2011

Annual Report

Together transforming
...the digital experience

Telefónica

Contents

Our Company's forward-looking approach

Dear Shareholder,

"We have taken a decisive step forward in the process of transforming our company and enhance our growth potential"

I am very pleased to share with all of you a brief overview of Telefónica's performance and results in 2011, as well as the positive outlook for our company.

Last year was challenging for all of us. In 2011, developed countries continued to display important signs of weakness, especially in the Euro Zone, where economic growth stood at a mere 1.4%. We are clearly witnessing the rise of a new global economic order, in which growth comes primarily from emerging economies such as Asia and Latin America. This fact makes clear, once again, the important competitive advantage that geographic diversification gives to our company.

In a year characterised by a difficult macroeconomic, competitive and regulatory context, our high degree of diversification and our capacity to adapt allowed us to deliver solid results, in line with the targets we had announced; obtain a record free cash flow; and pay our shareholders a remuneration that continues to be differential, not only within our sector but in the markets in general.

Moreover, this was a year in which we took a decisive step forward in the process of transforming our company. This will enable us to better meet the challenges ahead, enhance our growth potential and capture the opportunities that the new digital world offers. A digital world that represents a unique opportunity to consolidate our leadership and contribute to shape a better future for all of our customers.

It is my hope that this letter will provide you with elements that will strengthen your conviction that you are investing in a promising sector and in the company that is best prepared to take advantage of the great opportunities offered by the digitalisation of the economy, even in the current difficult economic context.

Solid results and diversification

In 2011, we moved forward in our strategy to capture growth in the markets where we are present, thereby strengthening our competitive position. This strategy has led us to increase by 19 million our customer base, which now stands at more than 306 million, allowing us to reach a new milestone in our growth. This boost was driven primarily by the significant growth in the number of mobile and mobile broadband customers.

The expansion of our customer base and the growing contribution of the mobile broadband business have, in turn, spurred the growth of our revenue, which rose by 3.5% in 2011 to €62,837 million.

We made remarkable progress in diversifying our business this year, greatly strengthening our position in Latin America. This region now accounts for more than 45% of our revenue and operating cash flow, with almost 55% coming from our European operations.

In Latin America, our revenue increased by more than 13%. Telefónica has the largest contract mobile customer base in the region and is the leader in mobile broadband adoption. We have strenghthened our leadership in the key market of the region, Brazil, which has become our major growth engine and yields tremendous potential for the future.

In Europe, the difficult context has not prevented us from continuing to encourage the adoption of new broadband services as a key driver of revenue, in a context of pressure in traditional voice services due to intense competition with adverse regulation. The changes in commercial offerings seen in our main markets have led to a clear improvement in sales, and our efforts to seek efficiency have now begun to pay off.

The sustainability of this growth in coming years is our management priority. For this reason, we invested more than €10,200 million in 2011. The size of this investment reflects the importance that we, at Telefónica, place on having the best network, which differentiates us from our competitors and that will allow us to offer increasingly sophisticated services compatible with all kind of devices. Undoubtedly, this will be essential for future revenue generation and for improving customer satisfaction.

Allow me to finish this brief overview of our results by underscoring our free cash flow generation for the year: €9,270 million. This figure, a record for our company, represents 9.5% growth over 2010 and is equivalent to €2.06 per share. In addition, our free cash flow exceeds that of the vast majority of our peers.

“The fact that Telefónica is offering the highest expected dividend yield makes clear our company´s solid commitment to its shareholders”

Differential shareholder remuneration

Few companies compare with Telefónica in terms of the historical performance of its shareholder remuneration. In recent years, Telefónica has gradually increased dividend per share, from €0.50 in 2005 to €1.60 in 2011. This continuous increase means that, in these seven years, more than €40,000 million has been paid out in shareholder remuneration.

Regarding 2011 dividend of 1.60 euros per share, a first payment of 0.77 euros per share has already been fulfilled last November. For the remaining amount (0.83 euros per share) the Telefónica's Board of Directors has proposed to the Shareholder Meeting to distribute a cash payment of 0,53 euros per share on next 18th of May, and to offer the possibility to receive the rest of the amount, 0.30 euros per share, in cash or shares of the Company.

In the current environment and considering Telefónica's stock market valuation, the Company has decided to anticipate the flexible shareholder remuneration scheme initially set for 2013. In 2012, we will once again offer a very attractive shareholder remuneration of €1.50 per share, consisting of the payment of a €1.30 per share cash dividend and a share buyback for the remaining amount. Treasury shares acquired will be amortized and the share buyback shall be completed by May 2013.

The remuneration, including dividends and share buyback, announced for 2012 imply a yield of 13.3% at the current share price[1]. The fact that, of the one hundred largest companies in the world by market capitalization, Telefónica is offering the highest expected dividend yield in 2012, makes clear our company's solid commitment to its shareholders.

1 11.295 euros as of 25/4/2012

Bright prospects for the future

Let me highlight the positive prospects for the future of our company. The digital world in which Telefónica operates is growing at a faster rate than the economy overall and, in fact, is expected to grow at an average annual growth rate of 5% over the next four years.

The explanation for these favourable expectations lies in the progressive digitalisation of the real economy—a digitalisation that goes beyond our need to communicate. This means that sectors such as health, public administration, education and entertainment are creating demand for new digital applications and services that will make it possible to achieve higher levels of efficiency and better quality of life.

We can clearly state that we are evolving towards a smart, hyper-connected world, in which nearly every electronic device or equipment will be connected to the Internet. As an example, allow me to mention the gradual emergence of smartcities that use information and communication technologies to connect tens of thousands of sensors that receive information in real-time so as to offer services to citizens, thereby improving their quality of life and facilitating the transition towards an increasingly sustainable society.

This is but one example of the opportunities the digital world offers a company such as Telefónica. I can assure you that we are already taking advantage of these opportunities, and we will continue to do so in the future.

It is very clear to us, at Telefónica, that our company's success is based on customer satisfaction. Consequently, Telefónica's growth strategy for the coming years is centred on improving our customers' experience when they are using our products and services, in order to not merely continue to grow but also to be at the forefront of growth.

To make the most of the opportunities that the digitalisation of the economy offers us and to strengthen our customer relations,

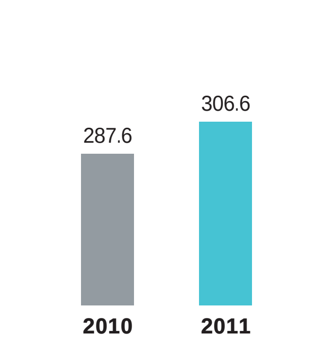
307 million customers
say a lot about our Company growth in 2011

In Latin America we have grown 13%
and have the largest contract mobile custormer base of the region

9,270 million Euros of Free Cash Flow
represents 9,5% growth over 2010 and a record for our Company

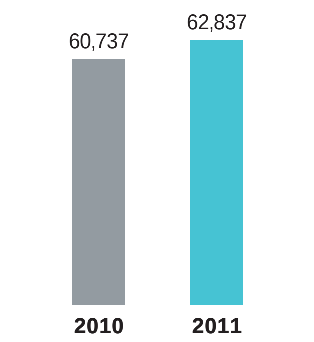
Customer evolution

Million Euros



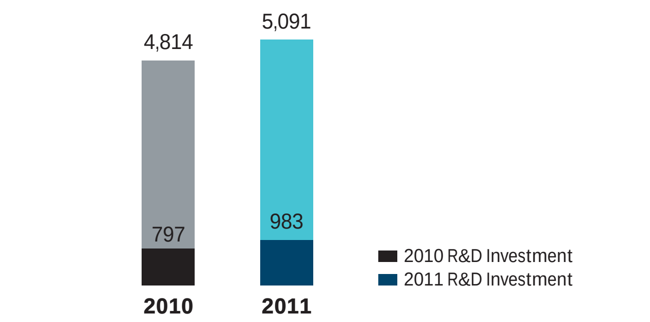
Revenues

Million Euros



Technological innovation

Million Euros



Telefónica has carried out a deep transformation of the company's organisational structure. We have launched two common units for the Group: Telefónica Digital and Telefónica Global Resources. In addition, we have created two business units, centred on the two large regions in which we operate: Europe and Latin America.

The new Telefónica Digital business unit aims to capture all of the growth opportunities available in the digital world, speeding up innovation, broadening and reinforcing our portfolio of products and services and maximising the advantages of our broad customer base.

The Telefónica Global Resources operating unit was created to boost the profitability and sustainability of our businesses, by leveraging to the greatest extent possible the benefits of our scale. The unit sets up global processes for areas such as procurement, systems, operations and human resources.

The creation of these two new units is in perfect alignment with Telefónica's strategic priorities, improves our positioning in the digital world and accelerates our transformation into a fully global company. In addition, it will allow us to be more agile, that is, to respond in a more straightforward manner, and more quickly, to the opportunities and challenges that are arising.

I can assure you that with the execution of these strategic priorities, we will strengthen our leadership position. Our aspiration is to become the best global communication company in the digital world, leading the distribution and aggregation of digital experiences for our customers.

I would like to reiterate that Telefónica is, in addition, a leader committed to sustainability—that we are involved in and concerned with the economic and social well-being of the countries in which we operate. For this reason, at Telefónica we allocate significant resources both for community work and for cultural endeavours.

The digitalisation of the economy

offers great growth opportunities to our industry

I should stress, that through the Telefónica Foundation, we are fostering educational programs to erradicate childhood labour. Besides, Telefónica Foundation promotes access to knowledge and the application of Information and Communication Technologies, and the use of ICTs in collaborative networks.

Telefónica also promotes the use of ICTs among the handicapped in order to narrow the digital divide. Moreover, the Company has focused on foster Corporate Sustainability, in order to reduce the risks and take advantage of the opportunities arising from the economic, social and environmental management in line with the Dow Jones Sustainability Index. Index, in which the Company is present since 2003.

We recently launched several innovation and entrepreneurship programmes. As an example, I would like to highlight Wayra, with which we are operating as an incubator of small businesses that identify ideas with high potential in the digital world. Wayra fosters the development of these businesses and provides them with technology, tools, a work space, and financial resources.

Clearly, we are facing 2012 from a position of strength, thanks both to our important progress in the last decade to consolidate our diversification and to the decisions we have taken to accelerate our transformation process and promote our company's growth.

On behalf of the Board of Directors, I would like to conclude by taking the opportunity to express my gratitude for the support and trust that all of you have shown. And I would like to reiterate my conviction that at Telefónica we have embarked on a new phase that will strengthen our position as a growth-oriented and profitable company and a leader in this new digital world. I hope that you will continue with us in order to celebrate these achievements together in the very near future.

César Alierta

Chairman of Telefónica


METROPOLIS

Telefónica today

Telefónica is one of the world's leading integrated telecommunications operators, providing communication, information and entertainment solutions. The Company is present in 25 countries and has more than 306.6 million customers.

Telefónica boasts one of the industry's most international profiles, generating more than 72% of its business outside its home market, and is the leading operator in the Spanish and Portuguese speaking market.

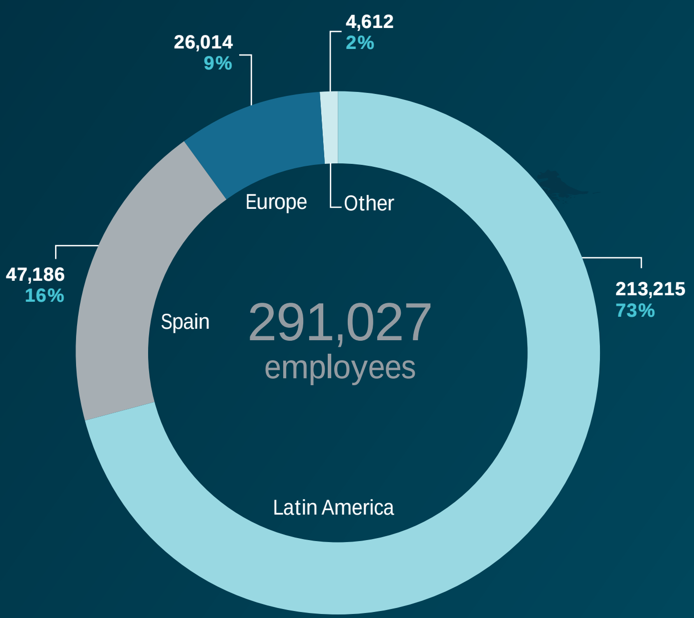
In 2011, the Company broadened its international scope, laying the foundations to consolidate its position as a global company and a leader in the digital environment through a profound change in its organisational structure.

