

AUDIT REPORT

TELEFÓNICA EMISIONES, S.A.
(Sole Shareholder Company)
Financial Statements and Management Report
for the year ended
December 31, 2012

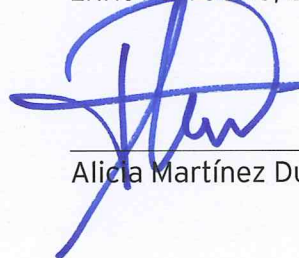
Translation of the report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 14)

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, 2012, 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 2012 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, 2012, 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 2012 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 2012 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 26, 2013

Telefónica Emisiones, S.A.
(Sole Shareholder Company)
Financial Statements for the year ended
December 31, 2012



2012

CONTENTS

Page

➤	Balance sheet at December 31, 2012	3
➤	Income statement for the year ended December 31, 2012	4
➤	Statement of changes in equity for the year ended December 31, 2012	5
➤	Cash flow statement for the year ended December 31, 2012.....	6
➤	Notes to the financial statements for the year ended December 31, 2012.....	7

TELEFONICA EMISIONES, S.A. (Sole Shareholder company)
Balance sheet at December 31, 2012

(Thousands of euros)

ASSETS	Note	2012	2011
NON-CURRENT ASSETS		30,986,608	29,341,097
Non-current investment in Group companies and associates	5, 10.2	30,986,608	29,341,097
Loans to companies		30,986,608	29,341,097
CURRENT ASSETS		4,253,738	1,343,954
Trade and other receivables		939	39
Prepayments to suppliers		392	37
Trade receivables		86	2
Other receivables		461	-
Current investments in Group companies and associates	5, 10.2	4,250,511	1,341,469
Loans to companies		4,250,511	1,341,469
Cash and cash equivalents	10.2	2,288	2,446
TOTAL ASSETS		35,240,346	30,685,051
EQUITY AND LIABILITIES	Note	2012	2011
EQUITY		5,130	3,186
CAPITAL AND RESERVES	6	5,130	3,186
Capital		62	62
Issued capital		62	62
Reserves		3,124	2,157
Legal and statutory reserves		12	12
Other reserves		3,112	2,145
Profit for the year		1,944	967
NON-CURRENT LIABILITIES		30,981,666	29,337,428
Non-current borrowings	7	30,981,666	29,337,428
Debentures, bonds and other marketable debt securities		30,981,666	29,337,428
CURRENT LIABILITIES		4,253,550	1,344,437
Current borrowings	7	4,252,328	1,343,699
Debentures, bonds and other marketable debt securities		4,252,328	1,343,699
Payable to Group companies and associates	7.2 & 10.2	668	414
Trade and other payables	7	554	324
Other payables		209	72
Suppliers, Group companies and associates		283	207
Other payables to public administrations		62	45
TOTAL EQUITY AND LIABILITIES		35,240,346	30,685,051

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

TELEFONICA EMISIONES, S.A. (Sole Shareholder company)
Income statement for the year ended December 31, 2012

(Thousands of euros)

	Note	2012	2011
Other operating expenses		(2,847)	(2,316)
External services	9.1	(2,840)	(2,313)
Taxes other than income tax		(7)	(3)
OPERATING LOSS		(2,847)	(2,316)
Finance income	9.2	1,607,463	1,395,385
In Group companies and associates		1,607,463	1,395,385
Finance costs	9.3	(1,601,828)	(1,391,717)
Borrowings from Group companies and associates		-	-
Third-party borrowings		(1,601,828)	(1,391,717)
Exchange gains (losses)	9.4	(11)	29
NET FINANCIAL INCOME		5,624	3,697
PROFIT BEFORE TAX		2,777	1,381
Income tax	8	(833)	(414)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		1,944	967
PROFIT FOR THE YEAR		1,944	967

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

TELEFONICA EMISIONES, S.A. (Sole Shareholder company)
Statements of changes in equity for the years ended December 31, 2012
(Thousands of euros)

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

	Note	2012	2011
PROFIT FOR THE YEAR		1,944	967
TOTAL RECOGNIZED INCOME AND EXPENSE		1,944	967

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, 2011	62	1,445	713	2,220
Total recognized income and expense	-	-	967	967
Transactions with shareholders and owners				
Other changes in equity	-	713	(713)	-
Other adjustments	-	(1)	-	(1)
BALANCE AT DECEMBER 31, 2011	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

* The accompanying Notes 1 to 14 are an integral part of the statements of changes in equity.

