

AUDIT REPORT

TELEFÓNICA EMISIONES, S.A.

(Sole Shareholder Company)

Financial Statements and Management Report

for the year ended

December 31, 2013

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

AUDIT REPORT ON THE FINANCIAL STATEMENTS

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

1. We have audited the financial statements of Telefónica Emisiones, S.A. (Sole Shareholder Company), which comprise the balance sheet at December 31, 2013, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended. The Company's joint and several Directors are responsible for the preparation of the financial statements in accordance with the regulatory framework for financial information applicable to the entity in Spain (identified in Note 2 to the accompanying financial statements), and specifically in accordance with the accounting principles and criteria contained therein. Our responsibility is to express an opinion on the aforementioned financial statements taken as a whole, based upon work performed in accordance with prevailing audit regulation in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the financial statements, and the evaluation of whether their presentation, the accounting principles and criteria applied and the estimates made are in agreement with the applicable regulatory framework for financial information.
2. In our opinion, the accompanying 2013 financial statements give a true and fair view, in all material respects, of the equity and financial position of Telefónica Emisiones, S.A. (Sole Shareholder Company) at December 31, 2013, and the results of its operations and its cash flow for the year then ended, in conformity with the applicable regulatory framework for financial information in Spain, and specifically the accounting principles and criteria contained therein.
3. We draw attention to Notes 5 and 10 to the accompanying financial statements, which describe that the Company executes a high volume of transactions with its Sole Shareholder, Telefónica, S.A. and the related balances at year end. Our opinion is not qualified in respect of this matter.
4. The accompanying 2013 management report contains such explanations as the joint and several Directors consider appropriate concerning the situation of Telefónica Emisiones, S.A. (Sole Shareholder Company), the evolution of its business and other matters; however, it is not an integral part of the financial statements. We have checked that the accounting information included in the aforementioned management report agrees with the 2013 financial statements. Our work as auditors 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 Company's accounting records.

ERNST & YOUNG, S.L.



Alicia Martínez Durán

February 25, 2014



Telefónica Emisiones, S.A.

(Sole-Shareholder Company)

Financial statements for the year ended December 31, 2013

2013

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TELEFONICA EMISIONES, S.A. (Sole-Shareholder Company)
Balance sheet at December 31, 2013

(Thousands of euros)

ASSETS	Notes*	2013	2012
NON-CURRENT ASSETS		30,422,852	30,986,608
Non-current investments in Group companies and associates	5, 10.2	30,422,852	30,986,608
Loans to companies		30,422,852	30,986,608
CURRENT ASSETS		4,986,834	4,253,738
Trade and other receivables		816	939
Prepayments to suppliers		392	392
Trade receivables for sales and services		55	86
Other receivables		369	461
Current investments in Group companies and associates	5, 10.2	4,983,718	4,250,511
Loans to companies		4,983,718	4,250,511
Cash and cash equivalents	10.2	2,300	2,288
TOTAL ASSETS		35,409,686	35,240,346
EQUITY AND LIABILITIES	Notes*	2013	2012
EQUITY		5,220	5,130
CAPITAL AND RESERVES	6	5,220	5,130
Capital		62	62
Issued capital		62	62
Reserves		5,068	3,124
Legal and statutory reserves		12	12
Other reserves		5,056	3,112
Profit for the year		90	1,944
NON-CURRENT LIABILITIES		30,419,346	30,981,666
Non-current borrowings	7	30,419,346	30,981,666
Bonds and other marketable debt securities		30,419,346	30,981,666
CURRENT LIABILITIES		4,985,120	4,253,550
Current borrowings	7	4,984,244	4,252,328
Bonds and other marketable debt securities		4,984,244	4,252,328
Current borrowings from Group companies and associates	7, 10.2	202	668
Trade and other payables	7	674	554
Other payables		101	209
Trade payables, Group companies and associates	10.2	558	283
Other payables to public administrations		15	62
TOTAL EQUITY AND LIABILITIES		35,409,686	35,240,346

* The accompanying Notes 1 to 14 are an integral part of these balance sheets.

TELEFONICA EMISIONES, S.A. (Sole-Shareholder Company)
Income statements for the year ended December 31, 2013

(Thousands of euros)

	Notes*	2013	2012
Other operating expenses		(2,999)	(2,847)
External services	9.1	(2,995)	(2,840)
Taxes		(4)	(7)
OPERATING LOSS		(2,999)	(2,847)
Finance income	9.2	1,712,140	1,607,463
In Group companies and associates		1,712,140	1,607,463
Finance costs	9.3	(1,709,061)	(1,601,828)
Debts with Group companies and associates		-	-
Debts with third parties		(1,709,061)	(1,601,828)
Exchange gains (losses)	9.4	49	(11)
NET FINANCIAL INCOME		3,128	5,624
PROFIT BEFORE TAX		129	2,777
Income tax	8	(39)	(833)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		90	1,944
PROFIT FOR THE YEAR		90	1,944

*The accompanying Notes 1 to 14 are an integral part of these income statements.

TELEFONICA EMISIONES, S.A. (Sole-Shareholder Company)
Statements of changes in equity for the year ended December 31, 2013
(Thousands of euros)

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

	2013	2012
PROFIT FOR THE YEAR	90	1,944
TOTAL RECOGNIZED INCOME AND EXPENSE	90	1,944

B) Statements of total changes in equity for the year ended December 31

	Issued capital	Reserves	Profit for the year	TOTAL
BALANCE AT JANUARY 1, 2012	62	2,157	967	3,186
Total recognized income and expense	-	-	1,944	1,944
Transactions with shareholders and owners	-	-	-	-
Other changes in equity	-	967	(967)	-
Other adjustments	-	-	-	-
BALANCE AT DECEMBER 31, 2012	62	3,124	1,994	5,130
Total recognized income and expense	-	-	90	90
Transactions with shareholders and owners	-	-	-	-
Other changes in equity	-	1,944	(1,944)	-
Other adjustments	-	-	-	-
BALANCE AT DECEMBER 31, 2013	62	5,068	90	5,220

