

AUDIT REPORT

TELEFÓNICA EMISIONES, S.A.
(Sole Shareholder Company)
Financial Statements and Management Report
for the year ended
December 31, 2010

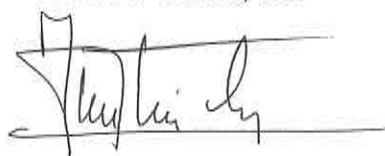
Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 14)

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, 2010, the income statement, the statement of changes in equity, the statement of cash flow, and the notes thereto for the year then ended. The Company's 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 the regulatory audit standards prevailing 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 2010 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, 2010, and the results of operations and 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 Note 10 to the accompanying financial statements, which describes that the Company executes a high volume of transactions with its Sole Shareholder, Telefónica, S.A. Our opinion is not qualified in respect of this matter.
4. The accompanying 2010 management report contains such explanations as the 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 2010 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.



José Luis Cores Roldán

February 23, 2011

TELEFONICA EMISIONES, S.A.U.

**Financial Statements
for the year ended
December 31, 2010**

CONTENTS

- Balance sheets at December 31, 2010 and 2009
- Income statements for the years ended December 31, 2010 and 2009
- Statements of changes in equity for the years ended December 31, 2010 and 2009
- Cash flow statements for the years ended December 31, 2010 and 2009
- Notes to the financial statements for the year ended December 31, 2010

TELEFONICA EMISIONES, S.A.U.
Balance sheets at December 31

(Thousands of euros)

ASSETS	Notes	2010	2009
NON-CURRENT ASSETS		25,072,356	22,019,248
Investment in Group companies and associates	5, 10.2	25,072,356	22,019,248
Loans to companies		25,072,356	22,019,248
CURRENT ASSETS		3,722,324	1,989,591
Trade and other receivables		302	86
Prepayments to suppliers		280	9
Trade receivables		22	76
Other receivables			1
Financial investments in Group companies and associates	5, 10.2	3,719,693	1,986,603
Loans to companies		3,719,693	1,986,603
Cash and cash equivalents	10.2	2,329	2,902
Cash and cash equivalents		2,329	2,902
TOTAL ASSETS		28,794,680	24,008,839
EQUITY AND LIABILITIES	Notes	2010	2009
EQUITY		2,220	1,507
CAPITAL AND RESERVES	6	2,220	1,507
Capital		62	62
Issued capital		62	62
Reserves		1,445	594
Legal and statutory reserves		12	12
Other reserves		1,433	582
Profit for the year		713	851
NON-CURRENT LIABILITIES		25,081,987	22,023,797
Borrowings	7	25,081,987	22,023,755
Debentures, bonds and other marketable debt securities		25,081,987	22,023,755
Borrowings from Group companies and associates	7, 10.2		42
CURRENT LIABILITIES		3,710,473	1,983,535
Borrowings	7	3,709,405	1,982,074
Debentures, bonds and other marketable debt securities		3,709,405	1,982,074
Borrowings from Group companies and associates	7, 10.2	542	935
Trade and other payables	7	526	526
Other payables		81	58
Other payables to public administrations		445	468
TOTAL EQUITY AND LIABILITIES		28,794,680	24,008,839

TELEFONICA EMISIONES, S.A.U.
Income statements for the years ended December 31 (Thousands of euros)

	Notes	2010	2009
Other operating expenses	9.1	(2,500)	(1,672)
External services		(2,496)	(1,671)
Taxes		(4)	(1)
OPERATING PROFIT		(2,500)	(1,672)
Finance income	9.2	1,286,177	980,665
In group companies and associates		1,286,177	980,665
Finance costs	9.3	(1,282,584)	(977,827)
Third-party borrowings		(1,282,584)	(977,827)
Exchange gains (losses)	9.4	(75)	50
NET FINANCE INCOME		3,518	2,888
PROFIT BEFORE TAX		1,018	1,216
Income tax	8	(305)	(365)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		713	851
PROFIT FOR THE YEAR		713	851

TELEFONICA EMISIONES, S.A.U.**Statements of changes in equity for the years ended December 31**

(Thousands of euros)