Present in 25 countries

€ 9,270 million in free cash flow

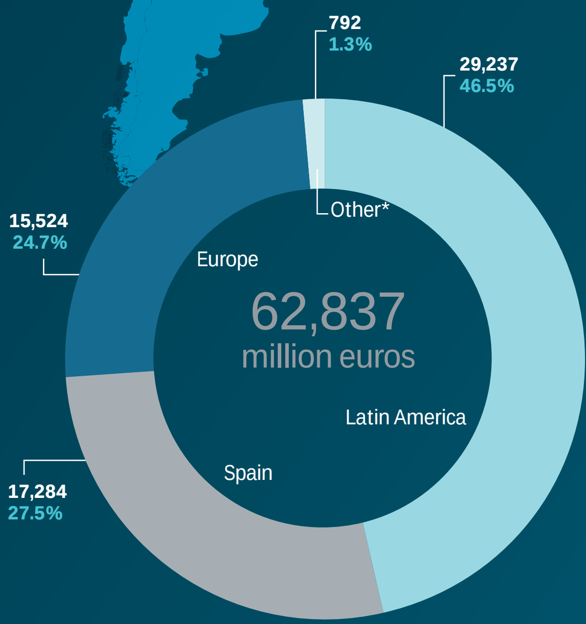
€ 22.210 million in OIBDA

Employees per region



Revenue per region

millions



* Adjustments and eliminations

Accesses by region

Latin America
- Argentina
- Brazil
- Central America
- Chile
- Colombia
- Ecuador
- Mexico
- Peru
- Uruguay
- Venezuela

Europe
- Germany
- Slovakia
- Ireland
- UK
- Czech Republic

Spain

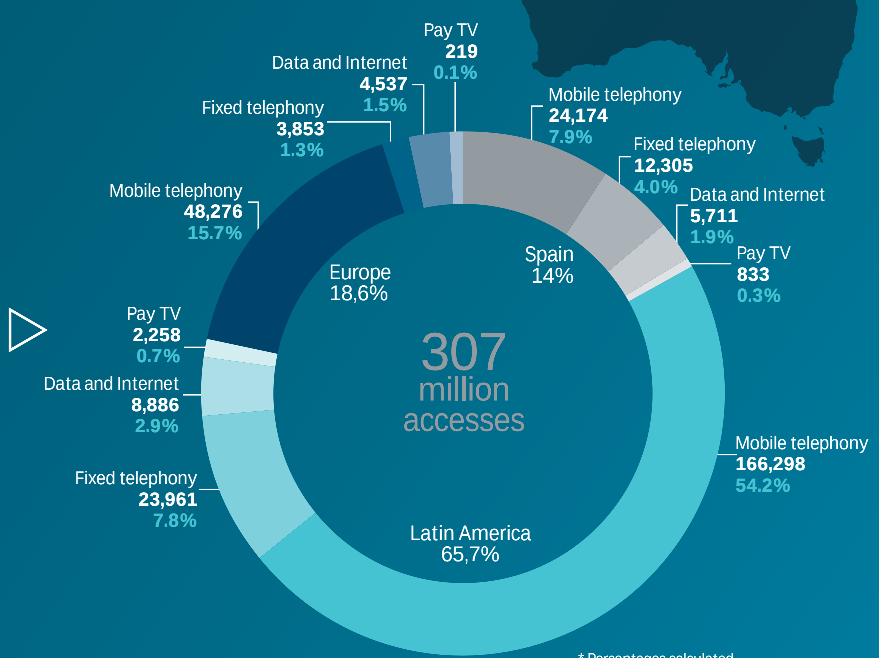
307 million customer accesses

+238 million mobile accesses

+61% increase in mobile broadband accesses

millions of end customers (*)

Fixed Telephony	Data and Internet	Mobile	Pay TV	Fixed Wireless
4,611	1,631	16,767	——	——
10,977	3,943	71,554	699	——
530	3	7,563	——	——
1,848	887	9,548	391	——
1,481	620	11,391	255	——
——	——	4,478	——	36
——	——	19,742	——	745
2,848	1,120	13,998	799	——
——	——	1,819	——	——
——	——	9,439	114	883
2,055	2,922	18,380	83	——
——		1,164	——	——
——	24	1,623	——	——
216	620	22,168	——	——
1,582	971	4,942	136	——
12,305	5,711	24,174	833	——



* Percentages calculated on the basis of total accesses

Board of Directors

The Board has been adapted to the international dimensions of the Group and to its characteristics as a global telecommunications operator providing communication, information and entertainment solutions.

The **Board of Directors,** with the support of its Committees, performs its activities in accordance with a selection of corporate governance regulations which are principally covered in the Company Statutes, the Regulations of the General Meeting of Shareholders and the Regulations of the Board of Directors.

The Board of Directors of Telefónica is the body which supervises and controls the activities of the Company, with exclusive power over the policy and general strategies of the Company, among other decisions, including those relating to corporate governance, corporate social responsibility, compensation to directors and senior managers and returns to shareholders.

The Board of Directors of Telefónica, S.A. is supported in the Company's corporate governance by eight committees, which it charges with examining and monitoring key areas.

In accordance with its Regulations, the Board of Directors delegates day-to-day business management to the executive bodies and management team of Telefónica.

The Company provides more detailed information in the Annual Corporate Governance Report and in the Report on Compensation Policy for the Board of Directors. These documents are available at

www.telefonica.com/en/shareholders_investors

Composition of the Board of Directors and its Committees

	Tipe of Chief	Committee Officer	Audit and Control	Appointments, Remuneration and Governance	HR Reputation and Corporate Responsibility	Regulation	Service Quality and Coomercial Attention	International Issues	Innovation	Strategy
César Alierta Izuel (Executive Chairman)	Executive	√								
Isidro Fainé Casas (Vice-chairman)	Propietary	√								
Jose Maria Abril Pérez (Vice-chairman)	Propietary	√						√	√	
Julio Linares López (Chief Operating Officer)	Executive	√							√	
Jose Fernando Almansa Morenos-Barreda	Other external Directors					√		√		√
Jose María Álvarez-Pallete López	Executive									
David Arculus	Independent Executive					√		√		
María Eva Castillo Sanz	Independent Executive					√	√			√
Carlos Colomer Casellas	Independent Executive	√		√			√		√	
Peter Erskine	Other external Directors	√		√					√	√
Alfonso Ferrari Herrero	Independent Executive	√	√	√	√	√	√	√		√
Luis Fernando Furlán	Independent Executive							√		
Gonzalo Hinojosa Fernández de Angulo	Independent Executive	√	√	√	√		√	√		√
Pablo Isla Álvarez de Tejera	Independent Executive			√	√	√	√			
Antonio Massanell Lavilla	Propietary		√		√		√		√	
Igancio Moreno Martínez	Propietary									
Francisco Javier de Paz Mancho	Independent Executive	√			√	√		√		
Chang Xiaobing	Propietary									
Ramiro Sánchez de Lerín (Secretary)										
Maria Luz Medrano Aranguren (Vicesecretary)										

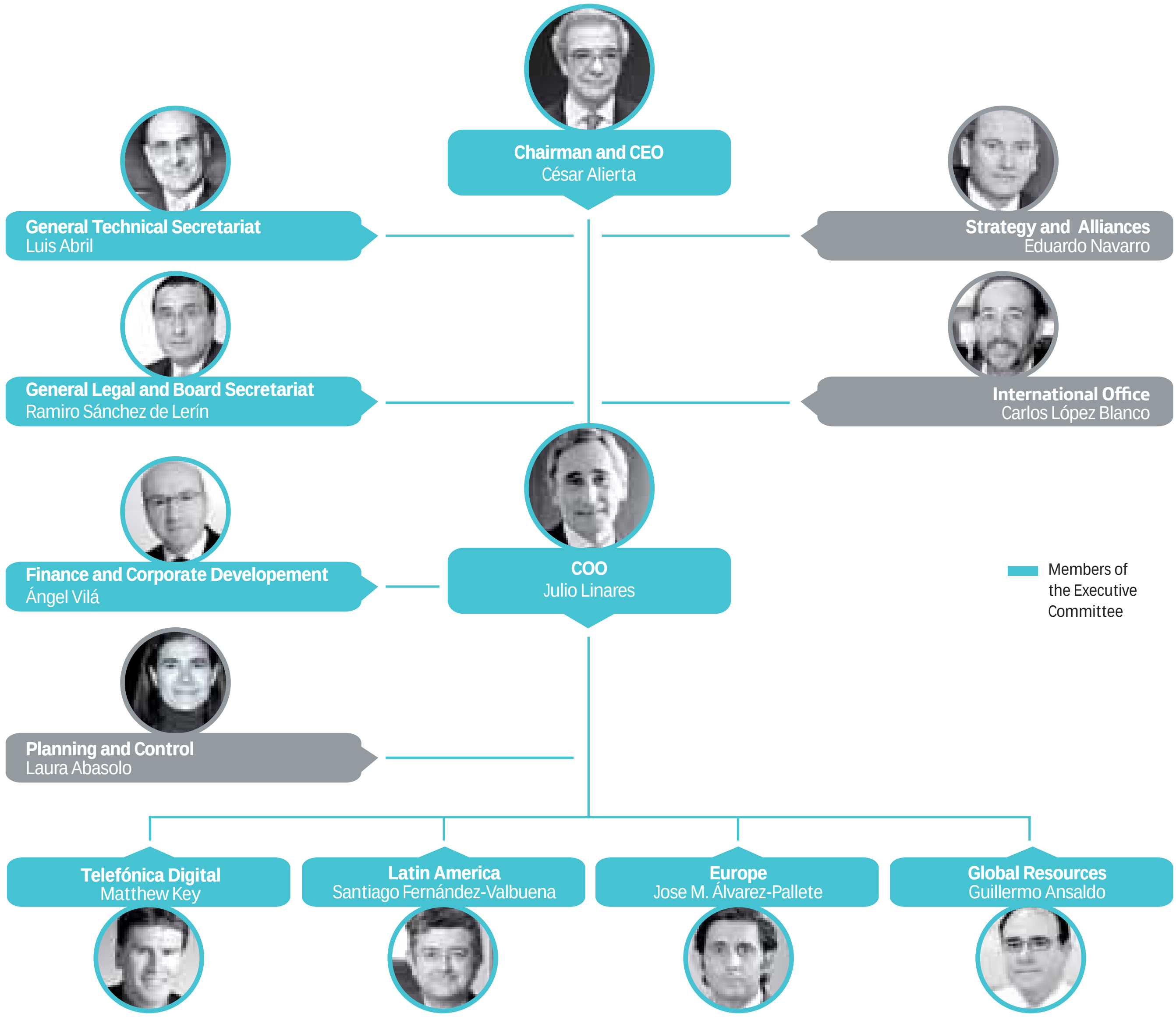
● Executive ● Propietary ● Independent Executive ○ Other external Directors

Management Team

In 2011 Telefonica changed its organisational structure with the aim of strengthening its global position in the digital world.

This new organisation will be overseen by a nine-member **Executive Committee,** in charge of defining the strategy and monitoring the performance of the businesses. The members which make up the Executive Committee are the Executive Chairman, the COO, the Chairman of Telefonica Digital, the Chairmen of the two regional areas (Europe and Latin America), the General Director of Global Resources, the CFO and the and the two General Secretariats: Legal and Board, and the Technical Secretariat to the Chairman's Office.