TELEFONICA EMISIONES, S.A. (Sole-Shareholder Company)
Cash flow statements for the years ended December 31, 2013

(Thousands of euros)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	129	2,777
Adjustments to profit	(3,128)	(5,624)
Finance income	(1,712,140)	(1,607,463)
Finance costs	1,709,061	1,601,828
Exchange gains/losses	(49)	11
Change in working capital	244	(670)
Trade and other receivables	124	(900)
Trade and other payables	167	213
Other current liabilities	(47)	17
Other cash flows from operating activities	(570)	(857)
Interest paid	(1,676,567)	(1,451,185)
Interest received	1,676,972	1,450,445
Income tax receipts (payments)	(505)	(579)
Other payments (receipts)	(470)	462
CASH FLOWS USED IN OPERATING ACTIVITIES	(3,325)	(4,374)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on investments	(4,352,887)	(5,146,084)
Group and associates	(4,352,887)	(5,146,084)
Proceeds from disposal	3,598,155	620,284
Group and associates	3,598,155	620,284
CASH FLOWS USED IN INVESTING ACTIVITIES	(754,732)	(4,525,800)
CASH FLOWS FROM FINANCING ACTIVITIES		
Collections from and payments for financial instruments	758,081	4,530,028
Issue		
Bonds and other marketable debt securities	4,352,384	5,147,718
Repayment and redemption of		
Bonds and other marketable debt securities	(3,594,303)	(617,690)
CASH FLOWS FROM FINANCING ACTIVITIES	758,081	4,530,028
NET FOREIGN EXCHANGE DIFFERENCE	(12)	(12)
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	12	(158)
Cash and cash equivalents at beginning of year	2,288	2,446
Cash and cash equivalents at end of year	2,300	2,288

* The accompanying Notes 1 to 14 are an integral part of these cash flow statements.

TELEFONICA EMISIONES, S.A. (Sole-Shareholder Company)
Notes to the financial statements for the year ended December 31, 2013

1. ACTIVITY

Telefónica Emisiones, S.A. (Sole-Shareholder Company) (the "Company" or "Telefónica Emisiones, S.A.U.") was incorporated as a public limited company for an unlimited period on November 29, 2004 as "Telefónica Emisiones, S.A.U."

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

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

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

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with the General Chart of Accounts approved by Royal Decree 1514/2007, of November 16, as amended by Royal Decree 1159/2010 of September 17 and mercantile law prevailing at the reporting date of these financial statements.

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

2.1 True and fair view

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

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

These financial statements were authorized by the Company's joint and several directors ("Directors") on February 20, 2014 and it is expected that they will be approved by the Sole Shareholder without modification.

2.2 Comparison of information

In accordance with commercial law, each item in the 2013 balance sheet, income statement, statement of changes in equity, and cash flows statement are disclosed for comparison with the information for 2012. Quantitative information from the previous year is also disclosed in the notes to the financial statements, except when an accounting standard specifically states that this is not necessary.

2.3 Critical issues regarding the valuation and estimation of uncertainty

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

3. APPROPRIATION OF PROFIT

The appropriation of 2013 profit to be submitted by the joint and several Directors for approval by the Company's Sole Shareholder is as follows:

(Thousands of euros)	2013
Proposed appropriation	
Profit for the year	90
	90
Appropriation to:	
Voluntary reserves	90
	90

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

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

4.1 Financial investments

Recognition and measurement

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

Upon initial recognition on the balance sheet, they are recognized at fair value which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs.

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

Impairment of financial assets

The carrying amount of financial assets is adjusted against the income statement when there is objective evidence of actual impairment.

To determine impairment loss, the Company assesses the potential loss of individual assets and also groups of assets with similar risk characteristics.

Cancellation

Financial assets (or, where applicable, a part of a financial assets or part of a group of similar financial assets) are derecognized when the rights to receive cash flows have expired or when the Company has transferred its rights to receive cash flows and has transferred substantially all the risks and rewards of the assets.

Interest

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

Financial assets are recognized separately on initial measurement based on maturity and accrued explicit interest receivable at that date. Explicit interest refers to that obtained by applying the contract interest rate to the financial instrument.

4.2 Financial liabilities

Recognition and measurement

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

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration received, adjusted by directly attributable transaction costs.

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

Cancellation

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires.

When an existing debt instrument is replaced by another on substantially different terms, the original financial liability is derecognized and the new financial liability is recognized. Financial liabilities whose contractual terms are substantially modified are also recognized.

The difference between the carrying amount of the derecognized financial liability (or part of it) and the consideration given, plus any attributable transaction costs, which also includes any new asset transferred other than cash or any liability assumed, is recognized in the income statement in the year in which it arises.

When existing debt instruments are exchanged for other debt instruments on terms that are not substantially different, the original financial liability is not derecognized, and the commissions paid are recognized as an adjustment to the carrying amount. The new amortized cost of a financial liability is determined by applying the effective interest rate, which equates the carrying amount of the financial liability on the modification date to the cash flows to be paid as per the new terms.

Terms are deemed to be substantially different when the lender is the same entity that granted the initial loan and the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

Interest

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

Financial liabilities are recognized separately on initial measurement based on maturity and accrued explicit interest payable at that date. Explicit interest refers to that obtained by applying the contract interest rate to the financial instrument.

4.3 Cash and cash equivalents

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

- They are readily convertible to cash.
- They mature within three months from the acquisition date.
- They are subject to an insignificant risk of changes in value; and
- They are part of the Company's standard cash management strategy.

4.4 Income tax

The Company files consolidated corporate income tax returns with its Sole Shareholder.

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

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

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

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

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

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

Deferred tax assets and liabilities are measured using the tax rate expected to apply at the date of their reversal, as required by current legislation and based on the manner in which the deferred tax asset or liability is reasonably expected to be recovered or settled.