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

	Notes	2010	2009
PROFIT FOR THE YEAR		713	851
TOTAL RECOGNIZED INCOME AND EXPENSE		713	851

TELEFONICA EMISIONES, S.A.U.**Statements of changes in equity for the years ended December 31**

(Thousands of euros)

B) Total statements of changes in equity for the year ended December 31

	Issued capital (Note 6.1)	Reserves (Note 6.2)	Profit for the year (Note 3)	TOTAL
BALANCE AT JANUARY 1, 2009	62	589	5	656
Total recognized income and expense	-	-	851	851
Transactions with shareholders and owners				
Appropriation of prior year profit (loss)	-	5	(5)	-
BALANCE AT DECEMBER 31, 2009	62	594	851	1,507
Total recognized income and expense	-	-	713	713
Transactions with shareholders and owners				
Appropriation of prior year profit (loss)	-	851	(851)	-
BALANCE AT DECEMBER 31, 2010	62	1,445	713	2,220

TELEFONICA EMISIONES, S.A.U.
Statements of cash flows for the years ended December 31

(Thousands of euros)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	1,018	1,216
Adjustments to profit	-3,518	-2,888
Finance income	-1,286,177	-980,665
Finance costs	1,282,584	977,827
Exchange gains (losses)	75	-50
Change in working capital	-371	-167
Trade and other receivables	-216	80
Trade and other payables	-132	-161
Other current liabilities	-23	-86
Other cash flows from operating activities	-4,994	1,943
Interest paid	-1,204,842	-762,669
Interest received	1,201,143	770,064
Income tax receipts (payments)	-367	-198
Other payments (receipts)	-928	-5,254
CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	-7,865	104
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on investments	-5,460,839	-8,082,742
Group and associates	-5,460,839	-8,082,742
Proceeds from disposals	1,343,144	1,067,772
Group and associates	1,343,144	1,067,772
CASH FLOWS USED IN INVESTING ACTIVITIES	-4,117,695	-7,014,970
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from and payments for financial instruments	4,124,927	7,016,274
Issue		
Debentures, bonds and other marketable debt securities	5,468,071	8,084,047
Repayment and redemption of		
Debentures, bonds and other marketable debt securities	-1,343,144	-1,014,433
Interest-bearing debt		-1
Payable to Group companies and associates		-53,339
CASH FLOWS FROM FINANCING ACTIVITIES	4,124,927	7,016,274
NET FOREIGN EXCHANGE DIFFERENCE	60	18
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	-573	1,426
Cash and cash equivalents at January 1	2,902	1,476
Cash and cash equivalents at December 31	2,329	2,902

TELEFONICA EMISIONES,S.A.U.

Notes to the financial statements for the year ended December 31, 2010

1. ACTIVITY

Telefónica Emisiones, S.A.U. (the "Company") a sole shareholder, public limited company domiciled in Spain was incorporated 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 new accounting principles approved by Royal Decree 1514/2007 of November 16 and prevailing mercantile law.

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 accounts and have been drawn up in accordance with the accounting principles and policies contained in the Code of Commerce, developed in the Spanish GAAP in force and other prevailing legislation at the date of these financial statements.

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 origin and usage of monetary assets such as cash and cash equivalents.

These financial statements were prepared by the Company's joint and several directors ("Directors") and it is expected that they will be approved by the sole shareholder without modification.

2.2 Comparison of information

Figures from the 2009 balance sheet, income statement and statement of cash flows are disclosed for comparison with the information for the year ended December 31, 2010.

Application of new standards

Throughout 2010, the following modifications to existing and new standards were implemented for the first time, which should be taken into accounting when comparing with 2009.

Modifications introduced to the accounting principles based on Royal Decree 1159/2010

These financial statements are the first issued by the directors using the modifications introduced to the accounting principles based on Royal Decree 1159/2010, of September 17. As such, in virtue of section a) of the fifth transitional provision of this Royal Decree, the comparative information is presented without adapting it to the new criteria and, therefore, the financial statements are considered to be first-time financial statements exclusively for this item in terms of uniformity and comparability..

Information on deferred payments to suppliers in commercial transactions

This is the first year that Resolution 29 dated December 2010, of the Spanish Auditing and Accounting Institute will be applied for information to be included in the notes to the financial statements as regards late payments to suppliers in commercial transactions. As established in the second transitional provision, in the first year the Resolution is applied, the Company will provide only the information relating to the balance payable to suppliers, which at the end of the year exceeds the legal balance payable. It will not provide any comparative information on this new requirement, as the financial statements are considered to be first-time financial statement in terms of uniformity and comparability.

