AUDIT REPORT

TELEFÓNICA EMISIONES, S.A.
(Sole Shareholder Company)
Financial Statements and Management Report
for the year ended
December 31, 2011

ERNST & YOUNG

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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, 2011, 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 2011 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, 2011, 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.

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid
Inscrita en el Registro Mercantil de Madrid al
Tomo 12749, Libro 0, Folio 215, Sección 8ª,
Hoja M-23123, Inscripción 116. C.I.F. B-78970506

4. The accompanying 2011 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 2011 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 24, 2012

TELEFONICA EMISIONES, S.A.

(Sole shareholder company)

Financial statements
for the year ended
December 31, 2011

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TELEFONICA EMISIONES, S.A. (Sole shareholder company)
Balance sheet at December 31
(Thousands of euros)

ASSETS	Notes	2011	2010
NON-CURRENT ASSETS		29,341,097	25,072,356
Investment in Group companies and associates	**5, 10.2**	**29,341,097**	**25,072,356**
Loans to companies		29,341,097	25,072,356
CURRENT ASSETS		1,343,954	3,722,324
Trade and other receivables		**39**	**302**
Prepayments to suppliers		37	280
Trade receivables		2	22
Other receivables			
Financial investments in Group companies and associates	**5, 10.2**	**1,341,469**	**3,719,693**
Loans to companies		1,341,469	3,719,693
Cash and cash equivalents	**10.2**	**2,446**	**2,329**
Cash and cash equivalents		2,446	2,329
TOTAL ASSETS		30,685,051	28,794,680

EQUITY AND LIABILITIES	Notes	2011	2010
EQUITY		3,186	2,220
CAPITAL AND RESERVES	6	3,186	2,220
Capital		**62**	**62**
Issued capital		62	62
Reserves		**2,157**	**1,445**
Legal and statutory reserves		12	12
Other reserves		2,145	1,433
Profit for the year		**967**	**713**
NON-CURRENT LIABILITIES		29,337,428	25,081,987
Borrowings	**7**	**29,337,428**	**25,081,987**
Debentures, bonds and other marketable debt securities		29,337,428	25,081,987
CURRENT LIABILITIES		1,344,437	3,710,473
Borrowings	**7**	**1,343,699**	**3,709,405**
Debentures, bonds and other marketable debt securities		1,343,699	3,709,405
Borrowings from Group companies and associates	**7.2, 10.2**	**414**	**146**
Trade and other payables	**7**	**324**	**526**
Other payables		72	81
Suppliers, Group companies and associates	7.2	207	396
Other payables to public administrations		45	445
TOTAL EQUITY AND LIABILITIES		30,685,051	28,794,680

TELEFONICA EMISIONES, S.A. (Sole shareholder company)
Income statements for the year ended December 31
(Thousands of euros)

	Notes	2011	2010
Other operating expenses	**9.1**	**(2,316)**	**(2,500)**
External services		(2,313)	(2,496)
Taxes		(3)	(4)
OPERATING LOSS		(2,316)	(2,500)
Finance income	**9.2**	**1,395,385**	**1,286,177**
In Group companies and associates		1,395,385	1,286,177
Finance costs	**9.3**	**(1,391,717)**	**(1,282,584)**
Borrowings from Group companies and associates			
Third-party borrowings		(1,391,717)	(1,282,584)
Exchange gains (losses)	**9.4**	**29**	**(75)**
NET FINANCIAL INCOME		3,697	3,518
PROFIT BEFORE TAX		1,381	1,018
Income tax	**8**	**(414)**	**(305)**
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		967	713
PROFIT FOR THE YEAR		967	713

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

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

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

	Notes	2011	2010
PROFIT FOR THE YEAR		967	713
TOTAL RECOGNIZED INCOME AND EXPENSE		967	713

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

	Issued capital	Reserves	Profit for the year	TOTAL
BALANCE AT JANUARY 1, 2010	62	594	851	1,507
Total recognized income and expense	-	-	713	713
Transactions with shareholders and owners				
Other changes in equity	-	851	(851)	-
BALANCE AT DECEMBER 31, 2010	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