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

4.5 Revenue and expenses

Income and expenses are recognized on an accrual basis.

4.6 Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional spot rate of exchange at the reporting date. All differences arising on settlement or translation of monetary items are taken to the income statement in the period in which they occur.

4.7 Classification of current and non-current assets and liabilities

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

4.8 Related party transactions

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

4.9 Measurement criteria under International Financial Reporting Standards (IFRS)

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

5. FINANCIAL ASSETS

The composition of "Financial assets" at December 31, 2013 and December 31, 2012 is as follows:

(Thousands of euros)	2013	2012
Non-current financial assets		
Loans to Group companies (Note 5.1)	30,422,852	30,986,608
	30,422,852	30,986,608
Current financial assets		
Loans to Group companies (Note 5.1)	4,983,718	4,250,511
TOTAL FINANCIAL ASSETS	4,983,718	4,250,511

In 2013 the Company extended additional financing to Telefónica, S.A. for a total of 4,352,887 thousand euros (in loans denominated in euros, US dollars, and Swiss francs) and received funds from the settlement of loans (to the same borrower) of 3,598,155 thousand euros.

Particularly noteworthy among the agreed-upon re-financing operations is a loan entered into on March 27, 2013, following the settlement of the transaction for the exchange of outstanding bonds and debentures for newly issued bonds and debentures (see Note 7), through which the Company granted a new loan (number 55) to Telefónica, S.A., the principal of which was 1,000 million euros, maturing on March 26, 2021 at an annual rate of interest of 3.961%. On this same date, the borrower (Telefónica, S.A.) and the Company agreed to the early repayment of part of loan numbers 33 and 43 for 407 million euros and 198 million euros, respectively.

On March 26, 2013, as a result of the completion of a transaction to re-purchase a bond denominated in Pound sterling (see Note 7), the borrower (Telefónica, S.A.) and the Company formalized the early repayment of part of loan number 12 (see Note 5.1) for a total of 204 million pounds sterling.

5.1 Loans to Group companies

The balance relates to loans granted to Telefónica, S.A. between 2006 and 2013. The breakdown of these loans is as follows:

(Thousands of euros)

Loan	Signing date	Maturity date	Annual interest rate	Frequency of payment	2013 Non-current assets	2013 Current assets	2012 Non-current assets	2012 Current assets
No. 1	02/02/2006	02/02/2016	4.375%	Annual	1,745,671	69,640	1,743,766	69,659
No. 3	02/02/2006	02/02/2018	5.375%	Annual	897,288	43,982	916,165	44,943
No. 4	02/02/2006	02/02/2026	5.375%	Annual	597,648	29,321	610,423	29,962
No. 8	06/20/2006	06/20/2016	6.421%	Half-yearly	904,742	1,778	945,090	1,859
No. 9	06/20/2006	06/20/2036	7.045%	Half-yearly	1,440,620	3,281	1,505,486	3,263
No. 12	12/28/2006	01/31/2014	5.888%	Annual	-	373,789	612,196	33,010
No. 13	01/31/2007	12/30/2021	6-month Euribor + 0.830%	Half-yearly	54,969	-	54,964	-
No. 14	01/31/2007	01/31/2018	3-month Euribor + 0.700%	Quarterly	24,000	38	24,000	36
No. 15	02/07/2007	02/07/2014	4.674%	Annual	-	1,563,108	1,499,660	62,811
No. 17	06/19/2007	06/19/2014	4.623%	Annual	-	97,102	103,328	2,554
No. 20	07/02/2007	02/04/2013	USD 3-month Libor + 0.330%	Quarterly	-	-	-	644,847
No. 21	07/02/2007	02/04/2013	5.855%	Half-yearly	-	-	-	581,829
No. 22	07/02/2007	07/03/2017	6.221%	Half-yearly	506,724	15,936	529,450	16,319
No. 23	06/12/2008	06/12/2013	5.580%	Annual	-	-	-	1,288,159
No. 24	02/03/2009	02/03/2014	5.431%	Annual	-	2,098,142	1,998,468	98,502
No. 25	04/01/2009	04/01/2016	5.496%	Annual	998,388	41,547	998,142	41,258
No. 26	06/02/2009	06/02/2015	3-month Euribor + 1.825%	Quarterly	399,778	663	399,621	627
No. 27	06/03/2009	04/01/2016	4.963%	Annual	507,122	18,898	509,214	19,055
No. 28	07/06/2009	01/05/2015	4.949%	Half-yearly	905,639	20,684	946,016	21,620
No. 29	07/06/2009	07/15/2019	5.877%	Half-yearly	723,281	19,650	755,741	20,539
No. 30	11/10/2009	11/11/2019	4.693%	Annual	1,746,104	11,250	1,745,615	11,250
No. 31	12/10/2009	12/09/2022	5.289%	Annual	777,688	2,485	794,295	2,539
No. 32	12/23/2009	12/23/2014	3-month Euribor + 0.700%	Quarterly	-	100,018	99,992	17
No. 33	03/24/2010	03/24/2015	3.406%	Annual	991,754	26,127	1,398,088	36,841
No. 34	04/26/2010	04/26/2013	2.582%	Half-yearly	-	-	-	913,727
No. 35	04/26/2010	04/27/2015	3.729%	Half-yearly	651,967	4,438	681,086	4,522