A new element will be added, as the **Executive Committee** will receive support from the Transformation Committee, composed of the senior managers most closely linked to the transformation and representatives of most of the countries. Its mission is to ensure that the transformation agenda is implemented.



2011 Review

In 2011 decisive progress was made in Telefónica's transformation process, leaving the Company better placed to meet the challenges and to leverage the opportunities afforded by the growth of the digital world beyond communication needs, evolving towards a smart, hyper-connected world.

The new digital world offers a unique opportunity to consolidate Telefónica's leadership and to enhance its relationships with its customers. To take full advantage of these opportunities, Telefónica has undertaken a wide-ranging transformation of the Company's organisational structure, creating two common units (Telefónica Digital and Telefónica Global Resources) in order to leverage the efficiency and opportunities offered by its global scale and two business units for the two major regions in which we operate (Europe and Latin America).

To attain these goals, Telefónica has rolled out the Bravo!+ programme, which is based on five behaviours: +customer, +digital, +global, +agile and +leader.

The Bravo!+ Programme
strategic renewal driver

In 2010, Telefónica undertook the transformation process in the digital world and customer service.

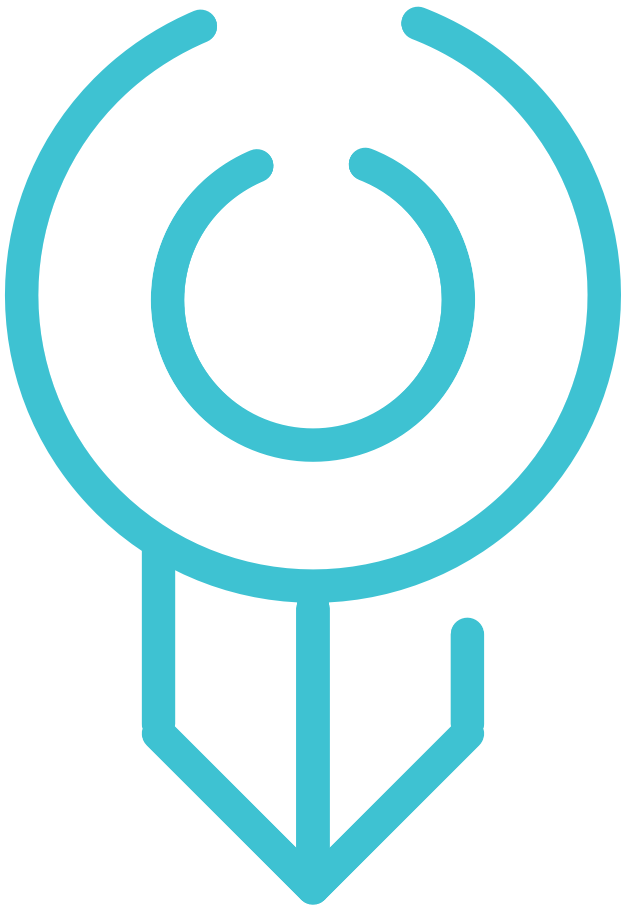
In March 2010, Telefónica launched the bravo! programme to implement the Telefónica vision. The programme was divided into four transformative pillars, each of which contained various initiatives to bring about change. In 2011, an exercise in strategic renewal conducted by Telefónica, drawing on a long-term vision of the dynamics of the business, resulted in an updated vision as well as new action plans and implementation processes. The new program is named bravo!+.

Telefónica's strategic transformation process

This process, underpinned by a profound strategy debate on trends within the sector and by Telefónica's distinctive capacities, was initiated in early 2011 and continued through the summer. During this period, the dynamics of the new environment in terms of demand for connectivity, business models, network solutions, the evolution of value chains and the personalisation of services were evaluated. Plenary sessions, online debates and workgroup sessions were held, resulting in:

- **A long-term vision—"Telefónica 2020"**—through which Telefónica makes clear its aspiration to strengthen its customer relations and to lead the distribution and aggregation of digital experiences. Its success hinges upon driving the digital ecosystem forward and instilling enthusiasm among customers through a comprehensive product offering.
- **A new organisation** in two regional areas and two cross-departmental areas, with their respective strategic objectives:
  - **Regional areas: Telefónica Europe** and **Telefónica Latin America**, with the mission of coming even closer to customers and making Telefónica the best services distributor in the digital world within our geographic areas.
  - **Cross-departmental areas: Telefónica Digital**, which focuses on bolstering Telefónica's position in the digital world, seizing growth opportunities in the expanded sector and on promoting innovation and strengthening the lineup of products and services. And **Global Resources**, which has taken up the challenge of leading the Company to a much more global level. To this end, it will increase the benefits obtained from its global scale with better global tools and decision-making processes while simplifying processes to increase operational flexibility and responsiveness.

  This organisation also affects the Corporative Global Unit, transforming it into a more agile and lightweight one, with the aim to manage common critical areas and provide with unique services to businesses.
- **A transformative agenda** that begins with the key aspects that were debated on in seven workgroups and which resulted in the seven framework strategic initiatives: Customer-centric, Products and Services, Prices, Internet Model, Networking, Efficiency, and Capacities. Follow-up is carried out in a structured manner, and the strategy is regularly updated.



A new Bravo+ programme

Being the leader means being the trend-setter, staying one step ahead of the competition in the digital world—and that is what Telefónica has set out to do. The sixth executive summit, in late October 2011, established the guidelines and marked the start of a period of transformation. The bravo! programme was renewed and adapted in accordance with the pressing need for transformation, and the programme was renamed bravo!+. Subsequently, the regional management summits of Telefónica Europa and Telefónica Latin America consolidated the Bravo!+ approach in prioritising and managing projects.

The strategic priorities that have been reinforced with the new bravo!+ programme are:

- **Seizing digital opportunities**
- **Strengthening the business's profitability and sustainability**
- **Streamlining decision-making by simplifying processes**

Bravo!+ Programme

The transformation with bravo!+ is deployed around **five new forms of conduct:**

+customer

Towards a knowledge-based company

Target: To offer the best customer experience and turn our knowledge of customers into an advantage for them as well as Telefónica. To this end, we will transform customer information into a new asset that will lead our evolution into a knowledge-based company.

+digital

A growth opportunity

Target: To adopt the most innovative technologies in order to seize future opportunities in our sector. In this manner, we intend to enhance Telefónica's position in the digital world and to make the most of the growth opportunities that arise in the sector, as well as to drive innovation.

+global

The best service to businesses

Target: To provide the best service to our businesses in order to increase profitability by extracting all the value implicit in that scale.

+agile

Prompt response and decision

Target: To take decisions and implement them promptly and in a straightforward and focused manner. This allows for simplicity and clarity in our organisation and decision-making processes, as well as for less bureaucracy, and ensures that we have motivated and committed professionals.

+leader

The inspiration of excellence

Target: to sett trends in order to be the best communications company in the world. Our intention is to inspire others to seek excellence in order to achieve improvement: by challenging ourselves and "going a step further", and by transmitting passion and positive energy to others.

+Customer...
Telefónica reaches 307 million accesses

Telefónica is the world's fifth-largest operator by number of customers as well as the world's largest integrated company. It holds the first-or second-largest market share in most countries where it operates. The Group's strategy is based on capturing growth in our markets and especially on attracting high-value-added customers.

Stores of Telefónica's three commercial brands
(Vivo, and Brazil; O2 in Europe, except Spain; Movistar, Spain and Latin America).

The Company ended 2011 with close to 7% growth in accesses amid a complicated setting in terms of the macroeconomic scenario and the negative effects of regulation as well as intense competition. Most of this growth has been seen in the mobile business, in particular in mobile broadband and in the greater penetration of contract accesses. The Group had 38 million mobile broadband customers at 31 December 2011, for a penetration rate of 16% of the Group's total mobile access base. Mobile broadband accesses were 1.6 times higher than at year-end 2010.

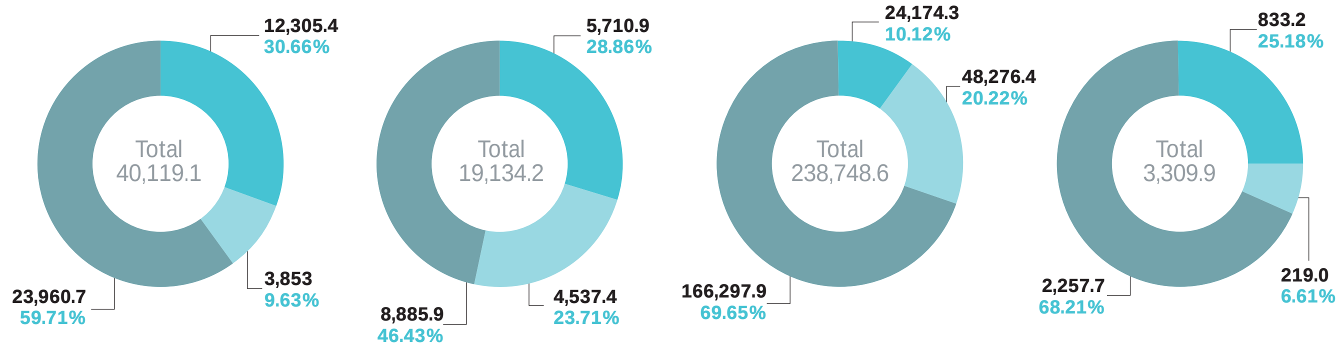
The Company's activity soared in the second half of 2011, as a result of commercial repositioning and the changes in the Company's commercial offering in the main countries in which it operates. In the second half of the year, access growth accelerated, for a net gain of close to 13 million accesses (72% higher than in the first half of 2011, and more than twice as high as in the second half of 2010).

The basis of the Company's success are its customers, and Telefónica's growth strategy for the coming years is centred on improving the customer experience in order to continue increasing the number of accesses and to spearhead growth through:

- The emphasis on the penetration of smart phones in all markets in order to raise the rate of growth of mobile data by monetising their increasingly widespread use.
- The defence of the Company's competitive position in the fixed-line business with a focus on broadband, offering increasingly higher speeds, comprehensive packages and IP services for voice and video.
- The development of the growth opportunities that have arisen in an increasingly digital context: video, OTT, financial services, cloud, e-Health, media, etc.

2011 Spain Europe Latin America *Thousands*

Fixed telephony accesses | **Internet and data accesses** | **Mobile accesses** | **Pay TV**



Mobile telephony

At year-and 2011, Telefónica had 238.7 million mobile phone customers, with 8.4% year-on-year organic growth. The largest share of this growth took place in Latin America (+11.4%). Overall, mobile phone clients now represent 69.6% of the total.

The Company has focused on attracting high-value-added customers, that is, those in the contract segment. This higher-value segment experienced 11% year-on-year growth, and now represents close to one third of the total mobile access base.

Mobile broadband accesses—e.g., with a data rate attached and therefore made by active users of the service—stood at more than 38 million at year-and 2011 (+61% year-on-year). This represents a penetration rate of 16% of Telefónica's total mobile access base (+5 percentage points from December 2010). Telefónica Europe reached a penetration rate of 31%, followed by Telefónica España (29%). There is enormous potential to increase penetration at Telefónica Latinoamérica (10%).

Data and Internet

The number of data and Internet accesses stood at 19.1 million in 2011, for 2.8% year-on-year growth. Of this total, 18.0 million were broadband-based, for 5% year-on-year growth. The most important growth was in Latin America (+7.9%).

An important element of the trend in the number of data and Internet accesses is the success of bundling voice, broadband and television services, which has gradually increased in both Spain and Latin America. At year-end 2011, close to 90% of the customer base making retail fixed broadband accesses had dual or triple service packages.

Accesses by Country *Fiigures in miillions*

Latin America	
Brazil	87.2
Argentina	23.0
Mexico	20.5
Peru	18.8
Colombia	13.8
Chile	12.7
Venezuela	10.4
Central America	8.1
Ecuador	4.5
Uruguay	1.8
Europe	
Germany	24.5
United Kingdom	23.0
Chezc Republic	7.8
Ireland	1.6
Eslovaquia	1.2
Spain	47.1
Total	**306(*)**

(*) 116,000 accesses from Costa Rica are not included as service launching toke place at the end of 2011 (November). Terra acceses to Internet are not included in the split for countries.

