments: Presentation Classification of Rights Issues*	February 1, 2010
Improvements to IFRSs (May 2010)		January 1, 2011 (*)

(*) The amendments to IFRS 3 (2008) relating to the measurement of non-controlling interests and share-based payments, as well as the amendments to IAS 27 (2008) and IFRS 3 (2008) regarding consideration arising in business combinations acquired after the effective date of the revised standards, shall enter into effect for annual periods beginning on or

after July 1,
2010.

Interpretations		Mandatory application: annual periods beginning on or after
IFRIC 19	*Extinguishing financial liabilities with equity instruments*	July 1, 2010
IFRIC 14 Amendment	*Prepayments of a minimum funding requirement*	January 1, 2011

The Group is currently assessing the impact of the application of these standards, amendments and interpretations. Based on the analyses made to date, the Group estimates that their adoption will not have a significant impact on the consolidated financial statements in the initial period of application. However, the changes introduced by IFRS 9 will affect financial assets and transactions with financial assets carried out on or after January 1, 2013.

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(5) SEGMENT INFORMATION

The following table presents profit and capital expenditure information regarding the Group s operating segments for the six months ended June 30, 2010 and 2009:

	Six months ended June 30, 2010				
Millions of euros	**Telefónica Spain**	**Telefónica Latin America**	**Telefónica Europe**	**Other and eliminations**	**Total Group**
External revenue from operations	9,175	11,964	7,252	662	29,053
Inter-segment revenue from operations	146	99	26	(271)	
Other operating income and expenses	(4,944)	(7,573)	(5,243)	(388)	(18,148)
OIBDA (*)	**4,377**	**4,490**	**2,035**	**3**	**10,905**
Depreciation and amortization	(990)	(1,904)	(1,483)	(72)	(4,449)
OPERATING INCOME	**3,387**	**2,586**	**552**	**(69)**	**6,456**
CAPITAL EXPENDITURES	**831**	**1,252**	**2,135**	**77**	**4,295**

	Six months ended June 30, 2009				
Millions of euros	**Telefónica Spain**	**Telefónica Latin America**	**Telefónica Europe**	**Other and eliminations**	**Total Group**
External revenue from operations	9,615	10,852	6,533	565	27,565
Inter-segment revenue from operations	142	94	38	(274)	
Other operating income and expenses	(4,919)	(6,713)	(4,692)	(341)	(16,665)
OIBDA (*)	**4,838**	**4,233**	**1,879**	**(50)**	**10,900**
Depreciation and amortization	(1,067)	(1,824)	(1,451)	(65)	(4,407)
OPERATING INCOME	**3,771**	**2,409**	**428**	**(115)**	**6,493**
CAPITAL EXPENDITURES	**739**	**1,215**	**749**	**73**	**2,776**

(*) For the presentation of segment reporting, revenue and expenses arising from intra-group billings for trademark use and management agreements have been eliminated from each segment s operating results, while projects managed centrally are included at the regional level. These adjustments do not affect the Group s consolidated results.

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The following table compares segment assets, liabilities and investments in associates at June 30, 2010 and December 31, 2009:

	At June 30, 2010				
Millions of euros	**Telefónica Spain**	**Telefónica Latin America**	**Telefónica Europe**	**Other and eliminations**	**Total Group**
Investments in associates	1	72		4,816	4,889
Fixed assets	13,924	26,877	29,902	1,422	72,125
Total allocated assets	27,203	44,716	37,412	5,653	114,984
Total allocated liabilities	17,059	24,189	7,775	43,971	92,994

	At December 31, 2009				
Millions of euros	**Telefónica Spain**	**Telefónica Latin America**	**Telefónica Europe**	**Other and eliminations**	**Total Group**
Investments in associates	3	2,453		2,480	4,936
Fixed assets	14,082	25,016	26,962	1,351	67,411
Total allocated assets	26,156	44,678	32,097	5,210	108,141
Total allocated liabilities	13,363	22,862	6,435	41,207	83,867

(6) BUSINESS COMBINATIONS

Acquisition of HanseNet Telekommunikation Gmbh (HanseNet)

On December 3, 2009, Telefónica s subsidiary in Germany, Telefónica Deutschland GmbH (Telefónica Deutschland), signed an agreement to acquire all of the shares of German company HanseNet Telekommunikation GmbH (HanseNet). The purchase and sale of the shares was subject to compliance with a series of conditions, including approval of the transaction by the pertinent competition authorities, which was obtained on January 29, 2010.