* 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 year ended December 31
(Thousands of euros)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**1,381**	**1,018**
Adjustments to profit	**(3,697)**	**(3,518)**
Finance income	(1,395,385)	(1,286,177)
Finance costs	1,391,717	1,282,584
Exchange gains (losses)	(29)	75
Change in working capital	**(335)**	**(371)**
Trade and other receivables	**263**	**(216)**
Trade and other payables	**(198)**	**(132)**
Other current liabilities	**(400)**	**(23)**
Other cash flows from operating activities	**(13,807)**	**(4,994)**
Interest paid	(1,378,918)	(1,204,842)
Interest received	1,365,490	1,201,143
Income tax receipts (payments)	(149)	(367)
Other payments (receipts)	(230)	(928)
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(16,458)	(7,865)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments on investments	**(4,387,554)**	**(5,460,839)**
Group and associates	(4,387,554)	(5,460,839)
Proceeds from disposals	**2,954,491**	**1,343,144**
Group and associates	2,954,491	1,343,144
CASH FLOWS USED IN INVESTING ACTIVITIES	(1,433,063)	(4,117,695)
NET CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from and payments for financial instruments	**1,449,599**	**4,124,927**
Issue		
Debentures, bonds and other marketable debt securities	4,387,873	5,468,071
Repayment and redemption of		
Debentures, bonds and other marketable debt securities	(2,938,274)	(1,343,144)
Interest-bearing debt		
Payables to Group companies		
NET CASH FLOWS FROM FINANCING ACTIVITIES	1,449,599	4,124,927
NET FOREIGN EXCHANGE DIFFERENCE	39	60
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	117	(573)
Cash and cash equivalents at January 1	**2,329**	**2,902**
Cash and cash equivalents at December 31	**2,446**	**2,329**

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

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 new accounting principles approved by Royal Decree 1514/2007 of November 16 as amended by Royal Decree 1159/2010 of September 17 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 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 its 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 23, 2012 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 2011 balance sheet, income statement, statement of changes in equity, and cash flow statement are disclosed for comparison with the information for 2010. 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 concerning the assessment 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 2011 profit to be submitted by the joint and several Directors for approval by the Company's sole shareholder is as follows:

(Thousands of euros)	2011
Proposed appropriation	
Profit for the year	967
	967
Appropriation to:	
Voluntary reserves	967
	967

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 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.

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) is 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 loan.

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 cost, 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 extinguished.

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.

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., in local and foreign currency deposits that meet all the following requirements:

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

4.4 Income tax

The Company files consolidated corporate income tax returns with its sole shareholder.

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

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

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

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

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

At each financial year end, 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 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 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, whey 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, 2011 and 2010 is as follows:

(Thousands of Euros)	2011	2010
Non-current financial investments		
Loans and receivables – Loans to Group companies	29,341,097	25,072,356
	29,341,097	**25,072,356**
Current financial investments		
Loans and receivables – Loans to Group companies	1,341,469	3,719,692
	1,341,469	**3,719,692**

5.1 Loans to companies:

The balance relates to loans granted to Telefónica, S.A. between 2006 and 2011, which break down as follows:

(Thousands of euros)

Loan	Issue date	Maturity	Annual interest rate	Frequency of payment	2011 Non-current assets	2011 Current assets	2010 Non-current assets	2010 Current assets
No 1	2/2/06	2/2/16	4.375 %	Annual	1,741,789	69,641	1,732,675	77,054
No 2	2/2/06	2/2/11	3.750 %	Annual	-	-	-	2,326,304
No 3	2/2/06	2/2/18	5.375 %	Annual	894,574	43,898	866,149	44,201
No 4	2/2/06	2/2/26	5.375 %	Annual	596,226	29,266	578,182	28,739
No 7	6/20/06	6/20/11	5.984 %	Half-yearly	-	-	-	749,479
No 8	6/20/06	6/20/16	6.421 %	Half-yearly	962,982	1,895	929,876	3,954
No 9	6/20/06	6/20/36	7.045 %	Half-yearly	1,534,243	3,487	1,483,685	5,287
No 10	10/17/06	4/17/12	4.393 %	Annual	-	515,306	499,000	16,108
No 12	12/28/06	1/31/14	5.888 %	Annual	597,720	32,252	578,623	32,432
No 13	1/31/07	12/30/21	6-month Euribor + 0.830%	Half-yearly	54,959	4	54,939	19
No 14	1/31/07	1/31/18	3-month Euribor + 0.700%	Quarterly	24,000	93	24,000	73
No 15	2/7/07	2/7/14	4.674 %	Annual	1,498,346	63,328	1,495,725	65,376
No 17	6/19/07	6/19/14	4.623 %	Annual	100,636	2,482	103,440	2,681
No 18	6/19/07	6/19/12	4.351 %	Annual	-	118,916	119,413	2,955
No 20	7/2/07	2/4/13	USD 3-month Libor + 0.330%	Quarterly	656,178	1,195	634,415	1,694
No 21	7/2/07	2/4/13	5.855 %	Half-yearly	579,504	13,779	559,778	14,335
No 22	7/2/07	7/3/17	6.221 %	Half-yearly	539,599	16,773	521,673	17,104