Continued overleaf

Loan	Signing date	Maturity date	Annual interest rate	Frequency of payment	2013		2012	
					Non-current	Current assets	Non-current	Current assets
No. 36	04/26/2010	04/27/2020	5.134%	Half-yearly	1,011,955	9,377	1,057,454	9,685
No. 37	09/16/2010	09/18/2017	3.661%	Annual	998,160	10,431	997,766	10,431
No. 38	10/08/2010	10/08/2029	5.445%	Annual	477,967	6,012	488,201	6,142
No. 39	02/07/2011	02/07/2017	4.75%	Annual	1,197,857	51,060	1,197,295	51,084
No. 40	02/16/2011	02/16/2016	3.992%	Half-yearly	904,973	13,597	945,699	14,183
No. 41	02/16/2011	02/16/2021	5.462%	Half-yearly	1,083,935	22,306	1,132,647	23,286
No. 42	03/21/2011	02/07/2017	4.688%	Annual	100,197	4,209	100,237	4,211
No. 43	11/03/2011	02/03/2016	4.967%	Annual	800,322	36,129	997,693	45,043
No. 44	11/04/2011	11/04/2016	2.8247%	Half-yearly	48,351	210	61,650	267
No. 45	02/07/2012	02/07/2017	4.75%	Annual	118,770	5,107	118,422	5,107
No. 46	02/21/2012	02/21/2018	4.797%	Annual	1,496,027	61,764	1,495,276	61,704
No. 47	03/12/2012	03/12/2020	5.597%	Annual	836,934	37,853	854,692	38,669
No. 48	03/30/2012	03/30/2017	3.934%	Annual	45,437	1,356	49,525	1,479
No. 49	07/11/2012	07/11/2018	4.25%	Half-yearly	69,098	1,392	88,019	1,773
No. 50	09/19/2012	09/05/2017	5.811%	Annual	1,004,496	18,063	1,005,545	15,927
No. 51	10/19/2012	01/20/2020	4.710%	Annual	1,196,028	53,423	1,195,620	11,304
No. 52	12/14/2012	12/14/2018	2.718%	Annual	203,018	262	206,344	266
No. 53	12/14/2012	12/14/2022	3.450%	Annual	121,702	200	123,717	203
No. 54	01/22/2013	01/23/2023	3.987%	Annual	1,494,644	56,200	-	-
No. 55	03/27/2013	03/26/2021	3.961%	Annual	964,247	30,277	-	-
No. 56	04/29/2013	04/27/2018	3.192%	Half-yearly	903,478	5,143	-	-
No. 57	04/29/2013	04/27/2023	4.570%	Half-yearly	541,383	4,425	-	-
No. 58	05/29/2013	05/29/2019	2.736%	Annual	747,841	12,143	-	-
No. 59	10/23/2013	10/23/2020	2.595%	Annual	182,649	902	-	-
					30,422,852	4,983,718	30,986,608	4,250,511

The fair value of loans granted to Telefónica, S.A. was 37,758,470 thousand euros at December 31, 2013 and 37,351,581 thousand euros at December 31, 2012.

The calculation of the fair values of the Company's investments in Group companies and associates required an estimate for each currency of a credit spread curve using the prices of the Telefónica Group's bonds and credit derivatives (where applicable).

The maturity schedule for non-current assets included in this category at December 31 2013 and December 31, 2012 is as follows:

(Thousands of euros)	2013	2012
Between 1 and 2 years	2,949,137	4,313,644
Between 2 and 3 years	5,909,569	3,424,811
Between 3 and 4 years	3,971,638	6,201,255
Between 4 and 5 years	3,592,909	3,998,240
Over 5 years	13,999,599	13,048,658
TOTAL	30,422,852	30,986,608

6. EQUITY

6.1 Share capital

Share capital at December 31, 2013 comprised 62,000 shares with a nominal value of 1 euro each. The Company's Sole Shareholder is Telefónica, S.A.

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

6.2 Reserves

In accordance with the Corporate Enterprises Act, until the balance of the legal reserve exceeds 20% of share capital, it cannot be distributed to the Sole Shareholder and can only be used to offset losses if no other reserves are available. The reserve can be used to increase capital by the amount exceeding 10% of the new capital after the increase.

The legal reserve is fully set up and the remaining reserves are unrestricted.

7. FINANCIAL LIABILITIES

The composition of "Financial liabilities" at December 31, 2013 and December 31, 2012 is as follows:

(Thousands of euros)	Note	2013	2012
Non-current financial liabilities		30,419,346	30,981,666
Debentures, bonds and other marketable securities	7.1	30,419,346	30,981,666
Current financial liabilities		4,985,120	4,253,550
Debentures, bonds and other marketable securities	7.1	4,984,244	4,252,328
Current borrowings from Group companies and associates	7.2	202	668
Trade and other payables		674	554

In 2013 the Company issued bonds and debentures maturing at long term, secured by Telefónica, S.A., for a total of 4,352,384 thousand euros (denominated in euros, US dollars, and Swiss francs) and redeemed bonds and debentures totaling 3,594,303 thousand euros.

The following financial transactions executed in the year are particularly noteworthy:

- On March 26, the Company re-purchased (and subsequently redeemed) 204 million pounds sterling (245 million euros) of 500 million pounds sterling notes, maturing on January 31, 2014 and bearing interest at a rate of 5.888%.
- On March 27, the Company issued 1,000 million euros of notes, maturing on March 26, 2021 and bearing interest at a rate of 3.961%. A portion of these notes (605 million euros) was exchanged for outstanding obligations, maturing on March 24, 2015 and February 3, 2016 and bearing interest at a rate of 3.406% and 4.967%, respectively. The Company redeemed the notes received in the exchange. Since this exchange of debt instruments does not have any substantially different conditions, it has been considered debt re-financing.