Pay TV accesses rose by 18.7%, owing largely to the successful commercial repositioning of the service and Latin America

Pay TV

The growth rate of TV accesses rose sharply, to 18.7%. The higher growth rate was due primarily to the successful commercial repositioning in Latin America, where net additions in 2011 were three times higher than in 2010, as well as the inclusion of TVA clients in Brazil in June and the strong commercial performance in Spain in the second half of the year.

Fixed telephony

The fixed-line market continues to show that it has matured, as net accesses for the consolidated total once again dropped. The number of total fixed-line accesses declined at a stable rate throughout the year (-3.0%), with a total decline of 40.1 million in the year.

Of total fixed-line accesses, 60% are in Latin America, one percentage point higher than the total for Telefónica the previous year.

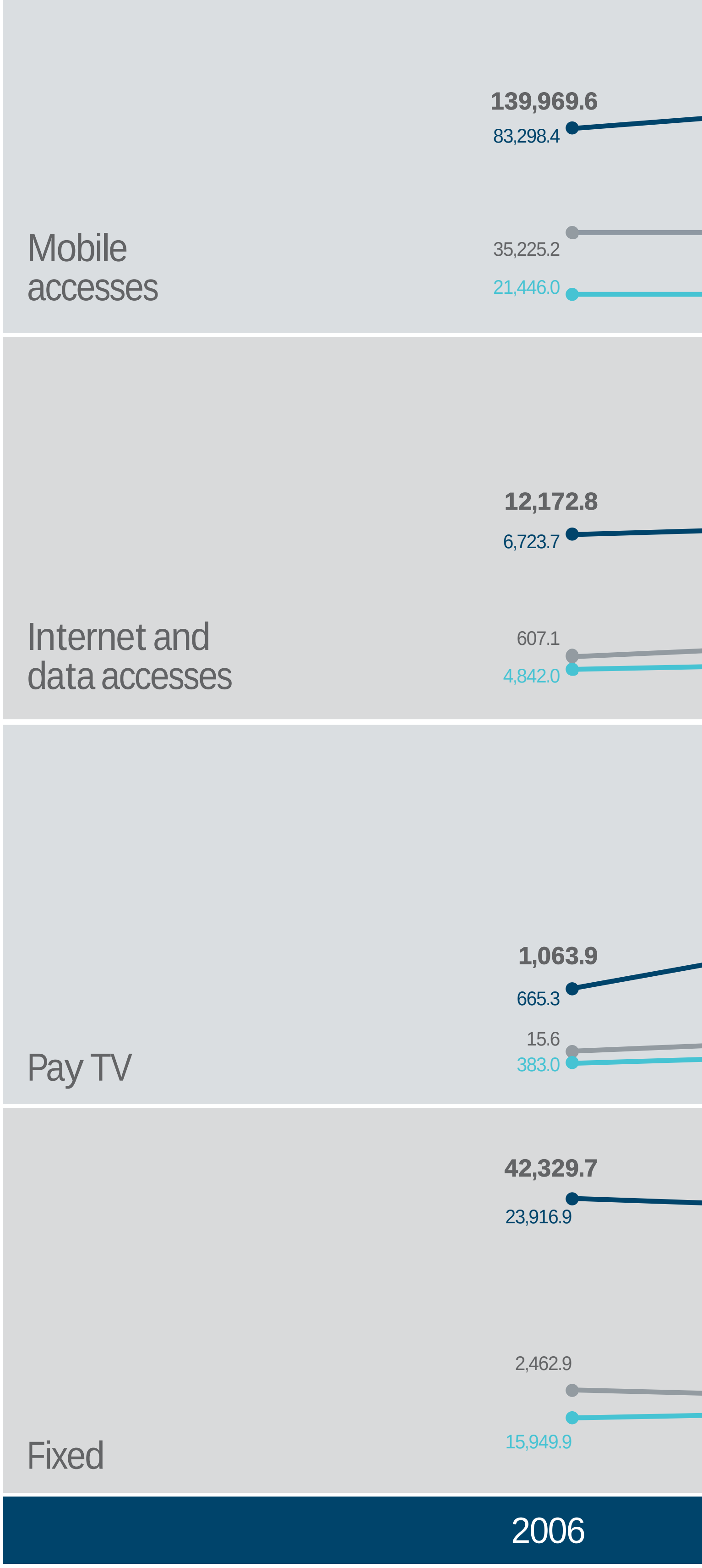
Customer satisfaction

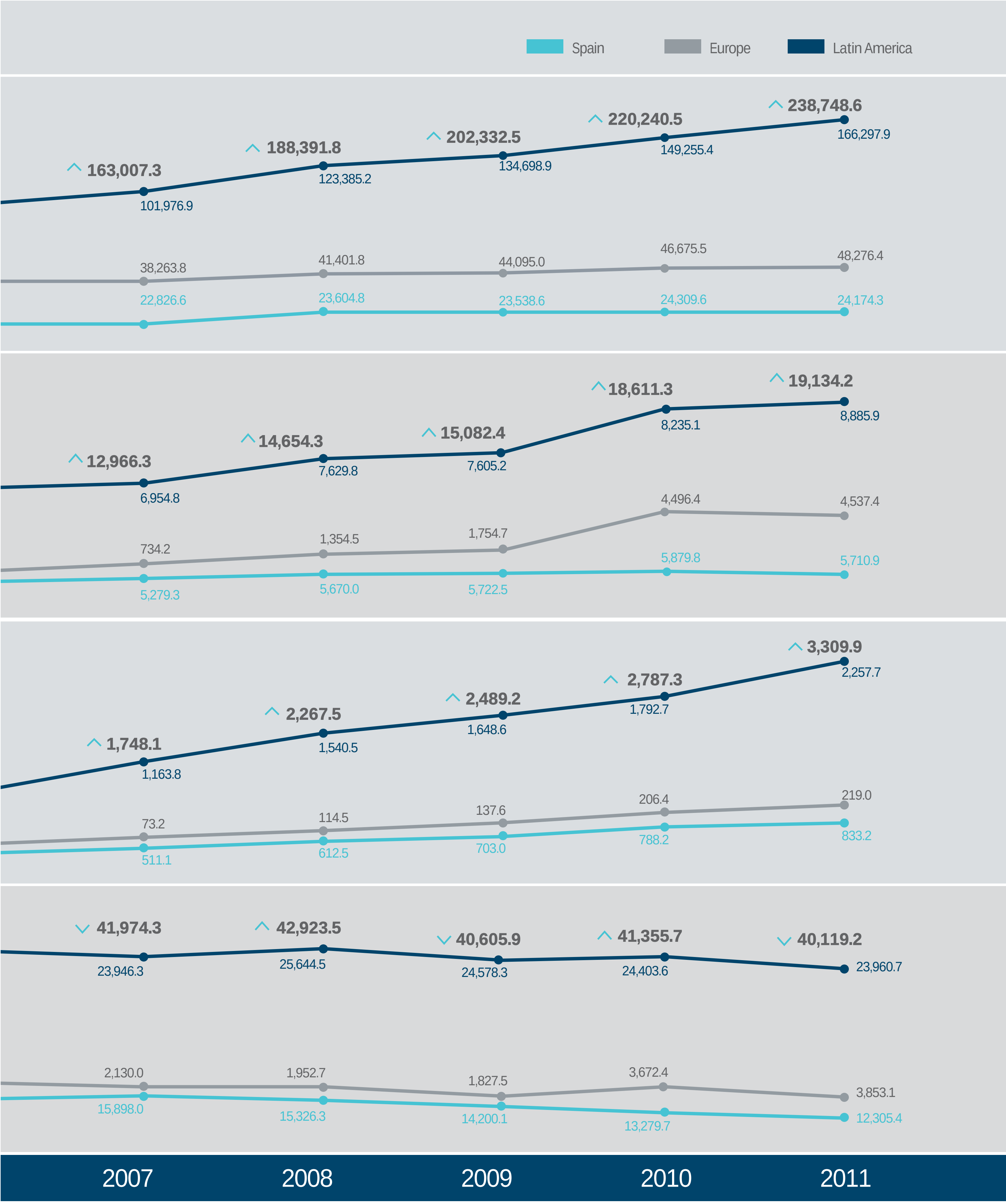
The Telefónica Customer Satisfaction Index (CSI) stood at 7.13 in 2011, and was unchanged from 2010. Telefónica thus ended the year the as the market leader in customer satisfaction, with a 0.04 point advantage over our closest competitor.

By region, in Spain the Company had a score of 6.4 out of ten; in Europe, 7.3; and in Latin America, 7.6. The businesses whose customer satisfaction levels improved the most in 2011 were corporate services in Brazil, followed by the mobile businesses in El Salvador and Guatemala.

Accesses trend by segment

Thousands of accesses




Spain
Europe
Latin America
163,007.3
101,976.9
38,263.8
22,826.6
188,391.8
123,385.2
41,401.8
23,604.8
202,332.5
134,698.9
44,095.0
23,538.6
220,240.5
149,255.4
46,675.5
24,309.6
238,748.6
166,297.9
48,276.4
24,174.3
12,966.3
6,954.8
734.2
5,279.3
14,654.3
7,629.8
1,354.5
5,670.0
15,082.4
7,605.2
1,754.7
5,722.5
18,611.3
8,235.1
4,496.4
5,879.8
19,134.2
8,885.9
4,537.4
5,710.9
1,748.1
1,163.8
73.2
511.1
2,267.5
1,540.5
114.5
612.5
2,489.2
1,648.6
137.6
703.0
2,787.3
1,792.7
206.4
788.2
3,309.9
2,257.7
219.0
833.2
41,974.3
23,946.3
2,130.0
15,898.0
42,923.5
25,644.5
1,952.7
15,326.3
40,605.9
24,578.3
1,827.5
14,200.1
41,355.7
24,403.6
3,672.4
13,279.7
40,119.2
23,960.7
3,853.1
12,305.4
2007
2008
2009
2010
2011

+ Digital...
open innovation

The Company strengthened its open-innovation model in the digital world, and the creation in 2011 of a new business unit, Telefónica Digital and the increase in the investment in R&D&I to reach 5,091 million euros are clear signs of it.

Wayra Academy, Madrid.

The digital world is a very dynamic environment characterised by three major trends: the rising demand for digital services (no matter where they are, people want to be connected); the smartphones are being massmarketed, allowing high-speed data networks to be accessed; and companies in every sector are using digital technology to transform their way of doing business (radically changing the customer experience, operating processes and business models).

This translates into significant opportunities and challenges for our industry. This is why Telefónica continued with its transformation process in 2011, making important strides in taking advantage of the digital world with the creation of Telefónica Digital.

Its mission is to seize the opportunities offered by the new environment and drive Telefónica's growth through innovation and development, venture capital, global alliances and digital services in areas such as cloud computing, mobile advertising, M2M, e-health and financial services.

At Telefónica Digital, we have combined all of the components of the product lifecycle for digital services:

- **Innovation:** a 1,200 person R&D team in Europe, Israel, Brazil and Silicon Valley that, in addition, knows how to leverage the opportunities in the environment when working with the developer community, and how to invest in digital companies, through seed capital, venture capital or acquisitions.
- **Development:** a clear emphasis so as to have a global approach, and more flexibility, in order to carry out one-step testing, learning and constructing and significantly improve our speed in the market.
- **Rollout:** both within and outside of Telefónica's sphere of action, and working with new allies around the world, to extend our product and service distribution to current and future customers.

Our strategy depends on speeding up the pace of growth, adding new capabilities and utilising synergies. We have very valuable assets with which to achieve this—networks, customers, distribution channels—as well as resources and the capacity to do things differently.

Investments in ICT companies

In 2011, Telefónica made equity investments in technology-based companies, giving it access to latest-generation technologies, including, most notably:

Quantenna Communications. In November 2011, Telefónica Digital announced that it had signed an agreement with this leading entertainment services company on strategic collaboration through maximum fidelity Wi-Fi networks. Our investment in the firm gives us access to the latest technology in order to offer high performance video services to households.