Loan	Issue date	Maturity	Annual interest rate	Frequency of payment	2011 Non-current assets	2011 Current assets	2010 Non-current assets	2010 Current assets
No 23	6/12/08	6/12/13	5.580%	Annual	1,248,485	38,831	1,246,825	39,877
No 24	2/3/09	2/3/14	5.431%	Annual	1,997,082	98,502	1,994,500	100,061
No 25	4/1/09	4/1/16	5.496%	Annual	997,191	41,547	996,250	42,023
No 26	6/2/09	6/2/15	3-month Euribor + 1.825%	Quarterly	399,464	1,063	399,060	1,167
No 27	6/3/09	4/1/16	4.963%	Annual	511,270	19,003	513,368	18,956
No 28	7/6/09	1/15/15	4.949%	Half-yearly	963,936	22,046	932,074	22,155
No 29	7/6/09	7/15/19	5.877%	Half-yearly	770,243	20,945	745,248	20,656
No 30	11/10/09	11/11/19	4.693%	Annual	1,744,976	11,219	1,744,225	11,505
No 31	12/10/09	12/9/22	5.289%	Annual	775,876	2,481	752,716	2,487
No 32	12/23/09	12/23/14	3-month Euribor + 0.700%	Quarterly	99,988	47	99,980	43
No 33	3/24/10	3/24/15	3.406%	Annual	1,397,297	36,740	1,396,080	37,239
No 34	4/26/10	4/26/13	2.582%	Half-yearly	926,754	4,436	896,650	4,618
No 35	4/26/10	4/27/15	3.729%	Half-yearly	693,840	4,723	671,120	4,886
No 36	4/26/10	4/27/20	5.134%	Half-yearly	1,077,642	9,987	1,042,954	9,909
No 37	9/16/10	9/18/17	3.661%	Annual	997,318	11,136	996,950	10,598
No 38	10/8/10	10/8/29	5.445%	Annual	476,842	6,000	462,783	5,717
No 39	2/7/11	2/7/17	4.75%	Annual	1,196,623	50,325	-	-
No 40	2/16/11	2/16/16	3.992%	Half-yearly	963,318	14,490	-	-
No 41	2/16/11	2/16/21	5.462%	Half-yearly	1,154,434	23,773	-	-
No 42	3/21/11	2/7/17	4.688%	Annual	100,796	3,681	-	-
No 43	11/3/11	2/3/16	4.967%	Annual	997,109	7,871	-	-
No 44	11/4/11	11/4/16	2.8247%	Half-yearly	69,857	308	-	-
					29,341,097	**1,341,469**	**25,072,356**	**3,719,692**

The fair value of loans extended to Telefónica, S.A. was 30,546,763 thousand euros at December 31, 2011 and 29,529,823 thousand euros at December 31, 2010.

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, 2011 and 2010 is as follows:

(Thousands of euros)	2011	2010
Between one and two years	3,410,921	618,413
Between two and three years	4,293,772	3,337,668
Between three and four years	3,454,537	4,272,268
Between four and five years	6,243,516	3,398,334
Over 5 years	11,938,351	13,445,673
	29,341,097	**25,072,356**

6. EQUITY – CAPITAL AND RESERVES

6.1 Share capital

Share capital at December 31, 2011 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, 2011 and 2010 is as follows:

(Thousands of euros)	2011	2010
Non-current financial liabilities – Loans and payables	29,337,428	25,081,987
Borrowings – Debentures, bonds and other marketable securities	29,337,428	25,081,987
Current financial liabilities – Loans and payables	1,344,437	3,710,473
Borrowings – Debentures, bonds and other marketable securities	1,343,699	3,709,405
Borrowings from Group companies and associates	414	146
Trade and other payables	324	526

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 2011 in euros, US dollars, Pounds sterling and Czech crowns. The debenture and bond issues are secured by Telefónica, S.A. and are quoted on the London and New York stock exchanges. The breakdown of these issues is as follows:

(Thousands of euros)