The transaction was completed on February 16, 2010, and having complied with the terms established in the agreement dated December 3, 2009 by the parties, the Telefónica Group completed the acquisition of 100% of the shares of HanseNet. The final amount paid was approximately 913 million euros, which included 638 million euros of debt refinancing.

Upon the acquisition of this shareholding, the purchase price was allocated to the assets acquired and the liabilities and contingent liabilities assumed using generally accepted valuation methods for each type of asset and/or liability based on the best available information.

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The provisional carrying amounts, fair values, goodwill and acquisition prices of the assets acquired and liabilities assumed in this transaction at the date control was obtained are as follows:

	HanseNet	
Millions of euros	Carrying amount	Fair value
Intangible assets	277	309
Goodwill	461	N/A
Property, plant and equipment	514	536
Other assets	225	227
Financial liabilities	(655)	(665)
Deferred tax liabilities		(90)
Other liabilities and current liabilities	(326)	(356)
Value of net assets	496	(39)
Acquisition cost		275
Goodwill (Note 7)		**314**

In addition, the impact of this acquisition on cash and cash equivalents was as follows:

Millions of euros	HanseNet
Cash and cash equivalents of companies acquired	28
Cash paid in the acquisition	275
Total net cash outflow	247

Acquisition of JAJAH

In January 2010, the Telefónica Group, through its wholly owned subsidiary Telefónica Europe Plc, acquired 100% of the shares of JAJAH, the leading communications innovator, for 145 million euros.

These additions led to an increase in Revenues from operations and OIBDA in the six months ended June 30, 2010 of 346 and 2 million euros, respectively.

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(7) INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND GOODWILL

The movements in Intangible assets and Property, plant and equipment in the first half of 2010 are as follows:

Millions of euros	Intangible assets	Property, plant and equipment	Total
Opening balance at December 31, 2009	**15,846**	**31,999**	**47,845**
Additions	1,907	2,388	4,295
Depreciation and amortization	(1,432)	(3,017)	(4,449)
Retirements	(13)	(13)	(26)
Changes in consolidation perimeter	376	436	812
Translation differences, monetary adjustment and others	1,132	2,027	3,159
Ending balance at June 30, 2010	**17,816**	**33,820**	**51,636**

Additions of intangible assets mainly include the acquisition of spectrum in Germany, after Telefónica O2 Germany GmbH won the related tender, for 1,379 million euros.

Changes in the consolidation perimeter are primarily relate to the inclusion of HanseNet in the Telefónica Group in the first half of 2010.

The movement in Goodwill in the six months ended June 30, 2010 is as follows:

Millions of euros	Goodwill
Opening balance at December 31, 2009	**19,566**
Additions	429
Retirements	(37)
Translation differences and others	531
Ending balance at June 30, 2010	**20,489**

Additions in the period mainly relate to the inclusion of HanseNet in the Telefónica Group. Similarly, Retirements includes the deconsolidation of Manx Telecom Ltd., which was sold in the first half of the year (see Appendix I).

Also, noteworthy is the impact of translation differences on intangible assets, property, plant and equipment and goodwill caused by fluctuations in the currency exchange rates of the countries in which the Group operates.