7.1 Debentures, bonds and other marketable debt securities

Non-current and current borrowings include the debentures and bonds issued by the Company from 2006 to 2013 in euros, US dollars, Pounds sterling, Czech crowns, Japanese yen and Swiss francs. The debenture and bond issues are secured by Telefónica, S.A. and are quoted on the London, New York and Zurich stock exchanges. The breakdown of these issues is as follows:

Issue	Issue date	Maturity date	Annual interest rate	Frequency of payment	(Thousands of euros)			
					2013 Non-current liabilities	2013 Current liabilities	2012 Non-current liabilities	2012 Current liabilities
EMTN 1	02/02/2006	02/02/2016	4.375 %	Annual	1,745,652	69,640	1,743,766	69,659
EMTN 3	02/02/2006	02/02/2018	5.375 %	Annual	897,270	43,982	916,143	44,943
EMTN 4	02/02/2006	02/02/2026	5.375 %	Annual	597,625	29,321	610,399	29,962
SHELF B	06/20/2006	06/20/2016	6.421 %	Half-yearly	904,905	1,778	945,353	1,859
SHELF C	06/20/2006	06/20/2036	7.045 %	Half-yearly	1,437,850	3,122	1,502,778	3,263
EMTN 8	12/28/2006	01/31/2014	5.888 %	Annual	-	373,792	612,241	33,010
EMTN 9	01/31/2007	12/30/2021	6-month Euribor + 0.83%	Half-yearly	54,965	-	54,957	-
EMTN 10	01/31/2007	01/31/2018	3-month Euribor + 0.70 %	Quarterly	23,977	38	23,972	36
EMTN 11	02/07/2007	02/07/2014	4.674 %	Annual	-	1,562,592	1,499,155	62,811
EMTN 13	06/19/2007	06/19/2014	4.623 %	Annual	-	97,065	103,205	2,554
SHELF E	07/02/2007	02/04/2013	3-month Libor + 0.33%	Quarterly	-	-	-	644,847
SHELF F	07/02/2007	02/04/2013	5.855 %	Half-yearly	-	-	-	581,834
SHELF G	07/02/2007	07/03/2017	6.221 %	Half-yearly	506,819	15,619	529,576	16,319
EMTN 16	06/12/2008	06/12/2013	5.580 %	Annual	-	-	-	1,287,988
EMTN 17	02/03/2009	02/03/2014	5.431%	Annual	-	2,098,145	1,998,460	98,530
EMTN 18 Tr 1	04/01/2009	04/01/2016	5.496%	Annual	998,581	41,258	998,168	41,257
EMTN 19	06/02/2009	06/02/2015	3-month Euribor + 1.83%	Quarterly	399,782	663	399,629	627
EMTN 18 Tr 2	06/03/2009	04/01/2016	5.496%	Annual	505,302	20,629	507,570	20,629
SHELF H	07/06/2009	01/15/2015	4.949%	Half-yearly	905,664	20,684	946,061	21,620
SHELF I	07/06/2009	07/15/2019	5.877%	Half-yearly	723,458	19,650	755,934	20,539
EMTN 20	11/10/2009	11/11/2019	4.693%	Annual	1,746,152	11,250	1,745,671	11,220
EMTN 21	12/10/2009	12/09/2022	5.289%	Annual	777,744	2,485	794,382	2,539
EMTN 22	12/23/2009	12/23/2014	3-month Euribor + 0.70%	Quarterly	-	100,019	99,976	17
EMTN 23	03/24/2010	03/24/2015	3.406%	Annual	991,736	26,127	1,398,121	36,841
SHELF J	04/26/2010	04/26/2013	2.582%	Half-yearly	-	-	-	913,632

Continued overleaf

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Issue	Issue date	Maturity date	Annual interest rate	Frequency of payment	2013 Non-current liabilities	2013 Current liabilities	2012 Non-current liabilities	2012 Current liabilities
SHELF K	04/26/2010	04/27/2015	3.729%	Half-yearly	652,001	4,326	681,038	4,522
SHELF L	04/26/2010	04/27/2020	5.134%	Half-yearly	1,011,789	9,265	1,057,155	9,685
EMTN 24	09/16/2010	09/18/2017	3.661%	Annual	998,188	10,431	997,801	10,431
EMTN 25	10/08/2010	10/08/2029	5.445%	Annual	477,976	6,012	488,235	6,142
EMTN 26 Tr 1	02/07/2011	02/07/2017	4.75%	Annual	1,197,885	51,066	1,197,316	51,084
SHELF M	02/16/2011	02/16/2016	3.992%	Half-yearly	904,958	13,569	945,302	14,183
SHELF N	02/16/2011	02/16/2021	5.462%	Half-yearly	1,083,748	22,278	1,132,406	23,286
EMTN 26 Tr 2	03/21/2011	02/07/2017	4.75%	Annual	100,447	4,255	100,590	5,107
EMTN 27	11/03/2011	02/03/2016	4.967%	Annual	800,525	36,129	997,767	45,043
EMTN 28	11/04/2011	11/04/2016	2.8247%	Half-yearly	48,349	202	61,600	257
EMTN 26 Tr 3	02/07/2012	02/07/2017	4.75%	Annual	118,796	5,107	118,455	4,255
EMTN 29	02/21/2012	02/21/2018	4.80%	Annual	1,496,080	61,704	1,495,341	61,704
EMTN 30	03/12/2012	03/12/2020	5.60%	Annual	836,987	37,853	854,749	38,669
EMTN 31	03/30/2012	03/30/2017	3.93%	Annual	45,486	1,356	49,598	1,479
EMTN 32	07/11/2012	07/11/2018	4.25%	Half-yearly	69,244	1,392	88,057	1,773
EMTN 33 Tr 1	09/19/2012	09/05/2017	5.81%	Annual	1,003,906	18,627	1,005,039	16,398
EMTN 34 Tr 1	10/19/2012	01/20/2020	4.71%	Annual	1,196,275	53,268	1,195,589	11,306
EMTN 35 Tr 1	12/14/2012	12/14/2018	2.72%	Annual	203,019	262	206,359	266
EMTN 35 Tr 2	12/14/2012	12/14/2022	3.45%	Annual	121,718	200	123,753	202
EMTN 37	01/22/2013	01/23/2023	3.987%	Annual	1,494,712	56,200	-	-
EMTN 38	03/27/2013	03/26/2021	3.961%	Annual	964,242	30,277	-	-
SHELF O	04/29/2013	04/27/2018	3.192%	Half-yearly	903,570	5,143	-	-
SHELF P	04/29/2013	04/27/2023	4.570%	Half-yearly	541,431	4,418	-	-
EMTN 39	05/27/2013	05/29/2019	2.736%	Annual	747,838	12,143	-	-
EMTN 40	10/23/2013	10/23/2020	2.595%	Annual	182,694	902	-	-
					30,419,346	4,984,244	30,981,666	4,252,328

The fair value of the debentures and bonds issued by the Company was 37,750,846 thousand euros at December 31, 2013 and 37,339,211 thousand euros at December 31, 2012.