Issue	Issue date	Maturity	Annual interest rate	Frequency of payment	2011 Non-current liabilities	2011 Current liabilities	2010 Non-current liabilities	2010 Current liabilities
EMTN 1	2/2/06	2/2/16	4.375%	Annual	1,741,729	69,665	1,732,615	77,071
EMTN 2	2/2/06	2/2/11	3.75%	Annual	-	-	-	2,326,332
EMTN 3	2/2/06	2/2/18	5.375%	Annual	894,535	43,910	866,109	44,209
EMTN 4	2/2/06	2/2/26	5.375%	Annual	596,194	29,271	578,150	28,743
SHELF A	6/20/06	6/20/11	5.984%	Half-yearly	-	-	-	749,443
SHELF B	6/20/06	6/20/16	6.421%	Half-yearly	963,085	2,145	930,656	3,566
SHELF C	6/20/06	6/20/36	7.045%	Half-yearly	1,531,822	3,457	1,482,493	4,014
EMTN 6	10/17/06	4/17/12	4.393%	Annual	-	516,688	498,969	17,220
EMTN 8	12/28/06	1/31/14	5.888%	Annual	597,745	32,279	578,799	32,331
EMTN 9	1/31/07	12/30/21	6-month Euribor + 0.83%	Half-yearly	54,952	6	54,932	20
EMTN 10	1/31/07	1/31/18	3-month Euribor + 0.70%	Quarterly	23,962	97	23,974	80
EMTN 11	2/7/07	2/7/14	4.674%	Annual	1,498,325	62,853	1,495,804	64,809
EMTN 13	6/19/07	6/19/14	4.623%	Annual	100,344	2,487	103,484	2,659
EMTN 14	6/19/07	6/19/12	4.351%	Annual	-	119,012	119,467	2,917
SHELF E	7/2/07	2/4/13	3-month Libor + 0.33%	Quarterly	656,188	1,324	634,725	1,479
SHELF F	7/2/07	2/4/13	5.855%	Half-yearly	579,417	13,600	560,050	14,030
SHELF G	7/2/07	7/3/17	6.221%	Half-yearly	539,704	16,686	521,913	16,706

Issue	Issue date	Maturity	Annual interest rate	Frequency of payment	2011 Non-current liabilities	2011 Current liabilities	2010 Non-current liabilities	2010 Current liabilities
EMTN 16	6/12/08	6/12/13	5.580%	Annual	1,248,960	38,528	1,248,397	38,798
EMTN 17	2/3/09	2/3/14	5.431%	Annual	1,997,035	98,530	1,994,452	100,079
EMTN 18 Tr 1	4/1/09	4/1/16	5.496%	Annual	997,611	41,270	996,969	41,557
EMTN 19	6/2/09	6/2/15	3-month Euribor + 1.83%	Quarterly	399,466	1,072	399,079	1,162
EMTN 18 Tr 2	6/3/09	4/1/16	5.496%	Annual	509,651	20,634	519,549	12,798
SHELF H	7/6/09	1/15/15	4.949%	Half-yearly	963,978	22,067	932,168	22,136
SHELF I	7/6/09	7/15/19	5.877%	Half-yearly	770,433	20,957	745,459	20,648
EMTN 20	11/10/09	11/11/19	4.693%	Annual	1,744,979	11,252	1,744,302	11,498
EMTN 21	12/10/09	12/9/22	5.289%	Annual	775,868	2,476	752,779	2,457
EMTN 22	12/23/09	12/23/14	3-month Euribor + 0.70%	Quarterly	99,987	53	99,986	41
EMTN 23	3/24/10	3/24/15	3.406%	Annual	1,397,343	36,740	1,396,150	37,229
SHELF J	4/26/10	4/26/13	2.582%	Half-yearly	926,745	4,408	896,800	4,476
SHELF K	4/26/10	4/27/15	3.729%	Half-yearly	693,868	4,674	671,235	4,764
SHELF L	4/26/10	4/27/20	5.134%	Half-yearly	1,077,326	9,978	1,042,670	9,824
EMTN 24	9/16/10	9/18/17	3.661%	Annual	997,377	10,400	997,000	10,596
EMTN 25	10/8/10	10/8/29	5.445%	Annual	476,914	5,984	462,852	5,713
EMTN 26 Tr 1	2/7/11	2/7/17	4.75%	Annual	1,196,651	51,700	-	-
SHELF M	2/16/11	2/16/16	3.992%	Half-yearly	963,273	14,479	-	-
SHELF N	2/16/11	2/16/21	5.462%	Half-yearly	1,154,170	23,448	-	-
EMTN 26 Tr 2	3/21/11	2/7/17	4.75%	Annual	100,727	3,477	-	-
EMTN 27	11/3/11	2/3/16	4.967%	Annual	997,204	7,787	-	-
EMTN 28	11/4/11	11/4/16	2.8247%	Half-yearly	69,860	305	-	-
					29,337,428	**1,343,699**	**25,081,987**	**3,709,405**