FeedHenry. T In early 2012, Telefónica Digital signed an exclusive collaboration agreement with this leading developer of solutions for mobile phone applications in the cloud, in order to launch a platform in the United Kingdom that will enable companies of any size to create their own mobile applications and implement them on Android, iOS, BlackBerry, Windows Phone 7 and Nokia operating systems as well as on the Mobile Web. This agreement follows the successful partnership between FeedHenry and O2 in Ireland.

Joyent. As part of the strategic collaboration agreement reached in 2012 with this leading cloud technologies and services company, we will make a strategic investment in its share capital. For its part, Joyent will give us access to the latest breakthroughs in technology and software in order to deploy profitable, high performance services in the cloud. Unlike other suppliers in the technology cloud, Joyent developed its line of cloud solutions from scratch, significantly lowering costs. The Company has demonstrated experience in defining, exploiting, commercialising and operating a business in the cloud with more than 12,000 customers in the United States.

Technological innovation

Investment in R&D

The aim of technological innovation at Telefónica is to bring about digital construction so as to harness the opportunities offered by new production tools and technologies in the development of software and creative talent.

In 2011, we increased our investment in this area to €5,090 million (€4,814 million in 2010), of which €983 million will be earmarked for R&D, 23% more than the previous year.

At Telefónica, we consider that differentiation is the key, and that it cannot be based exclusively on acquired technology. For this reason, we encourage R+D activities through our company, Telefónica R&D.

Last year we continued to promote our "open innovation" model—a strategy that allowed us to become a global standard-bearer. Indeed, this was acknowledged by the OECD when it selected Telefónica as one of the three companies invited to participate in an R&D&I seminar on the new economic setting held in Paris in December.

Global innovation with a regional focus

In 2011, one of the reasons for which Telefónica was reorganised was to concentrate most internal R&D for developing new networks in the Global Resources division, and to concentrate R&D for developing products and services in the digital environment in Telefónica Digital.

This dovetails with our strategy of going beyond the operation of networks and providing complete technology services to business customers and individuals to achieve higher added value than that offered by fixed or mobile connectivity alone.

According to this organization model, Telefónica R&D plays a double role in the areas of Product Development & Innovation at Telefónica Digital, and Transversal Projects & Innovation at Telefónica Global Resources. Telefónica R&D is the heir of the research and development investigations that the Company started more than 30 years ago.

In 2011, we earmarked 983 million euros to I+D, 23% more than the previous year

Digital Services

Financial services | eHealth | M2M | Cloud computing | Video and Smart Home | Security | Applications | Advertising

Digital Companies & Alliances

Telefónica Digital's open approach enables us to collaborate with other companies and thus make the most of our assets and create value for our customers, shareholders and partners.

In addition, we are not a new player in the digital world; we now have several digital businesses that are leaders in their fields, as well as a broad spectrum of capabilities, that are part of Telefónica Digital. This includes, in particular: Terra, the leading online media company in Latin America; Media Networks, the largest satellite pay TV television wholesaler in the same region; Tuenti, the leading social network in Spain; and giffgaff, an innovative community-based mobile operator.

Tuenti. Consolidated its position in 2011 as the premier social network in Spain, reaching 12 million registered users. Its most important innovations included developing a mobile telephone service, the first such service of a social nature in the Spanish market with a data-centric approach. In addition, in 2011 it launched new mobile applications (mobile application use grew by 330% that year) and a new video portal that reached 7 million playbacks per day.

Terra. With a more than 20% increase in its audience in 2011, Terra ended the year with over 90 million visitors a month. Also in 2011, it was named one of the most innovative companies in the world by the leading US magazine "Fast Company" and acknowledged for its commitment to innovation in the 2011 User Experience Awards. For its part, Terra Sonora consolidated its leadership in Latin America, with 500,000 subscribers and an audience of six million.

Giffgaff. Was created as a disruptive innovation 2.0 in the mobile market in the United Kingdom, with a business model that places the community at the centre of everything. In 2011, Giffgaff's strong growth continued, and the company received the top scores in the Customer Satisfaction Index and the NPS (Net Promoter Score) loyalty indicator. Its most noteworthy innovations include the site Unlockapedia to help dispel myths and support customers through the telephone-unlocking process; a mobile site; and the new gigabags, a customised product for iPads and tablet PCs.

Open HTML5 devices.

In early 2012, Telefónica Digital and Mozilla announced an ambitious strategy to create a new mobile-telephony platform making it possible to offer the first open devices. The Open Web Devices (OWD) platform, to be launched in 2012, is an important step for making HTML5 the next major smartphone ecosystem, making it possible to offer capabilities typically associated with smartphones at reduced prices.

R+D activities

The R+D activities that were carried out focused on:

- **Interpersonal communication in the future** in a natural manner, through the utilization of the Internet and smartphones.
- **Video and multimedia services** (combining text, audio, images and video) offering user experiences on all connected devices.
- **Advanced solutions in emerging ICT businesses,** such as tele-health, remote surveillance and support platforms for patients or platforms for monitoring.
- **Management services between machines (M2M)** related to energy efficiency and the mobility of persons.
- **Cloud computing** that makes intensive use of resources available on the Web in order to publish, market and distribute applications.
- **Analysis of users' profile** according to their use of communications, providing opportunities for business models and services (marketing campaigns, targeted advertising and personalised contextual services, lower turnover, cross-selling, etc.)
- **Evolution of the network** and services in a new global infrastructure, common to all of the business lines, in order to reduce operating and maintenance costs, offering more capacity in response to the explosion of mobile data, video content and the evolution from an Internet of People to an Internet of Things.

In Telefónica we are aware of the importance of the innovation as a developer driver. That is the reason why we decided to promote the carrying out of InnovaLatino with OECD and INSEAD in order to know the technological innovation trends in Latin America.

Innovation model at Telefónica

Telefónica's innovation model bases itself in the internal activities of Telefónica R&D, in the alliances with third parties and through seed capital, venture capital or acquisitions.

Public programs to promote R&D&I

In 2011, Telefónica headed up several projects related to developing the Internet of the Future organised by the European Commission within the Seventh Framework Programme for Research. These initiatives are being developed through a public-private partnership (PPP) model with partial funding from the European Commission.

Telefónica's most important venture in 2011 was related to its leadership in the FI-WARE project, which involves more than twenty-five partners and is a key element of the Internet of the Future PPP. The initiative entails developing the benchmark architecture, as well as handling the practical implementation, of an open platform for creating, deploying and rendering services.

Agile Customer Driven Innovation Methodology

The Agile culture promotes a new way of working based on regular communication, transparency, respect and trust among the people involved in the development of a project (clients, developers, etc.). It also involves minimising the impact of adapting those projects in light of changing circumstances (market, competitors, and so on).

One of the main breakthroughs in 2011 was the convergence between the Agile culture and Customer Driven Innovation, leading to the Agile CDI (Customer Driven Innovation) methodology. Thanks to our use of customer-centric research methods and immersion practices on a specific topic, users tell us of their perceptions, providing crucial contributions in the different phases of the processes for innovating, conceptualising and developing products and services. The process involves professionals from every discipline (design, research, engineering, product management, marketing, as well as partners and, at times, experts from industry).

Corporate incubator program

Online advertising network

As a result of our innovation model, we released our first spin-off, named Catchoom—an online advertising network that connects marketing agencies with applications developers. This software's visual recognition technology was developed by Telefónica R+D and is sold under a license arrangement.

Ideas for Ferran Adrià's new Bulli

Telefónica and Ferran Adrià have launched the Ideas for Transformation contest, in which MBA students from ten of the world's top business schools will design proposals for the new Bulli starting in 2014, to be known as the elBullifoundation.

The schools chosen for this year's contest, to be held during the 2011-2012 school year, were Harvard (Cambridge - Boston, USA), Columbia (New York, USA), Berkeley's Haas School of Business (Berkeley, USA), the London Business School (London, UK) and ESADE (Spain).

Seed and Venture capital programs

Telefónica Digital has a corporate venture capital programme focused on acquiring non-controlling interests in innovative companies with capabilities (products, services, technology) that allow them to help accelerate revenue generation for our Company in new and adjacent business areas.

Wayra

The Wayra initiative is intended to act as a technology accelerator, supporting newly created companies during their earliest stages or providing them with seed capital. In some cases, this might mean a single individual with a great idea who has not even established a company.

After a selection process, we support entrepreneurs from the beginning, giving them a work space, the opportunity to collaborate with other, like-minded innovators, startup financing, and access to technological know-how and mentoring within Telefónica—at the Wayra Academies—to allow them to develop and perfect their business idea.

In less than ten months, we have implemented Wayra in eight countries—Colombia, Spain, Mexico, Argentina, Peru, Brazil, Chile and Venezuela—and by late 2011 we had received more than 6,000 applications and financed more than 80 start-ups.

Our goal for 2012-2013 is to open new Wayra Academies in the United Kingdom, Germany, Ireland, the Czech Republic and Slovakia.

Amérigo

This network of mutual funds that invest in innovation was launched by Telefónica to accelerate the growth of high-added-value companies. The platforms in question are open and have several coinvestors who share the same objective.

In addition, we have stakes in technology companies offering solutions that are complementary to our activity in areas of interest to us. For example, we made a strategic acquisition of Joyent's share capital in order to promote technology and software breakthroughs to deploy profitable, high performance services in the cloud.

Corporate incubator program

In 2011, Telefónica relaunched the incubation program to develop new business ideas with the market potential that complement our innovation processes. Five initiatives for new "out of the box" developments, which were based on ideas of our employees and may lead to new disruptive services, were selected. Some of these results came out in the Mobile World Congress 2012

Innvierte

Within the framework of this programme, we will collaborate with the Spanish Ministry of Science and Innovation (MICINN) to promote investment in innovation in order to foster the development and consolidation of innovative technology-based companies with high economic-growth potential in Spain's ICT sector.

This agreement comes following the award to Telefónica of the selection process opened by the Centre for Industrial Technological Development (CDTI) to implement the "INNVIERTE" Sustainable Economy programme. The aim of this initiative is, in addition, to take technological development in Spain a step further, raising the country to the highest levels of business competiveness, innovation and cutting-edge developments, on a par with other European countries or the United States, among other countries.

In November 2011, Telefónica Digital announced that it had signed an agreement with this leading entertainment services company on strategic collaboration through maximum fidelity Wi-Fi networks. Our investment in the firm gives us access to the latest technology in order to offer high performance video services to households.

Public initiatives to foster I+D+i

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Telefónica's most important venture in 2011 was related to its leadership in the FI-WARE project, which involves more than twenty-five partners and is a key element of the Internet of the Future PPP.

The initiative entails developing the benchmark architecture, as well as handling the practical implementation, of an open platform for creating, deploying and rendering services.

10 Fridays free for inventing

Telefónica I+D has rolled out the 10 Fridays programme, through which our engineers can use up to ten Fridays to develop their own ideas during hours that are not necessarily for conducting their regular work at the Company. The purpose

Campus Party Brazil.

of this initiative is to encourage engineers' creativity and to motivate them by allowing them to work on topics that they put forth in areas of their interest.

The programme makes room for projects in e-health, analysis of psychometric data, game development in HTML5 or projects with fashion and advertising enterprises.

In addition, some ideas that prove successful may receive financing, be turned into prototypes and even become final products.

Campus Party

Movistar has, since Campus Party began fifteen years ago, continued providing support which has contributed to making this Internet gathering a technological reference worldwide and enabling parallel projects - such as Wayra or Bluevia - to become sources of innovation and success for participants' projects.

Campus Party was one of the events chosen to draw up the shortlist of projects. On the one hand, Movistar deployed in Campus Party Valencia the new IPv6 technology at the Campus Party for the first time. This new Internet protocol permits end-to-end connectivity, enabling the development of the "Internet of Things", through which current or future machines and numerous devices, such as computers, smartphones, PDAs, cars, refrigerators, washing machines or any other appliance, will offer data and Internet connections.