TELEFONICA EMISIONES, S.A. (Sole Shareholder company)
Cash flow statements for the years ended December 31, 2012

(Thousands of euros)

	2012	2011
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Profit before tax	2,777	1,381
Adjustments to profit	(5,624)	(3,697)
Finance income	(1,607,463)	(1,395,385)
Finance costs	1,601,828	1,391,717
Exchange gains (losses)	11	(29)
Change in working capital	(670)	(335)
Trade and other receivables	(900)	263
Trade and other payables	213	(198)
Other current liabilities	17	(400)
Other cash flows from operating activities	(857)	(13,807)
Interest paid	(1,451,185)	(1,378,918)
Interest received	1,450,445	1,365,490
Income tax receipts (payments)	(579)	(149)
Other payments (receipts)	462	(230)
CASH FLOWS USED IN OPERATING ACTIVITIES	(4,374)	(16,458)
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Payments on investments	(5,146,084)	(4,387,554)
Group and associates	(5,146,084)	(4,387,554)
Proceeds from disposals	620,284	2,954,491
Group and associates	620,284	2,954,491
CASH FLOWS USED IN INVESTING ACTIVITIES	(4,525,800)	(1,433,063)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES		
Proceeds from and payments for financial instruments	4,530,028	1,449,599
Issue		
Debentures, bonds and other marketable debt securities	5,147,718	4,387,873
Repayment and redemption of		
Debentures, bonds and other marketable debt securities	(617,690)	(2,938,274)
Interest-bearing debt	-	-
Payable to Group companies	-	-
CASH FLOWS FROM FINANCING ACTIVITIES	4,530,028	1,449,599
NET FOREIGN EXCHANGE DIFFERENCE	(12)	39
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(158)	117
Cash and cash equivalents at January 1	2,446	2,329
Cash and cash equivalents at December 31	2,288	2,446

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

TELEFONICA EMISIONES, S.A. (Sole Shareholder company)
Notes to the financial statements for the year ended December 31, 2012

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 Calle 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 accounting principles 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 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 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 flow statement has been prepared to present fairly the source and application of monetary assets such as cash and cash equivalents.

These financial statements were authorized for issue by the Company's joint and several directors ("Directors") on February 21, 2013 and it is expected that they will be approved by the Sole Shareholder without modification.

2.2 Comparison of information

In accordance with mercantile law, figures from the 2012 balance sheet, income statement, statement of changes in equity, and cash flow statement are disclosed for comparison with the information for 2011. 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 2012 profit to be submitted by the joint and several Directors for approval by the Company's Sole Shareholder is as follows:

(Thousands of euros)	2012
Proposed appropriation	
Profit for the year	1,944
	1,944
Appropriation to:	
Voluntary reserves	1,944
	1,944

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 as well as groups of assets with similar risk characteristics.

Cancellation

Financial assets (or, where applicable, a part of a financial asset 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 the grant date of the related loans.

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

The Company derecognizes a financial liability 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 to which it relates.

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 financial liability, 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 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, and in business combinations in which it 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 at the tax rate expected to apply to the period in which they reverse, as required by enacted tax laws and in the manner in which it reasonably expects to recover the deferred tax asset or settle the deferred tax liability.