The fair value of the debentures and bonds issued by the Company was 30,516,788 thousand euros at December 31, 2011 and 29,514,021 thousand euros at December 31, 2010.

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, 2011 and 2010 is as follows:

(Thousands of euros)	2011	2010
Between one and two years	3,411,310	618,436
Between two and three years	4,293,436	3,339,972
Between three and four years	3,454,655	4,272,525
Between four and five years	6,242,413	3,398,632
Over 5 years	11,935,614	13,452,422
	29,337,428	**25,081,987**

7.2 Payable to Group companies and associates, and payable to suppliers, Group companies

The heading primarily includes accounts payable in connection with:

- Short-term balances payable to Group companies: T. Europe, B.V. for 190 thousand euros (2010: 390 thousand euros) and Telefónica Gestión Servicios Compartidos for 17 thousand euros (2010: 6 thousand euros).
- Current amounts payable to Telefónica, S.A., as head of the tax group to which the Company belongs for 414 thousand euros (2010: 146 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 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 2010 and 2011 is as follows:

(Thousands of euros)	2011	2010
Accounting profit before tax	1,381	1,018
Permanent differences		
Adjusted accounting profit	1,381	1,018
Taxable income for the year	**1,381**	**1,018**
Tax expense	**414**	**305**

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 2011, it recognized a tax expense corresponding to 30% of this profit.

At December 31, 2011 and 2010, 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	2011	2010
Independent professional services	110	27
Other services	2,204	2,468
Banking and similar services	2	5
TOTAL	**2,316**	**2,500**

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

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:

(Thousands of euros)	US dollars	Pounds sterling	Czech crowns	Yen
2011				
Assets				
Loans to Group 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**
2010				
Assets				
Loans to 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**	**-**

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

(Thousands of euros)	US dollars	Pounds sterling	Czech crowns	Yen
2011				
Interest income	516,991	177,023	10,300	295
Interest expenses	516,426	176,937	10,278	295
2010				
Interest income	448,810	159,286	10,770	-
Interest expenses	447,902	159,248	10,743	-

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

(Thousands of euros)	2011	2010
Loans to companies		
Transactions settled during the financial year	(46,297)	2,470
Transactions pending settlement at year end	474,103	581,225
	427,806	**583,695**
Trade and other payables		
Transactions settled during the financial year	46,299	(2,470)
Transactions pending settlement at year end	(474,076)	(581,300)
	(427,777)	**(583,770)**

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 2011 with related parties, carried out under market conditions, and the nature of the relationship are as follows:

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

10.2 Balances

Balances with related parties are as follows:

(Thousands of euros)	Group parent 2011	Other Group companies 2011	Group parent 2010	Other Group companie s 2010
Non-current loans (Note 5)	29,341,097		25,072,356	
Current loans (Note 5)	1,341,469		3,719,693	
Cash and cash equivalents		2,446		2,329
Current accounts payable (Note 7)	414	207	146	396

10.3 Transactions

Transactions entered into with related parties are as follows:

(Thousands of euros)	Group parent 2011	Other Group companies 2011	Group parent 2010	Other Group companies 2010
External services (9.1)		(58)		(58)
Finance income - interest (Note 9.2)	1,395,362	23	1,286,168	9
Exchange gains (Note 9.4)	427,718		583,695	

11. OTHER DISCLOSURES

11.1 Audit fees

The fees paid in 2011 and 2010 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 in both 2011 and 2010, and were solely for audit services.

11.2 Director disclosures

In 2011, the Company's Directors received no remuneration of any kind. No advances or loans have been granted to Directors, nor does the Company have any pension or life insurance pension obligations to them.