By late 2011, Wayra had received more than 6,000 applications and financed more than 80 start-ups

On the other hand, the Fundación Telefónica presented the EducaParty project. At this event, hundreds of technology teachers, innovators and enthusiasts took part in debates and workshops to analyse the development and benefits of technology in education.

In addition, Telefónica I+D and the Arduino free hardware platform presented Arduino Shield, a product containing a modem that can connect to Internet, the fruit of months of collaboration between the two companies. The users of Campus Party were invited to try it and give their impressions, to help with future versions.

Finally, Ferran Adrià explained his personal vision of creativity and the importance of considering young people as real innovators.

+Global...
global resources in Telefónica

Taking advantage of the benefits of our scale means to generate efficiency through simplification, standardisation and consolidation, to provide the most competitive platforms and the best team in order to grow and innovate and to accelerate the profitable growth of our international businesses.

Telefónica Leadership Conference, Miami 2012.

In September 2011, Telefónica carried out a thorough restructuring. Among the changes introduced was the creation of the Global Resources operating unit, designed to ensure the profitability and sustainability of the businesses by leveraging and unlocking economies of scale as well as by accelerating Telefónica's transformation into a fully global company.

Global Resources' mission is to provide the best service to Telefónica's businesses and to help them increase their profitability and sustainability, unlocking and taking advantage of the benefits of our scale in a context fraught with important challenges. In fulfilment of this mission, the first step that has been taken is the launch of four flagship projects:

- **Global standardisation and supplies** in all categories (handsets, mobile communications networks, fixed-network equipment, services platforms, etc.)
- **Reaching our natural market share** in multinationals (MNCs) by relying on the opportunities afforded by our geographic presence
- **Global Shared Services Centre,** which allows for increased efficiency in operational-type processes and tasks**.**
- **New global Human Resources** operating model.

The six areas that compose Global Resources and that are responsible for carrying out this mission (Operations and Network, IT, Procurement, Global Solutions, Group Services, Human Resources) will help Telefónica's businesses by generating efficiency and economies of scale through simplification, standardisation and consolidation; providing the most competitive platforms and the best team in order to grow and innovate; and accelerating the profitable growth of our international businesses.

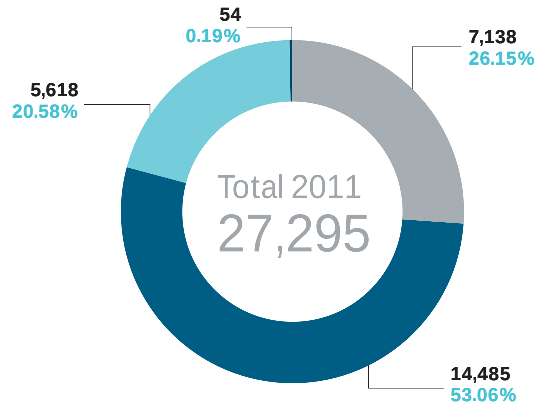
A global network

Having an open, scalable global communications network sets us apart in the value chain by allowing us to complement our digital assets with a unique combination of high-speed connectivity and storage and computing capacities and thus excel in the digital world. Indeed, our network resources, including both physical assets (fibre, equipment, etc.) and intangible ones (the radioelectric spectrum, telephone numbering range, etc.) are a key to ensuring the control and end-to end quality of our services.

In this sense, Telefónica has invested 31 billion euros in Radio-electric spectrum and networks during the last 4 years.

Purchases awarded by region

In thousands



	2010	2011	%chg
Spain	7,738	7,138	-7.7%
Latin America	13,363	14,485	8.4%
Europe	5,724	5,618	-1.9%
Other	141	54	-61.9%
Total Telefónica	**26,966**	**27,295**	**1.2%**

Our IP network spans more than 5 million kilometers of fiber optics, with a transfer capacity of more than 2 Tbps and connecting more than 1000.000 servers.

The main global initiatives of the Operations and Network area are:

- **Rationalisation of NGA rollouts** (FTTx, LTE, etc.) in order to optimise from end to end, starting at design and through rollout and operation.
- **Simplification and standardisation** of requirements and technologies in order to become more efficient. By way of example, the global RAN (Radio Access Network) initiative, the evolution of the transmission network, or network intelligence stand out.
- **In the sphere of operations**, the drive to automate processes and systems is noteworthy. One of the relevant initiatives in this regard is Global NOCs (Network Operation Centres).
- **Review of the ownership model** of certain assets, most notably actions relating to network sharing and the evaluation of the sale of non-strategic mobile telephony sites.

IT

The main challenges faced by the IT global area are the complexity of the processes of a company of Telefónica's size, in addition to the development, rollout and operation of new products and services and the integration of these services into both legacy and new systems.

For this reason, and given our flexible and global approach centred on a fast return on investment, the three IT initiatives underway are:

- **Facilitating the growth of the businesses** by accelerating the rollout of new services, the use of open platforms, online capacities and Business Intelligence.
- **Generating efficiencies of scale** through an intelligent supply strategy, infrastructure optimisation, digital global workstation, etc.
- **Transforming capacities and skills:** investing in differentiating areas for the (digital) future, strengthening alliances and relations with our partners, etc.

Procurement

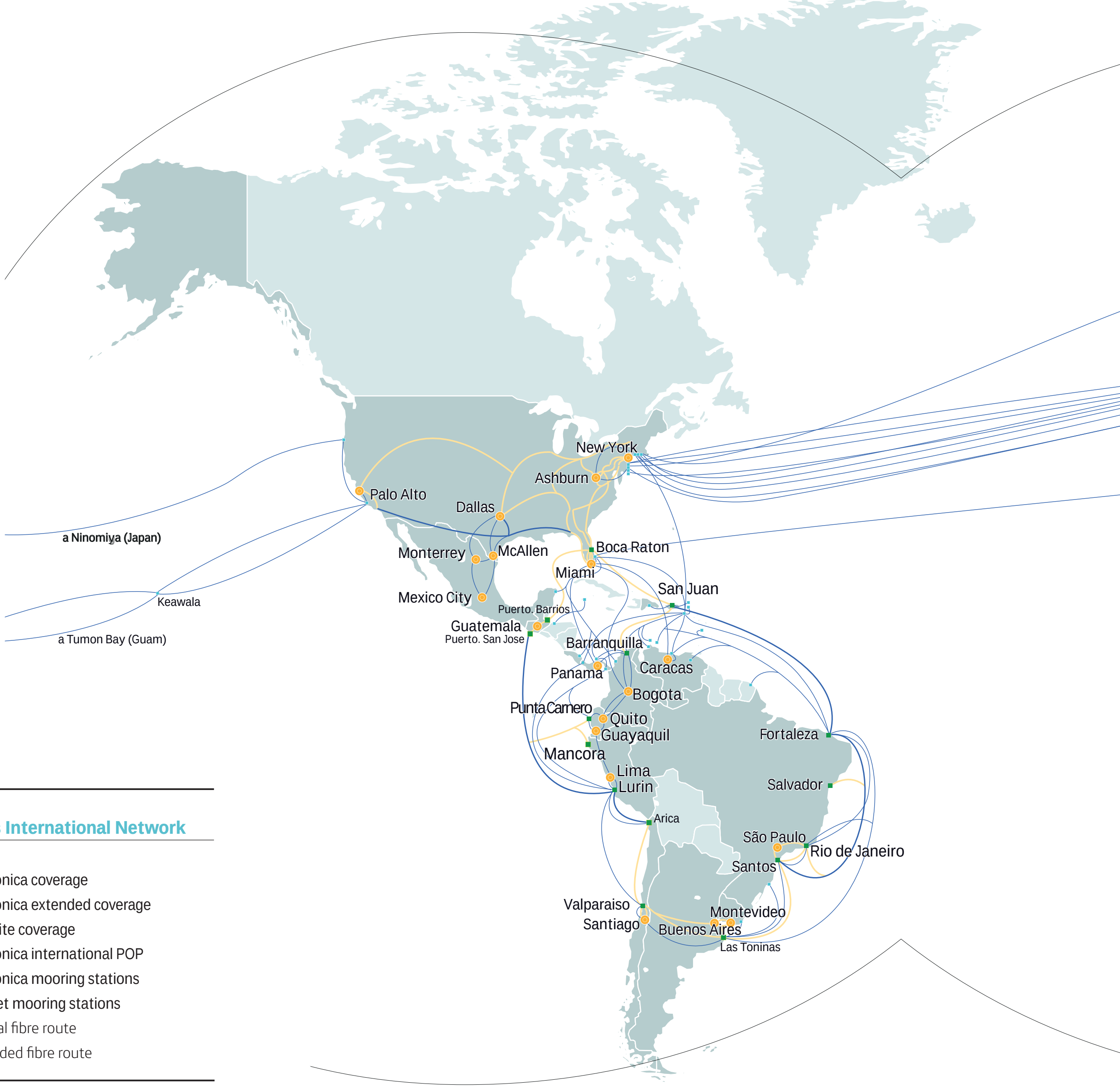
The main new features implemented by the new global Procurement unit to unlock the greatest value from the Company's size have to do with simplifying specifications with a global approach (standardisation and alignment), including the specifications of our allies (e.g., China Unicom or Telecom Italia); alignment, in terms of timing and processes, in global procurement; and establishing a cross-department procurement team that will ensure the involvement of all units that are relevant for the procurement process (GCTO, GCIO, T-Digital, business units and global and regional management-control areas).

So as to bring about the greatest possible efficiencies from the outset, the following steps were taken in 2011:

- **Identifying the 150** main negotiations, which account for approximately 50% of the value of the Company's global purchases, in order to implement key improvements beyond the procurement process—for example, standardisation, aggregation, consideration of new suppliers, streamlining certifications, etc.).
- **Global purchases** of handsets and devices: A joint task force involving Telefónica Digital (Global Devices) and Global Purchases has been formed, to design, validate and subsequently purchase a global handset catalogue for the entire Company.
- **Regarding the remaining negotiations**, work is underway to improve the "purchases desk" and to raise efficiency by reducing reduce the number of needed processes.

Total amount of purchase splits in 49% in Latin America and 51% in Europe, in a similar proportion than revenues in each region. It is worth highlighting that close to two thirds of the purchases were devoted to the core business: network + IT + mobile.