The calculation of the fair values of the Company's financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company's bonds and credit derivatives; the same used for financial assets (see Note 5).

The maturity schedule for non-current liabilities included in this category at December 31, 2013 and December 31, 2012 is as follows:

(Thousands of euros)	2013	2012
Between 1 and 2 years	2,949,184	4,313,037
Between 2 and 3 years	5,908,272	3,424,849
Between 3 and 4 years	3,971,528	6,199,525
Between 4 and 5 years	3,593,162	3,998,375
Over 5 years	13,997,200	13,045,880
TOTAL NON-CURRENT LIABILITIES	30,419,346	30,981,666

7.2 Payable to Group companies and associates

The heading primarily includes accounts payable in connection with current amounts payable to Telefónica, S.A., as head of the tax group to which the Company belongs for 202 thousand euros (668 thousand euros in 2012).

8. TAXES

Under prevailing tax regulations, tax returns may not be considered final until they have either been inspected by tax authorities or until the four-year inspection period has expired. The Company is open to inspection of all taxes for which it is liable over the last four years.

The Company's joint and several directors and tax advisors consider that, in the event of a tax inspection, no significant tax contingencies would arise as a result of varying interpretations of the tax legislation applicable to the Company's transactions.

The reconciliation of profit for the year to taxable income for 2013 and 2012 is as follows:

(Thousands of euros)	2013	2012
Accounting profit before tax	129	2,777
Permanent differences	-	-
Temporary differences	-	-
Adjusted accounting profit	129	2,777
Taxable income for the year	129	2,777
Tax expense	39	833

The Company files consolidated income tax as part of Tax Group 24/90, whose parent is Telefónica, S.A. with tax identification number A28015865. As the Company obtained a profit in 2013, it recognized a tax expense corresponding to 30% of this profit.

Payments on account of income tax made during the year made to Telefónica, S.A., as parent of the tax group, amounted to 163 thousand euros. At December 31, 2013 and December 31, 2012, the Company has no unused tax credits on income tax payable in future years.

9. INCOME AND EXPENSES

9.1 External services

(Thousands of euros)	2013	2012
Independent professional services	546	684
Other services	2,446	2,154
Banking and similar services	3	2
TOTAL EXTERNAL SERVICES	2,995	2,840

Independent professional services primarily include audit related expenses, while other services primarily reflect costs incurred on services provided by rating agencies and by the tax certification agent for coupon payments.

9.2 Finance income

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

9.3 Finance costs

Finance costs on third-party borrowings include expenses accrued during the respective years on outstanding debentures.

9.4 Exchange gains (losses)

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

2013 (Thousands of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen
Assets					
Loans to companies	508,734	9,698,550	4,080,968	143,895	119,051
Liabilities					
Debentures, bonds and other marketable debt securities	508,837	9,698,850	4,081,099	143,969	119,187

2012 (Thousands of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen
Assets					
Loans to companies	330,519	10,753,472	4,431,237	156,886	151,661
Liabilities					
Debentures, bonds and other marketable debt securities	330,585	10,753,392	4,431,462	157,000	151,687

The breakdown of transactions executed in foreign currencies is as follows:

2013 (Thousands of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen
Interest income	10,823	522,254	226,180	6,606	4,806
Interest expense	10,782	521,390	226,068	6,575	4,936

2012 (Thousands of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen
Interest income	464	554,602	229,229	8,828	3,902
Interest expense	462	553,656	229,130	8,798	3,943

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

(Thousands of euros)	2013	2012
Loans to companies		
Transactions settled during the financial year	18,699	1,410
Transactions pending settlement at year end	601,892	126,550
	620,591	127,960
Accounts payable		
Transactions settled during the financial year	(18,651)	(1,413)
Transactions pending settlement at year end	(601,891)	(126,558)
	(620,542)	(127,971)

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

10. RELATED PARTY DISCLOSURES

10.1 Related parties

Company transactions in 2013 with related parties, carried out under market conditions, and the nature of the relationship are as follows:

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

10.2 Balances

Balances with related parties are as follows:

(Thousands of euros)	Parent Company 2013	Other Group companies 2013	Parent Company 2012	Other Group companies 2012
Non-current loans (Note 5)	30,422,852	-	30,986,608	-
Current loans (Note 5)	4,983,718	-	4,250,511	-
Cash and cash equivalents	-	2,300	-	2,288
Current borrowings	202	558	668	283

10.3 Transactions

Transactions entered into with related parties are as follows:

(Thousands of euros)	Parent Company 2013	Other Group companies 2013	Parent Company 2012	Other Group companies 2012
External services (Note 9.1)	-	(69)	-	(58)
Finance income - interest (Note 9.2)	1,712,137	3	1,607,455	8
Exchange gains (Note 9.4)	620,591	-	127,961	-

11. OTHER DISCLOSURES

11.1 Auditors' fees

The fees accrued in 2013 and 2012 to the various member firms of the EY global organization (formerly Ernst & Young), to which Ernst & Young, S.L. (the auditors of Telefónica Emisiones, S.A.U.) belongs amounted to 263 thousand euros in 2013 and 189 thousand euros in 2012, and were solely for audit services.

11.2 Directors disclosures

In 2013, the Company's joint and several Directors received no remuneration of any kind. No advances or loans have been granted to Directors, nor does the Company have any pension or life insurance pension obligations to them.