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; if they differ from the aforementioned assets, when they are expected to mature, to be sold or settled within one year; if 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, 2012 and 2011 is as follows:

(Figures in thousands of euros)	2012	2011
Non-current financial assets		
Loans to Group companies (Note 5.1)	30,986,608	29,341,097
	30,986,608	29,341,097
Current financial assets		
Loans to Group companies (Note 5.1)	4,250,511	1,341,469
	4,250,511	1,341,469

5.1 Loans to Group companies

The balance relates to loans granted to Telefónica, S.A. between 2006 and 2012, which break down as follows:

(Figures in thousands of euros)

Loan	Issue date	Maturity date	Annual interest rate	Frequency of payment	2012		2011	
					Non-current assets	Current assets	Non-current assets	Current assets
No. 1	2/2/06	2/2/16	4.375 %	Annual	1,743,766	69,659	1,741,789	69,641
No. 3	2/2/06	2/2/18	5.375 %	Annual	916,165	44,943	894,574	43,898
No. 4	2/2/06	2/2/26	5.375 %	Annual	610,423	29,962	596,226	29,266
No. 8	6/20/06	6/20/16	6.421 %	Half-yearly	945,090	1,859	962,982	1,895
No. 9	6/20/06	6/20/36	7.045 %	Half-yearly	1,505,486	3,263	1,534,243	3,487
No. 10	10/17/06	10/17/12	4.393 %	Annual	-	-	-	515,306
No. 12	12/28/06	1/31/14	5.888 %	Annual	612,196	33,010	597,720	32,252
No. 13	1/31/07	12/30/21	6-month Euribor + 0.830%	Half-yearly	54,964	-	54,959	4
No. 14	1/31/07	1/31/18	3-month Euribor + 0.700 %	Quarterly	24,000	36	24,000	93
No. 15	2/7/07	2/7/14	4.674 %	Annual	1,499,660	62,811	1,498,346	63,328
No. 17	6/19/07	6/19/14	4.623 %	Annual	103,328	2,554	100,636	2,482
No. 18	6/19/07	6/19/12	4.351 %	Annual	-	-	-	118,916
No. 20	7/2/07	2/04/13	USD 3-month Libor + 0.330%	Quarterly	-	644,847	656,178	1,195
No. 21	7/2/07	2/04/13	5.855 %	Half-yearly	-	581,829	579,504	13,779
No. 22	7/2/07	7/3/17	6.221 %	Half-yearly	529,450	16,319	539,599	16,773
No. 23	6/12/08	6/12/13	5.580%	Annual	-	1,288,159	1,248,485	38,831
No. 24	2/3/09	2/3/14	5.431%	Annual	1,998,468	98,502	1,997,082	98,502
No. 25	4/1/09	4/1/16	5.496%	Annual	998,142	41,258	997,191	41,547
No. 26	6/2/09	6/2/15	3-month Euribor + 1.825 %	Quarterly	399,621	627	399,464	1,063
No. 27	6/3/09	4/1/16	4.963%	Annual	509,214	19,055	511,270	19,003
No. 28	7/6/09	1/15/15	4.949%	Half-yearly	946,016	21,620	963,936	22,046
No. 29	7/6/09	7/15/19	5.877%	Half-yearly	755,741	20,539	770,243	20,945