Telefónica has invested 31,000 million euros in the radioelectric spectrum and networks in the last four years



Telefónica's International Network

- Telefónica coverage
- Telefónica extended coverage
- Satellite coverage
- Telefónica international POP
- Telefónica mooring stations
- Off-net mooring stations
- Optical fibre route
- Extended fibre route

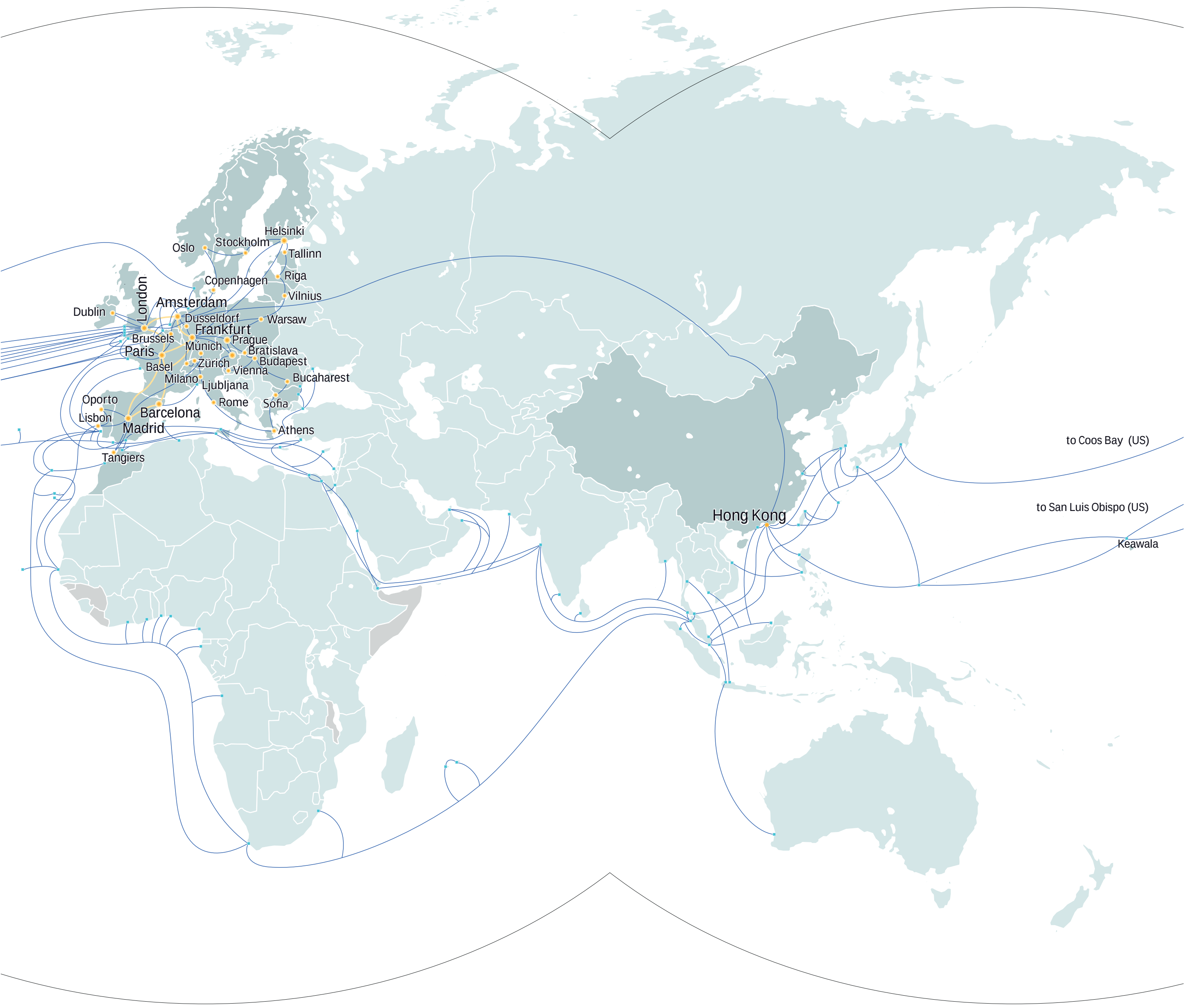
Dr. Yan Bo, GM - Global Business Department
and Juan Carlos López-Vives, Chairman of Telefónica Global Solutions.

Global Solutions

The Global Solutions area comprises Telefónica's multinational clients (MNCs) business, the international wholesale business (voice, data and IP capacity) through TIWS (Telefónica International Wholesale Services) and the roaming business through TGR (Telefónica Global Roaming). Its primary objective is to consolidate the global scale of our international services and reach our natural share of this market. Some significant data are:

- **45,000 km of fiber optic network,** connecting the main cities in Latin America, USA and Europe.
- **More than 100 PoPs** in more than 40 countries
- **More than 20 billion minutes** of international voice.

In addition, it seeks to continue consolidating the current model, including the globalisation of wholesale services and international services. The short-term initiatives carried out to meet this challenge are:



- **Strengthening and optimising** our sales network in Europe and the United States
- **Extending our perimeter** to the Asia-Pacific (APAC) region with an approach based on investing only in essential assets ("asset-light approach")
- **Giving an impetus** to our products and services catalogue, by standardising and unifying our core services—for example, Managed WAN
- **Strengthening customer service** in Europe and the United States.

Telefónica, through its Telefónica International Wholesale Services subsidiary, and China Unicom have signed a strategic agreement to extend and bolster their global presence by sharing their use of points of presence (PoPs) in their international networks.

Group Services

This unit incorporates the customer services business (Atento) and the management services offered (T-Gestiona). This area faces challenges relating to the search for consistency and control in support processes, cost reduction and efficiency, and efforts to leverage the use of new technologies (social networks, online capacities, multichannel approach, etc.). The unit's primary objective is to move forward in establishing an authentic Global Shared Services Centre. Its key initiatives can be classified into two groups:

- **Activities related to Finance,** Administration and Human Resources: concentrating transactional and back-office activities, standardising and simplifying processes, implementing a global reporting system, and so on.
- **Sales and customer service**—aligning contact centre operations with the priorities of the business lines.

+Agile...
a new, simpler and more effective model

Following Telefónica's structural changes, the role of the Human Resources Department has become, if possible, even more crucial. Consequently, the main step that has been taken is the launch of a new global HR operating model, to increase the positive impact on the businesses of the Company's recent restructuring.

Summit for Telefónica Executives, Madrid 2011.

The global HR unit is the catalyst of the Company's operating and cultural transformation and is responsible for ensuring that it becomes more responsive. The main units that will support efforts to meet this challenge are the Global Excellence Centres and the Global Shared Services Centres (which are intricately linked to the initiatives of Group Services).

The Global Excellence Centres allow us to manage people in a more efficient manner that is conducive to our becoming a more global company.

The centres of excellence (Talent, Compensation and International Mobility, Universitas and Organisation) that we have launched require specific expertise and define global policies and tools based on best practices, while avoiding duplication.

The Global Shared Services Centres, on the other hand, aim to take advantage of our scale and increase efficiency. They take on the more transactional activities and/or those that can be consolidated.

Employees

The Telefónica Group, including the Atento Group, had 291,105 employees at year-end 2011, 2.1% more than the previous year. Excluding the Atento Group, Telefónica's staff numbered more than 134,000 in 25 countries, 1% above the figure for 2010. This growth is all the more noteworthy when viewed against the backdrop of the challenging economic environment and sweeping changes in the telecommunications market.

An examination of employee breakdown by region reveals that Latin America continues to account for the bulk of the Telefónica Group's headcount—71%. This region is followed by Spain (19%) and the rest of Europe (9%). The remaining 1% is distributed across a number of countries not included within the defined core regions.

Ninety-six per cent of Telefónica's workforce, excluding Atento, have permanent employment contracts. When Atento is included, this figure falls to 81%.

The Telefónica Group increase the size of its workforce by 2.1% in 2011, to 291,027 employees

At year-end 2011, 37% of Telefónica's workforce was female (excluding Atento); the figure rises to 54% when Atento is factored in. In 2011, Telefónica increased the percentage of women in management positions to 19.1%.

Social dialogue and collective bargaining agreements

At Telefónica, all efforts related to social dialogue and to our employees' rights of association, participation and collective bargaining are based on our Corporate Guidelines, on the Social Protocol on International Agreements and on the related Code of Conduct in effect between the Union Network International (UNI) and the Company.

In 2011, 77,736 Telefónica employees—or 27% of the total workforce—voted in union elections. In addition, 207,126 of the Company's employees, or 71% of the total, were covered by collective bargaining agreements.

Telefónica de España completed the negotiation of its collective bargaining agreement covering 2011-2013 and of the Restructuring Plan (ERE), which sets a limit on the number of redundancies to no more than 6,500. The agreement reached with worker representatives allows employees to voluntarily sign up for the redundancy packages set forth in the Restructuring Plan. Under the agreement, redundancies must be voluntary, universal and non-discriminatory.

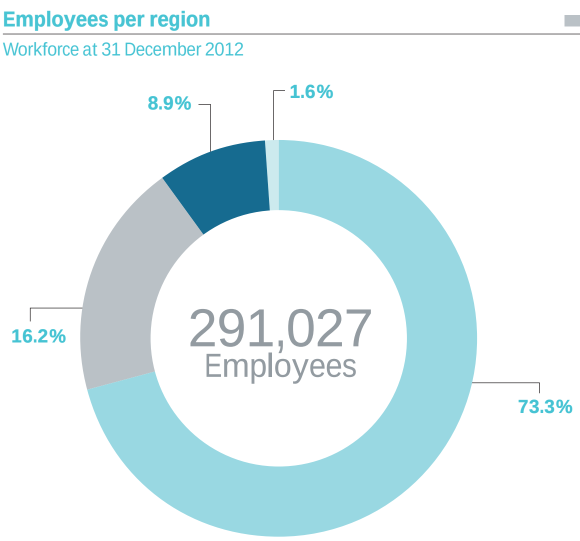
It should be mentioned that the Redundancy Plan secured a high level of acceptance, and a total of 2,359 employees had opted for the scheme by the end of the year, of which 1,925 left in 2011.

Also in 2011, the collective bargaining agreement of Telefónica Soluciones in effect for 2011 was signed, as well.

Union elections also took place at Telefónica de España to choose worker representatives. In the March 2011 elections to appoint the members of the company's provincial worker committees, 81.64% of employees participated. No incidents were recorded and all rights were duly guaranteed.

Employees per region

Workforce at 31 December 2012



	2009	2010	2011	% chg
Spain	52,060	54,879	47,186	-14.0%
Latin America	175,350	201,074	213,215	6.0%
Europe	27,964	27,171	26,014	-4.3%
Other	2,052	1,982	4,612	131.5%
Telefónica Total	**257,426**	**285,106**	**291,027**	**2.1%**

The work climate index improved by two percentage points in 2011

Workplace Satisfaction and Motivation Index — Percentage

Performance by region	2009	2010	2011
Spain	60%	63%	65%
Latin America	83%	84%	83%
Europe	76%	75%	76%
TSA and Subsidiaries	67%	66%	71%
Overall Telefónica	**73%**	**74%**	**76%**

Work climate

The employee workplace satisfaction and motivation index rose to 76% in 2011 from 74% in 2010.

The results of this survey, which does not include Atento, improved once again, yielding a score of 76% in 2011, two points above the result for 2010 and two points better than the target set for 2011, which was to maintain the 74% achieved in 2010.

By regions, the index for Spain stood at 65% (2 p.p. over 2010); for Latin America, 83% (-1 p.p. from 2010); for Europe, 76% (1 p.p. over 2009). The level of participation was still quite low. In 2011, 75% of the workforce took part (+0.5 p.p. from 2010), that is, over 108,000 employees in 24 countries.

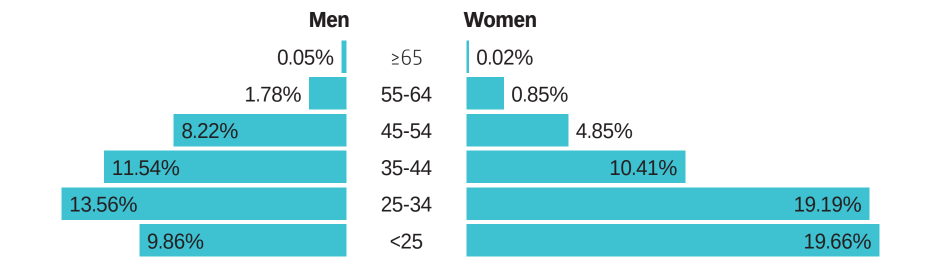
In addition, in 2011 the Great Place to Work Institute named Telefónica as one of the world's 25 best companies to work at. Specifically, Telefónica ranked 17 among 350 shortlisted multinationals from 45 countries. Atento, a Telefónica subsidiary, has also ranked among the top 25 best places to work, coming in twenty-fourth. Telefónica is the only telecommunications operator appearing on the global ranking, and Telefónica and Atento are the only Spanish companies included. Moreover, 30 Telefónica companies in the world (including Atento) were listed on Great Place To Work's regional and/or local rankings, and fifteen of them were in the top five spots on those lists.

Universitas Telefónica.

Telefónica invested 67.4 million euros in training, 14% more than the year before

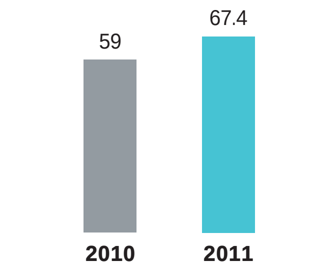
Employee permit, by gender and age

Percentage



Investment in training

Millions



High performance integrated processes

On the talent front, one of the major milestones of 2011 was the design of a new Global Performance and Talent Management Model which will be rolled out in all Telefónica companies in the course of 2012. The key aspects of this new model are based in individual targets and the Bravo!+ new forms of conduct: +Customer, +Global, +Digital, +Agile, +Leader.