2.3 Key issues concerning the assessment 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 2010 profit to be submitted by the joint and several Directors for approval by the Company's sole shareholder is as follows:

(Thousands of euros)	2010
Proposed appropriation	
Profit for the year	713
	713
Appropriation to:	
Voluntary reserves	713
	713

4. RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied 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 long-term.

Upon initial recognition in the balance sheet, they are recognized at fair value, which, unless there is evidence to the contrary, is the transaction cost, 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.

Cancelation

Financial assets are derecognized when the contractual rights to receive the asset's cash flows expire.

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 loan.

Accordingly, when initially recognizing financial liabilities, explicit interest accrued but not due at that date is recognized separately, and classified by maturity. Explicit interest refers to the contract interest rate applied 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.

Cancelation

The Company derecognizes a financial liability when the obligation under the liability is extinguished.

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.

Accordingly, when initially recognizing financial liabilities, explicit interest accrued but not due at that date is recognized separately, and classified by maturity. Explicit interest refers to the contract interest rate applied 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., including local and foreign currency deposits fulfilling all the following requirements:

- They are readily convertible to cash.
- They mature within less than three months from the acquisition date.
- The risk of change in value is insignificant.
- 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 balance sheet 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 against which these assets may be utilized, except where disallowed by prevailing tax legislation.

At each financial year end, the Company assesses the deferred tax assets recognized and those that have not yet been 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 income tax assets and liabilities are measured at the tax rate expected to apply at the time of their reversal as required by enacted tax laws and in the manner in which it reasonably expected to recover the deferred tax asset or settle the liability.

Deferred tax assets and liabilities are not discounted and are classified as non-current assets or non-current 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 in force.

Monetary assets and liabilities denominated in foreign currency are translated at the spot exchange rate prevailing at the balance sheet date. All exchange gains or losses arising from translation as well as those resulting on settlement of balance sheet items are recognized in 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 to 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, 2010 and 2009 is as follows:

(Thousands of euros)	2010	2009
Non-current financial investments – Debt securities		
Loans and receivables – Loans to Group companies	25,072,356	22,019,248
	25,072,356	22,019,248
Current financial investments – Debt securities		
Loans and receivables – Loans to Group companies	3,719,693	1,986,407
Receivables from group companies (consolidated tax regime)	-	196
	3,719,693	1,986,603

5.1 Loans to companies:

The balance relates to loans granted to Telefónica, S.A. between 2006 and 2010, which break down as follows:

Thousands of euros

Loan	Issue date	Maturity	Annual interest rate	Frequency of payment	2010 Non-current assets	2010 Current assets	2009 Non-current assets	2009 Current assets
No. 1	02-02-2006	02-02-2016	4.375%	Annual	1,732,675	77,054	1,732,675	75,439
No. 2	02-02-2006	02-02-2011	3.750%	Annual		2,326,304	2,234,205	88,770
No. 3	02-02-2006	02-02-2018	5.375%	Annual	886,149	44,201	839,475	42,506
No. 4	02-02-2006	02-02-2026	5.375%	Annual	578,182	28,739	560,376	27,791
No. 5	07-25-2006	01-25-2010	3-month Euribor + 0.350%	Quarterly				1,252,456
No. 7	06-20-2006	06-20-2011	5.984%	Half-yearly		749,479	691,205	3,333
No. 8	06-20-2006	06-20-2016	6.421%	Half-yearly	929,876	3,954	862,488	3,226
No. 9	06-20-2006	06-20-2036	7.045%	Half-yearly	1,483,685	5,287	1,376,163	4,906
No. 10	10-17-2006	04-17-2012	4.393%	Annual	499,000	16,108	499,000	15,940
No. 12	12-28-2006	01-31-2014	5.888%	Annual	578,623	32,432	560,804	31,167
No. 13	01-31-2007	12-30-2021	6-month Euribor + 0.830%	Half-yearly	54,939	19	54,939	14
No. 14	01-31-2007	01-31-2018	3-month Euribor + 0.700%	Quarterly	24,000	73	24,000	59
No. 15	02-07-2007	02-07-2014	4.674%	Annual	1,495,725	65,376	1,495,725	64,474
No. 17	19-06-2007	19-06-2014	4.623%	Annual	103,440	2,681	97,948	2,500
No. 18	19-06-2007	19-06-2012	4.351%	Annual	119,413	2,955	113,074	188
No. 19	19-06-2007	19-06-2010	CZK Pribor 3m+0.160%	Quarterly				93,259
No. 20	02-07-2007	04-02-2013	USD 3-month Libor + 0.330%	Quarterly	634,415	1,694	588,439	1,279