Pursuant to sections 229 and 230 of the Corporate Enterprises Act, the potential conflicts of interest notified by the Directors of the Company are as follows:

- a) Direct or indirect stakes held by Directors and their affiliates as defined in Section 231 of the Corporate Enterprises Act in companies with the same, analogous or similar corporate purposes as that of the Company, and the positions or duties they perform therein.

Director	Investee	% of ownership ⁽¹⁾	Duties
Eduardo J. Álvarez Gómez	Telefónica, S.A.	< 0.01%	Director of Finance
Juan José Gómez Miguelañez ⁽²⁾	Telefónica, S.A.	< 0.01%	Director of Treasury, Risk & Insurance
Juan José Gómez Miguelañez	Telefónica Factoring Brasil	< 0.01%	Director

(1) % of direct equity interest < 0.01% is shown if the holding is less than 0.01% of the share capital.

(2) On December 18, 2013 Juan J. Gómez Miguelañez stepped down as Director of Treasury, Risk & Insurance of Telefónica, S.A.

- b) Engagement, for their own account or the account of others, in a business that has the same, similar or complementary business activities as the business activities constituting the corporate purpose of the Company:

Director	Activity performed	Arrangement under which the activity is performed	Company through which the activity is rendered	Position held or duties discharged
Eduardo J. Álvarez Gómez	Financing, Telefónica Group	On behalf of third parties	Telefónica Europe, B.V.	Proprietary director representing Telefónica S.A.
Eduardo J. Álvarez Gómez	Financing, Telefónica Group	On behalf of third parties	Telefónica Participaciones, S.A.U.	Joint and several director
Juan José Gómez Miguelañez	Financing, Telefónica Group	On behalf of third parties	Telefónica Finanzas, S.A.U.	Executive Vice Chairman
Juan José Gómez Miguelañez	Financing, Telefónica Group	On behalf of third parties	Fisatel México, S.A. de C.V.	Executive Vice Chairman
Juan José Gómez Miguelañez	Financing, Telefónica Group	On behalf of third parties	Telfisa Global, B.V.	Chairman
Juan José Gómez Miguelañez	Financing, Telefónica Group	On behalf of third parties	Telefónica Participaciones, S.A.U.	Joint and several director
Juan José Gómez Miguelañez	Factoring	On behalf of third parties	Telefónica Factoring España, S.A.	Director
Juan José Gómez Miguelañez	Factoring	On behalf of third parties	Telefónica Factoring Perú	Director
Juan José Gómez Miguelañez	Factoring	On behalf of third parties	Telefónica Factoring Colombia	Director
Juan José Gómez Miguelañez	Factoring	On behalf of third parties	Telefónica Factoring Brasil	Director
Juan José Gómez Miguelañez	Factoring	On behalf of third parties	Telefónica Factoring México	Director
Juan José Gómez Miguelañez	Factoring	On behalf of third parties	Telefónica Factoring Chile	Director
Juan José Gómez Miguelañez	Insurance	On behalf of third parties	Seguros de Vida y Pensiones Antares, S.A.	Director
Juan José Gómez Miguelañez	Insurance	On behalf of third parties	Casiopea Re, S.A.	Director and Chairman
Juan José Gómez Miguelañez	Insurance	On behalf of third parties	Telefónica Insurance, S.A.	Director and Chairman
Juan José Gómez Miguelañez	Insurance	On behalf of third parties	Telefónica Luxembourg Holding, S.á.r.l.	Director and Chairman
Juan José Gómez Miguelañez	Mutual and pension fund management	On behalf of third parties	Fonditel Pensiones, Entidad Gestora de Fondos de Pensiones, S.A.	Proprietary director
Juan José Gómez Miguelañez	Insurance and reinsurance company	On behalf of third parties	Pléyade Peninsular	Director and Chairman

11.3 Environmental disclosures

At December 31, 2013 and December 31, 2012, the Company had not designated significant assets to environmental protection or restoration, nor had it incurred any expenses for this purpose during the year. Likewise, no environmental grants were received during the years ended December 31, 2013 and December 31, 2012.

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

11.4 Information regarding deferred payments to suppliers in commercial transactions

Telefónica Emisiones, S.A.U. has completed the adaptation of its internal processes and payment schedules to the provisions of Law 15/2010, establishing measures against late payment in commercial transactions. Engagement conditions with commercial suppliers in 2013 and 2012 included payment periods of up to 60 days and 75 days, respectively, as laid down in Transitional Provision Two of the aforementioned law.

Information on contracts under agreements entered into after Law 15/2010 took effect that exceed the maximum period established in this law is shown in the table below.

	Payments made and outstanding at the reporting date			
	2013		2012	
(Thousands of euros)	Amount	%	Amount	%
Within the maximum legal timeframe	2,453	100	1,595	100
Others	-	-	-	-
Total payments in the year	2,453	100	1,595	100
Weighted average payment days	-	-	-	-
Deferrals at year-end exceeding the legal limit	-	-	-	-

At both December 31, 2013 and December 31, 2012, there were no balances payable to suppliers outstanding after the legal payment term.

11.5 Contracts entered into with the Sole Shareholder

Details of contracts entered into with the Sole Shareholder, Telefónica, S.A., including the date these contracts were signed and a brief description of their purpose, characteristics and inherent obligations of the contracting parties are as follows:

Contract	Start date	Purpose	Characteristics
Financing framework agreement	04/29/2005	Awarding of loans to Sole Shareholder	The Company will award loans under this framework agreement pursuant to the specific terms and conditions agreed between the parties for each loan.

12. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The debt issued by Telefónica Emisiones, S.A.U. on the capital markets is guaranteed by Telefónica, S.A. Therefore, the credit risk on its issues is equivalent to a direct investment in Telefónica, S.A.

The terms and conditions of financial assets held by Telefónica, S.A. are essentially the same as those of its financial liabilities. Therefore, they are hedged against interest rate and liquidity risk.