(8) RELATED PARTIES

Significant shareholders

The main transactions carried out between Group companies and significant shareholders Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and Caja de Ahorros y Pensiones de Barcelona (La Caixa), and their subsidiaries, are as follows:

Revenue and expenses	Six months ended June 30	
(Millions of euros)	**2010**	**2009**
Finance costs	18	18
Leases	5	2
Services received	9	12
Other expenses	17	5
EXPENSES	**49**	**37**
Finance revenue	13	25
Dividends received	6	3
Services rendered	107	98
Sale of goods (finished or in process)	21	5
Other revenue	7	4
REVENUES	**154**	**135**

Other transactions	Six months ended June 30	
(Millions of euros)	**2010**	**2009**
Finance arrangements: loans and capital contributions (lender)	2,177	1,001
Finance arrangements: loans and capital contributions (loanee)	807	933
Finance leases (lessee)	9	20
Repayment or cancellation of loans and lease arrangements (lessee)	4	1
Guarantees and deposits (given)	378	13
Guarantees and deposits (received)	4	1
Acquired commitments	29	
Dividends and other earnings distributed	356	275
Other transactions (derivatives)	11,273	9,553

Associates

The breakdown of amounts recognized in the consolidated statements of financial position related to associates is as follows:

(Millions of euros)	June 30, 2010	June 30, 2009
Investments in associates	4,889	4,936
Long-term loans to associates	605	3
Short-term loans to associates	17	15
Current receivables from associates	186	262
Loans to associates	72	165
Current payables to associates	125	121

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On January 11, 2010, Telco, S.p.A. (Telco) arranged a 1,300 million euro loan with Intesa Sanpaolo, S.p.A., Mediobanca, S.p.A., Société Générale, S.p.A. and Unicredito, S.p.A., maturing on May 31, 2012, part of which is secured with Telecom Italia, S.p.A. shares. The lending banks have granted Telco shareholders a call option on the Telecom Italia, S.p.A. shares that they may be entitled to receive as a result of the potential execution of the pledge.

In line with the commitments assumed by Telco shareholders, on December 22, 2009, the rest of Telco s financing needs with respect to debt maturities were met with a bridge loan granted by shareholders Telefónica, Intesa Sanpaolo, S.p.A. and Mediobanca, S.p.A., for approximately 902 million euros, and a bank bridge loan granted by Intesa Sanpaolo, S.p.A. and Mediobanca, S.p.A., for the remaining 398 million euros.

The financing from the bridge loans was substituted with a bond subscribed by Telco s shareholder groups, on a pro-rate basis in accordance with their interests in the company, on February 19, 2010 for 1,300 million euros, of which 600 million euros corresponded to Telefónica.

The main transactions carried out with associates in the first half of 2010 and 2009 are as follows:

	Six months ended June 30	
(Millions of euros)	**2010**	**2009**
Revenue from operations with associates	105	100
Expenses from operations with associates	280	260

In addition, in the first half of 2010, the Telefónica Group carried out transactions with Telecom Italia, S.p.A. and several of its group companies, amounting to 134 and 198 million euros of revenue from operations and operating expenses, respectively.

Guarantees granted by the Group in respect of associates at June 30, 2010 and 2009 amount to 196 and 356 million euros, respectively.

Joint ventures

On December 27, 2002, Telefónica Móviles, S.A. (currently Telefónica, S.A.) and PT Movéis Serviços de Telecomunicaçoes, SGPS, S.A. (PT Movéis) set up a 50/50 joint venture, Brasilcel, N.V. (the Vivo Group), via the contribution of 100% of the groups direct and indirect shares in Brazilian cellular operators (see Note 14). This company is integrated in the consolidated financial statements of the Telefónica Group using proportionate consolidation.

The contributions of Brasilcel, N.V. to the Telefónica Group s consolidated statements of financial position at June 30, 2010 and December 31, 2009 are as follows:

(Millions of euros)	**June 30, 2010**	**December 31, 2009**
Current assets	1,392	1,170
Non-current assets	6,144	5,617
Current liabilities	1,360	1,170
Non-current liabilities	1,566	1,505

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In addition, the main contributions to operating income in the consolidated income statements for the six months ended June 30, 2010 and 2009 are as follows:

	Six months ended 30 June	
(Millions of euros)	**2010**	**2009**
Revenue from operations	1,645	1,248
Expenses from operations	1,235	953

Directors and senior executives compensation and other information

Pursuant to the disclosures established in *Circular 1/2008, of January 30, of the Comisión Nacional del Mercado de Valores (the Spanish national securities commission, or CNMV), on periodic reporting by issuers,* the compensation and benefits paid to members of the Company s Board of Directors in the first six months of 2010 and 2009 are as follows:

Directors: &