Loan	Issue date	Maturity	Annual interest rate	Frequency of payment	2010 Non-current assets	2010 Current assets	2009 Non-current assets	2009 Current assets
No. 21	07-02-2007	02-04-2013	5.855%	Half-yearly	559,778	14,335	519,211	13,124
No. 22	07-02-2007	07-03-2017	6.221%	Half-yearly	521,873	17,104	483,868	15,726
No. 23	06-12-2008	06-12-2013	5.580%	Annual	1,246,825	39,877	1,246,825	39,260
No. 24	02-03-2009	02-03-2014	5.431%	Annual	1,994,500	100,061	1,994,500	99,091
No. 25	04-01-2009	04-01-2016	5.486%	Annual	996,250	42,023	996,250	41,584
No. 26	06-02-2009	06-02-2015	3-month Euribor + 1.825%	Quarterly	399,060	1,167	399,060	911
No. 27	06-03-2009	04-01-2016	4.963%	Annual	513,368	18,956	519,511	14,756
No. 28	07-06-2009	01-15-2015	4.949%	Half-yearly	932,074	22,155	864,527	21,153
No. 29	07-06-2009	07-15-2019	5.877%	Half-yearly	745,248	20,656	691,240	19,978
No. 30	11-10-2009	11-11-2019	4.693%	Annual	1,744,225	11,505	1,744,225	11,305
No. 31	12-10-2009	12-09-2022	5.289%	Annual	752,716	2,487	729,535	2,180
No. 32	12-23-2009	12-23-2014	3-month Euribor + 0.700%	Quarterly	99,980	43	99,980	32
No. 33	03-24-2010	03-24-2015	3.408%	Annual	1,386,080	37,239		
No. 34	04-26-2010	04-26-2013	2.582%	Half-yearly	896,650	4,618		
No. 35	04-26-2010	04-27-2015	3.729%	Half-yearly	671,120	4,886		
No. 36	04-26-2010	04-27-2020	5.134%	Half-yearly	1,042,954	9,909		
No. 37	09-16-2010	09-16-2017	3.661%	Annual	996,950	10,588		
No. 38	10-08-2010	10-08-2029	5.445%	Annual	462,783	5,718		
					25,072,356	3,719,693	22,019,248	1,986,407

The fair value of the loans extended to Telefónica, S.A. was 29,529,823 thousand euros at December 31, 2010 and 25,395,626 thousand euros at December 31, 2009.

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 maturity schedule for non-current assets included in this category at December 31, 2010 and 2009 is as follows:

(Thousands of euros)	2010	2009
Between one and two years	618,413	2,925,410
Between two and three years	3,337,668	609,762
Between three and four years	4,272,268	2,354,475
Between four and five years	3,398,334	4,251,269
Over 5 years	13,445,673	11,878,332
	25,072,356	22,019,248

6. EQUITY – CAPITAL AND RESERVES

6.1 Share capital

Share capital at December 31, 2010 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 as such at the Mercantile Registry.