No. 30	11/10/09	11/11/19	4.693%	Annual	1,745,615	11,250	1,744,976	11,219
No. 31	12/10/09	12/9/22	5.289%	Annual	794,295	2,539	775,876	2,481
No. 32	12/23/09	12/23/14	3-month Euribor + 0.700 %	Quarterly	99,992	17	99,988	47
No. 33	3/24/10	3/24/15	3.406%	Annual	1,398,088	36,841	1,397,297	36,740
No. 34	4/26/10	4/26/13	2.582%	Half-yearly	-	913,727	926,754	4,436
No. 35	4/26/10	4/27/15	3.729%	Half-yearly	681,086	4,522	693,840	4,723
No. 36	4/26/10	4/27/20	5.134%	Half-yearly	1,057,454	9,685	1,077,642	9,987
No. 37	9/16/10	9/18/17	3.661%	Annual	997,766	10,431	997,318	11,136
No. 38	10/8/10	10/8/29	5.445%	Annual	488,201	6,142	476,842	6,000
No. 39	2/7/11	2/7/17	4.75%	Annual	1,197,295	51,084	1,196,623	50,325
No. 40	2/16/11	2/16/16	3.992%	Half-yearly	945,699	14,183	963,318	14,490
No. 41	2/16/11	2/16/21	5.462%	Half-yearly	1,132,647	23,286	1,154,434	23,773
No. 42	3/21/11	2/7/17	4.688%	Annual	100,237	4,211	100,796	3,681
No. 43	11/03/11	02/03/16	4.967%	Annual	997,693	45,043	997,109	7,871
No. 44	11/04/11	11/04/16	2.8247%	Half-yearly	61,650	267	69,857	308
No. 45	02/07/12	02/07/17	4.75%	Annual	118,422	5,107	-	-
No. 46	02/21/12	02/21/18	4.797%	Annual	1,495,276	61,704	-	-
No. 47	03/12/12	03/12/20	5.597%	Annual	854,692	38,669	-	-
No. 48	03/30/12	03/30/17	3.934%	Annual	49,525	1,479	-	-
No. 49	07/11/12	07/11/18	4.25%	Half-yearly	88,019	1,773	-	-
No. 50	09/19/12	09/05/17	5.811%	Annual	1,005,545	15,927	-	-
No. 51	10/19/12	01/20/20	4.710%	Annual	1,195,620	11,304	-	-
No. 52	12/14/12	12/14/18	2.718%	Annual	206,344	266	-	-
No. 53	12/14/12	12/14/22	3.450%	Annual	123,717	203	-	-
					30,986,608	4,250,511	29,341,097	1,341,469

The fair value of loans extended to Telefónica, S.A. was 37,351,581 thousand euros at December 31, 2012 and 30,546,763 thousand euros at December 31, 2011.

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, 2012 and 2011 is as follows:

(Figures in thousands of euros)	2012	2011
Between one and two years	4,313,644	3,410,921
Between two and three years	3,424,811	4,293,772
Between three and four years	6,201,255	3,454,537
Between four and five years	3,998,240	6,243,516
Over 5 years	13,048,658	11,938,351
	30,986,608	29,341,097

6. EQUITY – CAPITAL AND RESERVES

6.1 Share capital

Share capital at December 31, 2012 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 Spanish Corporate Enterprises Act, until the balance of the legal reserve is equivalent to at least 20% of share capital, it cannot be distributed to shareholders and can only be used to offset losses if no other reserves are available. This 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, 2012 and 2011 is as follows:

(Figures in thousands of euros)	Note	2012	2011
Non-current financial liabilities		30,981,666	29,337,428
Borrowings – Debentures, bonds and other marketable securities	7.1	30,981,666	29,337,428
Current financial liabilities		4,253,550	1,344,437
Borrowings – Debentures, bonds and other marketable securities	7.1	4,252,328	1,343,699
Payable to Group companies and associates	7.2	668	414
Trade and other payables		554	324