13. EVENTS AFTER THE REPORTING PERIOD

The following events regarding the Company took place between the end of 2013 and the date of authorization for issue of the accompanying financial statements:

- On January 31, 2014, the Company redeemed 296 million pounds sterling (360 million euros) corresponding to the outstanding balance of bonds and debentures of 500 million pounds sterling issued on December 28, 2006, bearing interest at a rate of 5.888%.
- On February 3, 2014, the Company redeemed, on the related maturity date, debentures and bonds of 2,000 million euros issued on February 3, 2009, and bearing interest at rate of 5.431%.
- On February 7, 2014, the Company redeemed, on the related maturity date, debentures and bonds of 1,500 million euros issued on February 7, 2007, bearing interest at rate of 4.674%.

The issues were made under Telefónica Emisiones, S.A.U.'s 40,000 million euro European Medium Term Note (EMTN) program, secured by Telefónica, S.A., of June 12, 2013.

14. ADDITIONAL NOTE FOR ENGLISH TRANSLATION

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

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

STATEMENT BY THE BOARD OF DIRECTORS OF TELEFÓNICA EMISIONES, S.A. (Sole-Shareholder Company)

The annual financial statements of Telefónica Emisiones, S.A. (Sole-Shareholder Company) for 2013 were authorized for issue by the Company's joint and several Directors at a meeting held on February 20, 2014, and submitted for approval by the Sole Shareholder. All pages of these annual financial statements, including this page, are signed and stamped by the joint and several Directors.

Madrid, February 20, 2014

Joint and several Directors

(Signed on the original in Spanish)

Eduardo J. Álvarez Gómez

Juan José Gómez Miguelañez

TELEFÓNICA EMISIONES, S.A.
(Sole-Shareholder Company)

MANAGEMENT REPORT FOR THE YEAR ENDED 31 DECEMBER 2013

Telefónica Emisiones, S.A. (Sole-Shareholder Company) is a Sole-Shareholder Company, whose share capital comprises 62,000 ordinary shares with a nominal value of 1 euro each. Share capital is fully subscribed and paid in. The Sole Shareholder is Telefónica, S.A.

In 2013, as in 2012, the Company had two joint and several Directors: (i) Eduardo J. Álvarez Gómez and (ii) Juan José Gómez Migueláñez.

In 2013, the Company continued to carry out the business that makes up its corporate purpose.

Highlights of the 2013 income statement include:

- Operating losses of 2,999 thousand euros (2,847 thousand euros in 2012). The most relevant items are expenses incurred with credit rating agencies and the tax certification agent for the payment of the coupons of outstanding bond issues.
- Net financial income of 3,127 thousand euros (5,624 thousand euros in 2012), from interest and commissions earned on loans granted to Telefónica, S.A. and interest on short-term financial investments received on positive balances in the account with Telefónica Finanzas, S.A.U.
- The combination of these two figures and the income tax expense of 39 thousand euros (833 thousand euros in 2012) gave rise to income from ordinary activities of 90 thousand euros (1,944 thousand euros in 2012).

Financial transactions undertaken in 2013 comprise debentures in Euros and Swiss francs issued by Telefónica Emisiones, S.A.U. and guaranteed by Telefónica, S.A. under the 40 thousand million euro European Medium Term Note (EMTN) program of June 12, 2013 and US dollars, in an addendum to the prospectus of Telefónica Emisiones guaranteed by Telefónica, S.A. dated May 22, 2012 and registered in the U.S. Securities and Exchange Commission.

In addition, on March, Telefónica Emisiones S.A.U. entered into a transaction of exchange of outstanding bonds and debentures (605,050 thousand euros) for newly issued bonds denominated in euros maturing on March 2015 and February 2016 and re-purchased (and subsequently redeemed) 204,200 thousand pounds sterling (244,932 thousand euros) maturing on January 2014.

As in 2012, the Company did not purchase or carry out any transactions involving treasury shares or any research and development activities in 2013.

Going forward, the Company is expected to carry on its line of business, performing financial transactions to raise finance for the Telefónica Group.

The debt issued by Telefónica Emisiones, S.A.U. (Sole-Shareholder Company) on the capital markets is guaranteed by Telefónica, S.A. Therefore, the credit risk on its issues is equivalent to a direct investment in Telefónica, S.A.

The terms and conditions of financial assets held by Telefónica, S.A. are essentially the same as those of its financial liabilities. Therefore, they are hedged against interest rate and liquidity risk.

Events after the reporting period:

The following events regarding the Company that took place between the end of 2013 and the date of authorization for issue of the accompanying financial statements are as follows:

On January 31, 2014, the Company redeemed 296 million pounds sterling (360 million euros) corresponding to the outstanding balance of bonds and debentures of 500 million pounds sterling issued on December 28, 2006, bearing interest at a rate of 5.888%.

On February 3, 2014, the Company redeemed, on the related maturity date, debentures and bonds of 2,000 million euros issued on February 3, 2009, and bearing interest at rate of 5.431%.

On February 7, 2014, the Company redeemed, on the related maturity date, debentures and bonds of 1,500 million euros issued on February 7, 2007, bearing interest at rate of 4.674%.

The issues were made under Telefónica Emisiones, S.A.U.'s 40,000 million euro European Medium Term Note (EMTN) program, secured by Telefónica, S.A., of June 12, 2013.

Annual corporate governance report:

The Company is a Sole-Shareholder company and therefore a specific corporate governance report by the Company and the information required by Article 61 bis of the Spanish Securities Market Law is not considered necessary. As its Sole-Shareholder is Telefónica, S.A., readers should refer to the Telefónica, S.A. annual corporate governance report.

Related-party transactions:

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

This management report, together with the annual financial statements, were authorized for issue by the joint and several Directors on February 20, 2014.

(Signed on the original in Spanish)

Eduardo J. Álvarez Gómez
Joint and several Director of Telefónica Emisiones, S.A. (Sole-Shareholder company)

(Signed on the original in Spanish)

Juan José Gómez Miguelañez
Joint and several Director of Telefónica Emisiones, S.A. (Sole-Shareholder company)