6.2 Reserves

In accordance with the Spanish 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, 2010 and 2009 is as follows:

(Thousands of euros)	2010	2009
Non-current financial liabilities – Loans and payables		
Borrowings – Debentures, bonds and other marketable securities	25,081,987	22,023,755
Borrowings from Group companies and associates		42
	25,081,987	22,023,797
Current financial liabilities – Loans and payables		
Borrowings – Debentures, bonds and other marketable securities	3,709,405	1,982,074
Borrowings from Group companies and associates	542	935
Trade and other payables	526	526
	3,710,473	1,983,535

7.1. Debentures, bonds and other marketable debt securities

Non-current and current liabilities include the debentures and bonds issued by the Company in 2006, 2007, 2008, 2009 and 2010 in euros, US dollars, Pounds sterling and Czech crowns. The debenture and bond issues are secured by Telefonica, S.A. The breakdown of these issues is as follows:

Thousands of euros

Issue	Issue date	Maturity	Annual interest rate	Frequency of payment	2010 Non-current liabilities	2010 Current liabilities	2009 Non-current liabilities	2009 Current liabilities
EMTN 1	02-02-2006	02-02-2016	4.375%	Annual	1,732,615	77,071	1,732,615	75,436
EMTN 2	02-02-2006	02-02-2011	3.75%	Annual		2,326,332	2,235,723	87,578
EMTN 3	02-02-2006	02-02-2018	5.375%	Annual	866,109	44,209	839,435	42,500
EMTN 4	02-02-2006	02-02-2026	5.375%	Annual	578,150	28,743	560,344	27,785
EMTN 5	07-25-2006	01-25-2010	3-month Euribor + 0.35%	Quarterly				1,252,446
SHELF A	06-20-2006	06-20-2011	5.984%	Half-yearly		749,443	691,355	3,115
SHELF B	06-20-2006	06-20-2016	6.421%	Half-yearly	930,656	3,566	863,166	2,921
SHELF C	06-20-2006	06-20-2036	7.045%	Half-yearly	1,482,493	4,014	1,374,971	3,596
EMTN 6	10-17-2006	04-17-2012	4.393%	Annual	498,969	17,220	498,969	16,739
EMTN 8	12-28-2006	01-31-2014	5.888%	Annual	578,799	32,331	560,973	31,083
EMTN 9	01-31-2007	12-30-2021	6-month Euribor + 0.83%	Half-yearly	54,932	20	54,932	15
EMTN 10	01-31-2007	01-31-2018	3-month Euribor + 0.70%	Quarterly	23,974	80	23,974	64
EMTN 11	02-07-2007	02-07-2014	4.674%	Annual	1,495,804	64,809	1,495,804	64,262
EMTN 13	06-19-2007	06-19-2014	4.623%	Annual	103,484	2,659	97,990	2,485
EMTN 14	06-19-2007	06-19-2012	4.351%	Annual	119,467	2,917	113,124	153
EMTN 15	06-19-2007	06-19-2010	CZK 3-month Pribor + 0.16%	Quarterly				93,273
SHELF E	07-02-2007	02-04-2013	3-month Libor + 0.33%	Quarterly	634,725	1,479	588,717	1,128
SHELF F	02-07-2007	04-02-2013	5.855%	Half-yearly	560,050	14,030	519,455	12,872
SHELF G	02-07-2007	03-07-2017	6.221%	Half-yearly	521,913	16,706	484,081	15,351

Issue	Issue date	Maturity	Annual interest rate	Frequency of payment	2010 Non-current liabilities	2010 Current liabilities	2009 Non-current liabilities	2009 Current liabilities
EMTN 16	06-12-2008	06-12-2013	5.580%	Annual	1,248,397	38,798	1,248,384	38,624
EMTN 17	02-03-2009	02-03-2014	5.431%	Annual	1,994,452	100,079	1,994,420	99,105
EMTN 18 Tr 1	04-01-2009	04-01-2016	5.496%	Annual	996,969	41,557	996,969	41,220
EMTN 19	06-02-2009	06-02-2015	3-month Euribor + 1.83%	Quarterly	399,079	1,162	399,079	909
EMTN 18 Tr 2	06-03-2009	04-01-2016	5.496%	Annual	519,549	12,798	519,549	14,764
SHELF H	07-06-2009	01-15-2015	4.949%	Half-yearly	932,168	22,136	864,457	21,161
SHELF I	07-06-2009	07-15-2019	5.877%	Half-yearly	745,459	20,648	691,345	19,975
EMTN 20	11-10-2009	11-11-2019	4.693%	Annual	1,744,302	11,498	1,744,312	11,304
EMTN 21	12-10-2009	12-09-2022	5.289%	Annual	752,779	2,457	729,612	2,179
EMTN 22	12-23-2009	12-23-2014	3-month Euribor + 0.70%	Quarterly	99,986	41	100,000	31
EMTN 23	03-24-2010	03-24-2015	3.406%	Annual	1,396,150	37,229		
SHELF J	04-26-2010	04-26-2013	2.582%	Half-yearly	896,800	4,476		
SHELF K	04-26-2010	04-27-2015	3.729%	Half-yearly	671,235	4,764		
SHELF L	04-26-2010	04-27-2020	5.134%	Half-yearly	1,042,670	9,824		
EMTN 24	09-16-2010	09-18-2017	3.661%	Annual	997,000	10,596		
EMTN 25	10-08-2010	10-08-2029	5.445%	Annual	462,852	5,713		
					25,081,987	3,709,405	22,023,755	1,982,074