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 2012 in euros, US dollars, Pounds sterling, Czech crowns, Japanese yen and Swiss francs. The debenture and bond issues are secured by Telefonica, 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	(Figures in thousands of euros)		
					2012 Non-current liabilities	2012 Current liabilities	2011 Non-current liabilities
EMTN 1	2/02/06	2/02/16	4.375 %	Annual	1,743,766	69,659	1,741,729
EMTN 3	2/02/06	2/02/18	5.375 %	Annual	916,143	44,943	894,535
EMTN 4	2/02/06	2/02/26	5.375 %	Annual	610,399	29,962	596,194
SHELF B	6/20/06	6/20/16	6.421 %	Half-yearly	945,353	1,859	963,085
SHELF C	6/20/06	6/20/36	7.045 %	Half-yearly	1,502,778	3,263	1,531,822
EMTN 6	10/17/06	4/17/12	4.393 %	Annual	-	-	-
EMTN 8	12/28/06	1/31/14	5.888 %	Annual	612,241	33,010	597,745
EMTN 9	1/31/07	12/30/21	6-month Euribor + 0.83%	Half-yearly	54,957	-	54,952
EMTN 10	1/31/07	1/31/18	3-month Euribor + 0.70 %	Quarterly	23,972	36	23,962
EMTN 11	2/7/07	2/7/14	4.674 %	Annual	1,499,155	62,811	1,498,325
EMTN 13	6/19/07	6/19/14	4.623 %	Annual	103,205	2,554	100,344
EMTN 14	6/19/07	6/19/12	4.351 %	Annual	-	-	-
SHELF E	7/2/07	2/4/13	3-month Libor + 0.33%	Quarterly	-	644,847	656,188
SHELF F	7/2/07	2/4/13	5.855 %	Half-yearly	-	581,834	579,417
SHELF G	7/2/07	7/3/17	6.221 %	Half-yearly	529,576	16,319	539,704
EMTN 16	6/12/08	6/12/13	5.580 %	Annual	1,287,988	1,287,988	1,248,960
EMTN 17	2/3/09	2/3/14	5.431%	Annual	1,998,460	98,530	1,997,035
EMTN 18 Tr 1	4/1/09	4/1/16	5.496%	Annual	998,168	41,257	997,611
EMTN 19	6/2/09	6/2/15	3-month Euribor + 1.83%	Quarterly	399,629	627	399,466
EMTN 18 Tr 2	6/3/09	4/1/16	5.496%	Annual	507,570	20,629	509,651
SHELF H	7/6/09	1/15/15	4.949%	Half-yearly	946,061	21,620	963,978

SHELF I	7/6/09	7/15/19	5.877%	Half-yearly	755,934	20,539	770,433	20,957
EMTN 20	11/10/09	11/11/19	4.693%	Annual	1,745,671	11,220	1,744,979	11,252
EMTN 21	12/10/09	12/9/22	5.289%	Annual	794,382	2,539	775,868	2,476
EMTN 22	12/23/09	12/23/14	3-month Euribor + 0.70%	Quarterly	99,976	17	99,987	53
EMTN 23	3/24/10	3/24/15	3.406%	Annual	1,398,121	36,841	1,397,343	36,740
SHELF J	4/26/10	4/26/13	2.582%	Half-yearly		913,632	926,745	4,408
SHELF K	4/26/10	4/27/15	3.729%	Half-yearly	681,038	4,522	693,868	4,674
SHELF L	4/26/10	4/27/20	5.134%	Half-yearly	1,057,155	9,685	1,077,326	9,978
EMTN 24	9/16/10	9/18/17	3.661%	Annual	997,801	10,431	997,377	10,400
EMTN 25	10/8/10	10/8/29	5.445%	Annual	488,235	6,142	476,914	5,984
EMTN 26 Tr 1	2/7/11	2/7/17	4.75%	Annual	1,197,316	51,084	1,196,651	51,700
SHELF M	2/16/11	2/16/16	3.992%	Half-yearly	945,302	14,183	963,273	14,479
SHELF N	2/16/11	2/16/21	5.462%	Half-yearly	1,132,406	23,286	1,154,170	23,448
EMTN 26 Tr 2	3/21/11	2/7/17	4.75%	Annual	100,590	5,107	100,727	3,477
EMTN 27	11/3/11	2/3/16	4.967%	Annual	997,767	45,043	997,204	7,787
EMTN 28	11/4/11	11/4/16	2.8247%	Half-yearly	61,600	257	69,860	305
EMTN 26 Tr 3	02/07/12	02/07/17	4.75%	Annual	118,455	4,255	-	-
EMTN 29	02/21/12	02/21/18	4.80%	Annual	1,495,341	61,704	-	-
EMTN 30	03/12/12	03/12/20	5.60%	Annual	854,749	38,669	-	-
EMTN 31	03/30/12	03/30/17	3.93%	Annual	49,598	1,479	-	-
EMTN 32	07/11/12	07/11/18	4.25%	Half-yearly	88,057	1,773	-	-
EMTN 33 Tr 1	09/19/12	09/05/17	5.81%	Annual	1,005,039	16,398	-	-
EMTN 34 Tr 1	10/19/12	01/20/20	4.71%	Annual	1,195,589	11,306	-	-
EMTN 35 Tr 1	12/14/12	12/14/18	2.72%	Annual	206,359	266	-	-
EMTN 35 Tr 2	12/14/12	12/14/22	3.45%	Annual	123,753	202	-	-
					30,981,666	4,252,328	29,337,428	1,343,699