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

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

Director	Investee	% 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
	Telefónica Factoring Brasil	< 0.01%	Director

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 constituting the corporate purpose of the Company:

Director	Activity performed	Arrangement under which the activity is performed	Company through which the activity is rendered	Position held or duties discharged
Eduardo J. Álvarez Gómez	Financing, Telefónica Group	On behalf of third parties	Telefónica Europe, B.V.	Proprietary director representing Telefónica S.A.
Eduardo J. Álvarez Gómez	Financing, Telefónica Group	On behalf of third parties	Telefónica Participaciones, S.A.U.	Joint and several director
Juan José Gómez Miguelañez	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 Migueláñez	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	Director and Chairman
Juan José Gómez Miguelañez	Insurance	On behalf of third parties	Telefónica Insurance	Director and Chairman
Juan José Gómez Miguelañez	Insurance	On behalf of third parties	Telefónica Luxembourg Holding	Director and 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

c) In addition, the Directors inform that pursuant to Article 114 of the Spanish Securities Market Law, the Directors, or persons acting on their behalf, did not perform any transactions with the Company or another other Group company other than in the normal course of the Company's business or that were not on an arm's length basis.

d) Finally, on June 27, 2011, Miguel Escrig Meliá left his post as Director of the Company.

11.3 Environmental disclosures

At December 31, 2011 and 2010, 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, 2011 and 2010.

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 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 late payment in commercial transactions, the following table presents a breakdown the total amount of payments made to suppliers during the year by balances that exceeded the legal payment deadline, the weighted average payment days and balances payable to suppliers outstanding after the legal payment term.

	Payments made and outstanding at the reporting date	
	2011	
	Amount	%
Within the legal payment limit	2,601,581.79	100
Other	-	-
Total payments in the year	2,601,581.79	100
Weighted average payment days	-	-
Deferrals at year end that exceed the legal limit	-	-

At both 31 December 2011 and 2010, there were no balances payable to suppliers outstanding after the legal payment term.

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 2011 and the date of authorization for issue of the accompanying financial statements:

On February 7, 2012, the Company issued 120 million euros of 4.75% bonds maturing on February 7, 2017.

On February 21, 2012, the Company issued 1,500 million euros of 4.797% bonds maturing on February 21, 2018.

Both issues were made under Telefónica Emisiones, S.A.U.'s European Medium Term Note (EMTN) program up to a limit of 40,000 million euros, secured by Telefónica, S.A., of June 20, 2011.

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 2011 were authorized for issue by the Company's joint and several Directors in the meeting held on February 23, 2012, with a view to their approval by the Sole Shareholder. All pages of these financial statements including this page are signed and stamped by the Directors.

Madrid, February 23, 2012

The 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 FORT THE YEAR ENDED DECEMBER 31, 2011

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 2011, as in 2010, the Company had two joint and several directors: (i) Eduardo J. Álvarez Gómez, appointed joint and several director in 2011 on the same date Miguel Escrig Melia left his post as joint and several director, and (ii) Juan José Gómez Migueláñez.

In 2011, the Company continued to carry out the business that makes up its corporate purpose.

Highlights of the 2011 income statement include:

- Operating losses of 2,316 thousand euros (2,500 thousand euros in 2010). The most relevant items are expenses incurred with credit rating agencies and the tax certification agent for the payment of coupons.
- Net financial income of 3,697 thousand euros (3,581 thousand euros in 2010), 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 gave rise income from ordinary activities of 967 thousand euros (713 thousand euros in 2010).

Financial transactions undertaken in 2011 comprise debentures in euros and 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) of June 20, 2011, and in US dollars issued by Telefónica Emisiones, S.A.U. and guaranteed by Telefónica, S.A. under the debt issue program (Shelf) registered with the SEC ("Securities and Exchange Commission") in May 2009.

As in 2010, the Company did not purchase or carry out any transactions involving treasury shares or any research and development activities in 2011.

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

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.

Events after the reporting period:

The following events regarding the Company took place between the end of 2011 and the date of authorization for issue of the accompanying financial statements:

On February 7, 2012, the Company issued 120 million euros of 4.75% bonds maturing on February 7, 2017.

On February 21, 2012, the Company expects to receive payment on a 1,500 million euro issue of 4.797% bonds maturing on February 21, 2018.

Both issues fall under Telefónica Emisiones, S.A.U.'s European Medium Term Note (EMTN) program, secured by Telefónica, S.A., of June 20, 2011.

Annual 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. annual corporate governance report.

Related-party transactions:

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

This management report, together with the annual financial statements, were prepared by the joint and several directors on February 23, 2012.

(Signed on the original in Spanish)

Eduardo J. Álvarez Gómez
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.