The fair value of the debentures and bonds issued by the Company was 29,514,021 thousand euros at December 31, 2010 and 25,380,426 thousand euros at December 31, 2009.

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 maturity schedule for non-current liabilities included in this category at December 31, 2010 and 2009 is as follows:

(Thousands of euros)	2010	2009
Between one and two years	618,436	2,927,078
Between two and three years	3,339,972	612,093
Between three and four years	4,272,525	2,356,556
Between four and five years	3,398,632	4,249,187
Over 5 years	13,452,422	11,878,841
	25,081,987	22,023,755

7.2 Payable to group companies and associates

The heading primarily includes accounts payable in connection with:

- Short-term balances payable to Group companies: T. Europe, B.V. for 390 thousand euros (2009: 544 thousand euros) and Telefónica Gestión Servicios Compartidos for 6 thousand euros (2009: 6 thousand euros).
- Current amounts payable to Telefónica, S.A., as head of the tax group to which the Company belongs.

8. TAXES

In accordance with prevailing legislation, the Company's tax returns cannot be considered final until they have either been inspected by the tax authorities or the corresponding statute of limitation has passed. The Company is open to inspection of all taxes to which it is liable since it began operating. The reconciliation of profit for the year to taxable income for the year ended December 31, 2009 is as follows:

(Thousands of euros)	2010	2009
Accounting profit before tax	1,018	1,216
Permanent differences		
Adjusted accounting profit	1,018	1,216
Taxable income for the year	1,018	1,216
Tax expense	305	365

Given that the Company booked a profit in 2010, it has recorded a tax expense corresponding to 30% of these profits.

Telefónica, S.A., as the parent of the tax group to which the Company belongs, has elected to apply the 28th transitional provision of Law 4/2008, dated December 23, 2008 which suppresses the Wealth Tax Levy, generalizes the monthly VAT tax return system and introduces other amendments to tax law.

At December 31, 2010 and 2009, 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)	2010	2009
Independent professional services	27	27
Other services	2,468	1,641
Banking and similar services	5	4
TOTAL	2,500	1,672

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

9.2 Finance income

Financial 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 includes interest expense on outstanding debentures.

9.4 Exchange gains (losses)

The breakdown of assets and liabilities denominated in foreign currencies at December 31, 2010 and 2009 is as follows:

(Thousands of euros)	US dollars	Pounds sterling	Czech crowns
2010			
Assets			
Loans to Group companies	9,162,683	3,238,453	222,853
Liabilities			
Debentures, bonds and other marketable debt securities	9,163,570	3,238,691	222,951
2009			
Assets			
Loans to Group companies	6,158,891	2,793,835	306,969
Liabilities			
Debentures, bonds and other marketable debt securities	6,160,096	2,793,912	307,025

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

(Thousands of euros)	US dollars	Pounds sterling	Czech crowns
2010			
Interest income	448,810	159,286	10,770
Interest expenses	447,902	159,248	10,743
2009			
Interest income	322,423	111,295	12,115
Interest expenses	321,673	111,259	12,081

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

(Thousands of euros)	2010	2009
Loans to companies		
Transactions settled during the financial year	2,470	(978)
Transactions pending settlement at year end	581,225	(62,042)
	583,695	(63,020)
Loans and payables		
Transactions settled during the financial year	(2,470)	975
Transactions pending settlement at year end	(581,300)	62,095
	(583,770)	63,070

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

10. RELATED PARTY DISCLOSURES

10.1 Related parties

Company transactions in 2010 with related parties, including the nature of the relationship, were 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