The fair value of the debentures and bonds issued by the Company was 37,339,211 thousand euros at December 31, 2012 and 30,516,788 thousand euros at December 31, 2011.

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, 2012 and 2011 is as follows:

(Figures in thousands of euros)	2012	2011
Between one and two years	4,313,037	3,411,310
Between two and three years	3,424,849	4,293,436
Between three and four years	6,199,525	3,454,655
Between four and five years	3,998,375	6,242,413
Over 5 years	13,045,880	11,935,614
	30,981,666	29,337,428

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 668 thousand euros (2011: 414 thousand euros).

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 to which it is liable for 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 2012 and 2011 is as follows:

(Figures in thousands of euros)	2012	2011
Accounting profit before tax	2,777	1,381
Permanent differences	-	-
Temporary differences	-	-
Adjusted accounting profit	2,777	1,381
Taxable income for the year	2,777	1,381
Tax expense	833	414

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 2012, 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 165 thousand euros. At December 31, 2012 and 2011, the Company has no unused tax credits on income tax payable in future years.

9. INCOME AND EXPENSE

9.1 External services

(Figures in thousands of euros)	2012	2011
Independent professional services	684	110
Other services	2,154	2,201
Banking and similar services	2	2
TOTAL	2,840	2,313

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:

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
2011 (Thousands of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen
Assets					
Loans to companies	-	10,809,949	3,337,122	216,461	69,860
Liabilities					
Debentures, bonds and other marketable debt securities	-	10,810,649	3,337,366	216,544	69,860

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

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 expenses	462	553,656	229,130	8,798	3,943
2011 (Thousands of euros)	Swiss francs	US dollars	Pounds sterling	Czech crowns	Japanese yen
Interest income	-	516,991	177,023	10,300	295
Interest expenses	-	516,426	176,937	10,278	295

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

(Figures in thousands of euros)	2012	2011
Loans to companies		
Transactions settled during the financial year	1,410	(46,297)
Transactions pending settlement at year end	126,550	474,103
	127,960	427,806
Trade and other payables		
Transactions settled during the financial year	(1,413)	46,299
Transactions pending settlement at year end	(126,558)	(474,076)
	(127,971)	(427,777)

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 2012 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:

(Figures in thousands of euros)	Group parent 2012	Other Group companies 2012	Group parent 2011	Other Group companies 2011
Non-current loans (Note 5)	30,986,608	-	29,341,097	-
Current loans (Note 5)	4,250,511	-	1,341,469	-
Cash and cash equivalents	-	2,288	-	2,446
Current accounts payable	668	283	414	207

10.3 Transactions

Transactions entered into with related parties are as follows:

(Figures in thousands of euros)	Group parent 2012	Other Group companies 2012	Group parent 2011	Other Group companies 2011
External services (9.1)	-	(58)	-	(58)
Finance income - interest (Note 9.2)	1,607,455	8	1,395,362	23
Exchange gains (Note 9.4)	127,961	-	427,718	-

11. OTHER DISCLOSURES

11.1 Auditors' fees

The fees accrued in 2012 and 2011 to the various member firms of the Ernst & Young international organization, to which Ernst & Young, S.L. (the auditors of Telefónica Emisiones, S.A.U.) belongs amounted to 189 thousand euros in 2012 and 132 thousand euros in 2011, and were solely for audit services.