The balances with related entities are as follows:

(Thousands of euros)	Group parent 2010	Other Group companies 2010	Group parent 2009	Other Group companies 2009
Non-current loans (Note 5)	25,072,356		22,019,248	
Current loans (Note 5)	3,719,693		1,986,603	
Cash and cash equivalents		2,329		2,902
Non-current accounts payable (Note 7)			42	
Current accounts payable (Note 7)	146	396	385	550

10.3 Transactions

Transactions entered into with related parties were as follows:

(Thousands of euros)	Group parent 2010	Other Group companies 2010	Group parent 2009	Other Group companies 2009
External services (9.1)		(58)		(59)
Finance income - interest (Note 9.2)	1,286,168	9	980,650	15
Finance cost - interest (Note 9.3)				
Exchange losses (Note 9.4)	583,695		(63,020)	

11. OTHER DISCLOSURES

11.1 Audit fees

The fees paid in 2010 and 2009 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 132 thousand euros and 203 thousand euros, respectively, and were solely for audit services.

11.2 Director disclosures

In 2010, 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.

In compliance with Section 229 of the consolidated Spanish Enterprises Act, introduced by Royal Legislative Decree 1/2010 of July 2, details are given below of (i) the direct and indirect interests held by members of the Board of Directors of Telefónica, S.A., and by persons related thereto as set out in section 231 of the consolidated Spanish Enterprises Act and (ii) the positions or duties carried out by those individuals, both of the foregoing in respect to companies engaging in activities that are the same, similar or complementary to those of Telefónica, S.A.

Shareholder	Investee	Activity	% shareholding ¹	Position
Miguel Escrig Meliá	Telefónica, S.A.	Telecommunications	< 0.01%	Chief Financial Officer
Juan José Gómez Miguelañez	Telefónica, S.A.	Telecommunications	< 0.01%	Director of Treasury, Risk & Insurance
	Telefónica Factoring Brasil	Factoring	< 0.01%	Director

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

The table below, in accordance with the same legislation, gives details of activities carried out, on their own behalf or on behalf of third parties, by the members of the Company's Board at companies whose corporate purpose is the same, analogous or complementary to that of Telefónica Emisiones, S.A.U.

Name	Activity performed	Arrangement under which the activity is performed	Company through which the activity is rendered	Position held or duties discharged
Miguel Escrig Meliá	Financing, Telefónica Group	On behalf of third parties	Telefónica Europe B.V.	Proprietary director representing Telefónica S.A.
Miguel Escrig Meliá	Pension fund management	On behalf of third parties	Fonditel Pensiones	Proprietary director representing Telefónica S.A.
Miguel Escrig Meliá	Financing, Telefónica Group	On behalf of third parties	Telefónica Participaciones	Joint and several director
Miguel Escrig Meliá	Holding company	On behalf of third parties	Telco S.p.A	Proprietary director
Juan José Gómez Miguelañez	Telecommunications	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 Mexico	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	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 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 Mexico	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	Antares	Director
Juan José Gómez Miguelañez	Insurance	On behalf of third parties	Casiopea Re	Chairman
Juan José Gómez Miguelañez	Insurance	On behalf of third parties	Altair	Chairman
Juan José Gómez Miguelañez	Mutual and pension fund management	On behalf of third parties	Fonditel	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, 2010 and 2009, 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, 2010 and 2009.

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 on late payments to suppliers in commercial transactions

In accordance with Law 15/2010 of July 5, amending Law 3/2004 of December 29 establishing measures to be taken in combating arrears in commercial transactions, it is disclosed that at December 31, 2010 there are no overdue balances payable to suppliers that exceed the maximum legal payment period.

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., and to date it has invested its surplus cash balances in Telefónica Group companies (Telefónica Finanzas, S.A.U.). The Company's financial investments are similarly made in Group companies. For these reasons, the credit risk on outstanding issues is equivalent to a direct investment in Telefónica, S.A. in a similar amount. For the same reasons, the Company's liquidity risk is directly related to Telefónica, S.A.'s liquidity risk.

13. EVENTS AFTER THE REPORTING PERIOD

On February 7, 2011, Telefónica Emisiones, S.A.U. issued 1,200 million euros of 4.75% bonds maturing February 7, 2017.

The issue was made under Telefónica Emisiones, S.A.U.'s 40,000 European Medium Term Note (EMTN) program, secured by Telefónica, S.A., of June 23, 2010 (EMTN).

On February 16, 2011, Telefónica Emisiones S.A.U. held a bond issue with a tranche of 1,250 million USD at 3.99% maturing February 16, 2016, and a tranche of 1,500 million USD at 5.46% maturing on February 16, 2021. This issue was made under Telefónica Emisiones, S.A.U.'s debt issue program (Shelf) registered with the SEC on May 8, 2009 and secured 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.

CERTIFICATE OF THE MANAGING BODY OF TELEFONICA EMISIONES, S.A.
(Sole shareholder company)

The financial statements of TELEFÓNICA EMISIONES, S.A. Sole shareholder company for 2010, were authorized for issue by the Company's joint and several directors in the meeting on February 22, 2011, with a view to their approval by the sole shareholder. These financial statements are signed, along with this sheet, by the joint and several directors on all pages.

Madrid, February 22, 2011

The joint and several directors
(Signed on the original in Spanish)

Miguel Escrig Meliá

Juan José Gómez Migueláñez

TELEFÓNICA EMISIONES, S.A.U.
Sole shareholder company

2010 MANAGEMENT REPORT

Telefónica Emisiones, S.A.U. is a sole shareholder company, the share capital of which comprises 62,000 ordinary shares of 1 euro par value each. Share capital is fully subscribed and paid in. The sole shareholder is Telefónica, S.A.

The Company has appointed two joint and several directors: (i) Miguel Escrig Meliá and (ii) Juan José Gómez Migueláñez.

In 2010, the Company continued to carry out the business that makes up its corporate purpose.

Highlights of the 2010 income statement include:

- Operating losses of 2,500 thousand euros. The most relevant items are expenses paid to rating agencies and the tax certification agent for the payment of coupons.
- Net finance revenue of 3,518 thousand euros, from interest earned on loans granted to Telefónica, S.A. and interest received on positive balances in the account with Telefónica Finanzas, S.A.U.
- The combination of these two figures gave rise to income from ordinary activities of 713 thousand euros.

The main financing transactions undertaken during the year mainly comprise the issuance of debentures in euros, Pounds sterling and US dollars.

Telefónica Emisiones, S.A.U. has not purchased or carried out any other transactions involving treasury shares, or performed any research and development activities in 2010.

Going forward, the Company is expected to carry on its line of business, raising financing for the Telefónica Group.

The debt issued by Telefónica Emisiones, S.A.U. on the capital markets is guaranteed by Telefónica, S.A., and to date it has invested its surplus cash balances in Telefónica Group companies (Telefónica Finanzas, S.A.U.). The Company's financial investments are similarly made in Group companies. For these reasons, the credit risk on outstanding issues is equivalent to a direct investment in Telefónica, S.A. in a similar amount. For the same reasons, the Company's liquidity risk is directly related to Telefónica, S.A.'s liquidity risk.

Events after the balance sheet date:

On February 7, 2011, Telefónica Emisiones, S.A.U. issued 1,200 million euros of bonds tied to a rate of 4.75% maturing February 7, 2017.

The issue was made under Telefónica Emisiones, S.A.U.'s 40,000 European Medium Term Note (EMTN) program, secured by Telefónica, S.A., of June 23, 2010 (EMTN).

On February 16, 2011, Telefónica Emisiones, S.A.U. held a bond issue with a tranche of 1,250 million USD at 3.99% maturing February 16, 2016, and a tranche of 1,500 million USD at 5.46% maturing on February 16, 2021. This issue was made under Telefónica Emisiones, S.A.U.'s debt issue program (Shelf) registered with the SEC on May 8, 2009 and secured by Telefónica, S.A.

Report on corporate governance:

The Company is a sole shareholder company and therefore a specific corporate governance report by the Company and the information required by Article 16 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. 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 22, 2010.

(Signed on the original in Spanish)

Miguel Escrig Meliá

Joint and several director of Telefónica Emisiones, S.A.U.

(Signed on the original in Spanish)

Juan José Gómez Miguelañez

Joint and several director of Telefónica Emisiones, S.A.U.