11.2 Director disclosures

In 2012, 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 Capital 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 Capital 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	% shareholding ¹	Position
Eduardo J. Álvarez Gómez	Telefónica, S.A.	< 0.01%	Director of Finance
Juan José Gómez Miguelañez	Telefónica, S.A.	< 0.01%	Director of Treasury, Risk & Insurance
Juan José Gómez Miguelañez	Telefónica Factoring Brasil	< 0.01%	Director

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

- b) Engagement, for their own account or the account of others, in a business that is the same as or analogous or supplementary to the business constitution 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, 2012 and 2011, 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, 2012 and 2011.

The Company's 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

In accordance with Law 15/2010 of July 5, amending Law 3/2004 of December 29 establishing measures against defaults on commercial transactions, the following table presents a breakdown with the total amount of payments made to suppliers during the year, distinguishing those which exceeded the legal payment deadline, weighted average payment days and balances payable to suppliers outstanding after the legal payment term at year end:

(Figures in thousands of euros)	Payments made and outstanding at the reporting date			
	2012		2011	
	Amount	%	Amount	%
Within the legal payment limit	1,595	100	2,602	100
Other	-	-	-	-
Total payments in the year	1,595	100	2,602	100
Weighted average payment days	-	-	-	-
Deferrals at year end exceeding the legal limit	-	-	-	-

At both December 31, 2012 and 2011, 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	04/29/05	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 2012 and the date of preparation of the accompanying financial statements:

On January 22, 2013, the Company issued 1,500 million euros of 3.987% bonds maturing January 23, 2023.

The issue was 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, 2012.

On February 4, 2013, the Company redeemed bonds that were issued on July 2, 2007, for an amount of 750 million US dollars and 850 million US dollars (approximately 1,213 million euros). These bonds were guaranteed by Telefónica, S.A.

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 TELEFONICA EMISIONES, S.A. (Sole Shareholder Company)

The annual financial statements of Telefónica Emisiones, S.A. (Sole Shareholder company) for 2012 were authorized for issue by the Company's joint and several Directors at a meeting held February 21, 2013, and submitted for approval by the Sole Shareholder. All pages of these financial statements including this page are signed and stamped by the joint and several Directors.

Madrid, February 21, 2013

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 2012

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 2012, as in 2011, the Company had two joint and several directors: (i) Eduardo J. Álvarez Gómez and (ii) Juan José Gómez Migueláñez.

In 2012, the Company continued to carry out the business that makes up its corporate purpose.

Highlights of the 2012 income statement include:

- Operating losses of 2,847 thousand euros (2,316 thousand euros in 2011). 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 5,624 thousand euros (3,697 thousand euros in 2011), 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 833 thousand euros (414 thousand euros in 2011) gave rise to income from ordinary activities of 1,944 thousand euros (967 thousand euros in 2011).

Financial transactions undertaken in 2012 comprise debentures in euros, Czech crowns, Swiss francs, Pounds sterling and Japanese yen 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, 2012.

As in 2011, the Company did not purchase or carry out any transactions involving treasury shares or any research and development activities in 2012.

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 only event regarding the Company that took place between the end of 2012 and the date of authorization for issue of the accompanying financial statements is as follows:



On January 22, 2013, the Company issued 1,500 million euros of 3.987% bonds maturing on January 23, 2023.

The issue was 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, 2012.

On February 4, 2013, the Company redeemed bonds that were issued on July 2, 2007, for an amount of 750 million US dollars and 850 million US dollars (approximately 1,213 million euros). These bonds were guaranteed by Telefónica, S.A.

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 financial statements, were authorized for issue by the joint and several directors on February 21, 2013.

(Signed on the original in Spanish)

Eduardo J. Álvarez Gómez

Joint and several director of Telefónica Emisiones, S.A.U. (Sole shareholder company)

(Signed on the original in Spanish)

Juan José Gómez Miguelañez

Joint and several director of Telefónica Emisiones, S.A.U. (Sole shareholder company)