Talent mobility

Telefónica prioritises talent mobility based on its view that it represents a key factor in personal and organisational development by fostering the exchange of know-how and best practices among the various companies. This was the reason for the launch in 2008 of the Global International Placement Management Model.

According to the kind of international movements, 44.06% of them were long term (more than one year), 43.75% were short term (not more than 6 months) and the remaining 12.19% were medium term (between 6 to 12 months).

Of the new assignments arranged in 2011, 35.26% were taken up by women and 64.74% by men, a decline with respect to participation in 2010 (41% women; 59% men) and more in line with the 2009 figures (35%/65%).

Development and training

In 2011, Telefónica invested €67.4 million in employee training (including at Atento), an increase of more than 13% over 2010. Also in 2011, employees received over 18 million hours of training, for an average of 62 hours per employee (including those at Atento). This marks a 38% increase over the number of hours of training provided in 2010, significantly outstripping the growth in investment, largely due to the ongoing boost to e-learning initiatives in 2011, which enabled Telefónica to manage the resources it devotes to training efforts in an increasingly effective manner.

With **Universitas Telefónica**—in the words of César Alierta, “the most important tool at our disposal for meeting the challenge of globalisation and winning in the digital world”—crucial steps are being taken to train and develop the Company’s employees. In 2011, the new Universitas team devised its vision and strategic focus for the coming years. Universitas’ strategic focus was redesigned so as to emphasise excellence, present relevant content for Telefónica and encourage networking among and the diversity of its participants. In addition, 43 versions of 14 different programmes have been introduced and have been attended by 2,674 professionals (106% more than in 2010). The average overall score given by participants at Universitas Telefónica was 9.0 out of 10 (one one-tenth higher than in 2010). Finally, we have continued to focus on e-learning as a global training tool for the launch of a new version of the platform intended to promote “social learning” and the implementation of model schools (English, finance and TIC) that have achieved excellent results and received high marks from their attendees.

+Leader...
worldwide scale of Telefónica is reinforced

Leader in... shareholder remuneration. Telefónica stands in seventh position in the sector Telco worldwide in terms of market capitalisation, and allocated more than 7.2 billion euros to remunerate shareholders

Distrito Telefónica.

In 2011, the Company earmarked €7.24 billion in shareholder remuneration overall, equivalent to 78% of free cash flow during the year and 9% of its market capitalisation. The shareholder remuneration was carried out through a cash dividend payment (€6.852 billion) and a share buyback (€386 million).

Whereas at 31 December 2011 Telefónica held 84.2 million treasury shares, representing 1.8% of its share capital, in 2012 it held 90.2 million treasury shares, equivalent to 1.975% of share capital.

2011 dividend payment: €1.60 per share

On 7 November 2011, Telefónica paid a dividend charged to unrestricted reserves for a fixed gross amount of €0.77 per outstanding share carrying dividend rights.

The remaining amount (€0.83 per share) will be distributed on 18 May 2012, through a combination of a cash payment (€0.53 per share) and a scrip dividend.

Shareholder remuneration policy

Although In December 2011, Telefónica's Board of Directors approved a revision of the shareholder remuneration targets announced in October 2009, the economic and operating environment on which these targets were based has changed significantly.

In the current climate, and given Telefónica's share valuation, the Company decided to "move up the flexible shareholder remuneration scheme initially set for 2013, while maintaining an attractive remuneration for its shareholders compatible with the strategy of sustained investments in the business -including spectrum

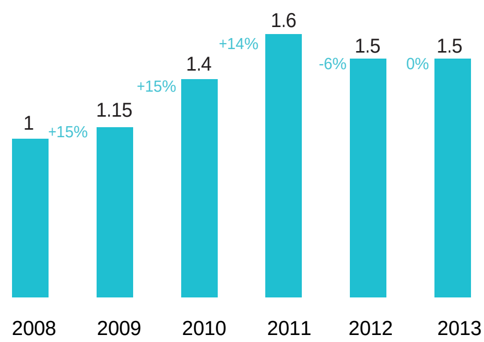
At year-end 2011, the value of Telefónica's share capital, subscribed and fully paid up, stood at €4,563,996,485

acquisition- to capture growth opportunities in our markets and enhance the Company's financial flexibility".

Total shareholder remuneration for 2012 will amount to €1.50 per share, including the payment of a cash dividend of €1.30 per share and a share buyback for the remaining amount. The repurchased shares will be cancelled. The term for carrying out the buyback will end in May 2013.

The minimum total per-share remuneration established for 2013 is similar to that of 2012 (€1.50 per share). The type of remuneration (dividend, share buyback or a combination of the two) will be decided based on prevailing market conditions and investor preference when the remuneration is paid.

Dividend-per-share performance in euros



Relevant figures

Numbers of shareholders. Telefónica had 1,468,677 shareholders at 3 April 2011, according to the individual records issued to natural and legal persons, as well as from Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores (Iberclear).

Stock markets. Telefónica trades on the Spanish continuous market (specifically, on the selective Ibex-35 index) and on Spain's four stock markets (Madrid, Barcelona, Bilbao and Valencia), as well as on the London, Tokyo, New York, Buenos Aires, São Paulo and Lima markets.

Share capital. At year-end 2011, the value of Telefónica's share capital, subscribed and fully paid up, stood at €4,563,996,485, and was divided into 4,563,996,485 ordinary shares, all of the same series and class, having a par value of one euro each, and represented by book entries.

Significant shareholdings. According to information available from the Company, no natural or legal person exercises, or may exercise, directly or indirectly, either alone or in conjunction with another party, control over Telefónica.

Thus, at 31 December 2011, Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) held 5.658% of Telefónica's share capital; Caja de Ahorros y Pensiones de Barcelona (la Caixa) held 5.410%; and Blackrock Inc. held 3.884%, either directly or indirectly.

Performance of share price

The main European markets declined across the board in 2011 (Athex Composite -51.9%; PSI-20 -27.6%; FTSEMIB -25.2%; EStoxx-50 -17.1%; CAC-40 -17.0%; DAX -14.7%; Ibex-35 -13.1% and FTSE-100 -5.6%) as a result of the sovereign debt crisis throughout Europe. The crisis came to a head with the Portuguese bailout and Greece's request for a second rescue package. The financial stability of other peripheral countries remains in doubt, and concerns on global economic growth increases.

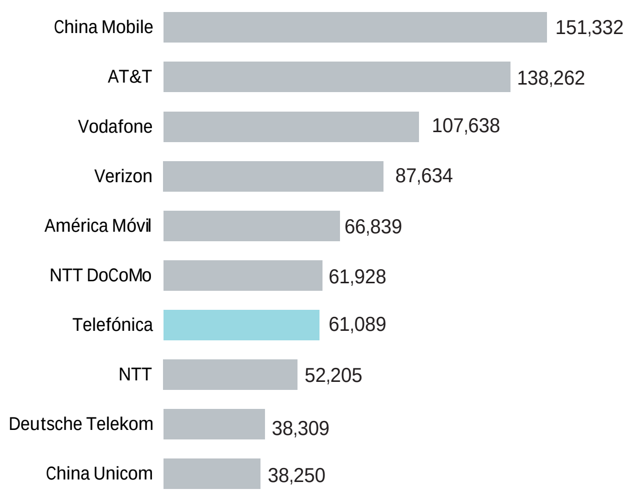
Telefónica's share price fell by 21.1% (to €13.39 per share at year-end 2011), underperforming the European telecommunications sector overall (-6.2%). The main reason for the decline was Spain's macroeconomic risk owing to its exposure in southern Europe and the rise in the British Telcos (Vodafone'+7.9%, BT +5.6%) given its considerable weight on the index. The other leading European operators were also down in year-on-year terms: France Telecom: -22.2%; KPN: -15.3%; Telecom Italia: -14.1%; Deutsche Telekom: -8.2%. Nevertheless, the total return on Telefónica shares in 2011 stood at -12.1% (taking into account dividends paid).

At year-end 2011, Telefónica was the seventh largest telecommunications company in the world by market capitalization (€61,089 billion) and the sixty-fifth largest company in the world overall.

Telefónica's daily trading volume on the Spanish continuous market was 56.4 million shares in 2011 (59.8 million in 2010).

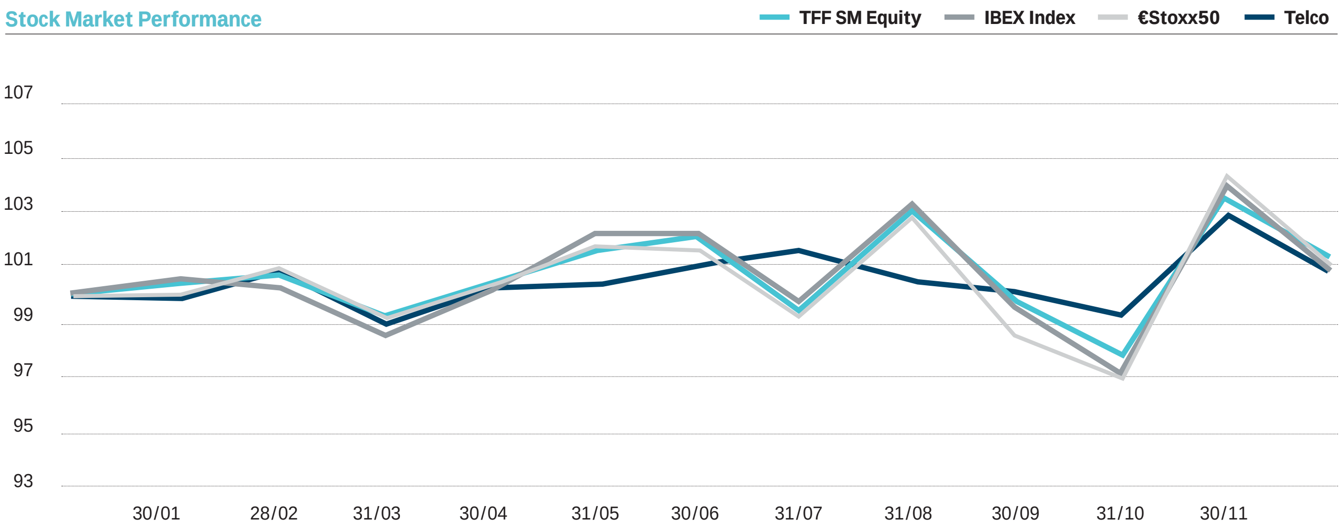
Sector Ranking by market capitalisation at December 31, 2011

millons of euros



Source: Information taken from Bloomberg

Stock Market Performance



Stand Bolsalia, Madrid 2011.

Telefónica's Investor Relations Office

Through our Investor Relations Office, we ensure transparent and fluid communication with our individual shareholders. At year-end 2011, more than 200,000 shareholders were registered in the Shareholder Service, and were thus eligible to receive the Shareholder Card identifying them as Company shareholders, in addition to the quarterly magazine Acción Telefónica.

Communication channels with shareholders are:

Our Investor Office's toll-free number (900 111-004)

In 2011, it received 63,142 calls in 2011, or an average of 5,262 calls per month. During the period when our General Shareholders' Meeting was being held, the monthly average number of calls rose to 19,000.

The topics on which our shareholders most frequently inquired were:

- **16,832 inquiries** on the General Shareholders' Meeting
- **20,505 inquiries** on stock market trends and share prices
- **6,555 inquiries** on earnings and significant events
- **68 inquiries** on capital increases and special financial transactions

Online channel

During 2011, the Shareholders & Investors website registered a total of 1,924,144 visits, compared to 1,439,537 in the year before. In this site we offer information regarding:

- **Stoke Exchange. Online prices, with graphic resources, return calculators, weighting indexes, peer group performances, etc.**
- **Dividends, results and relevant information. Regarding the Corporate Governance, relevant facts, etc.**
- **Documents. Financial Reports and Official Filings from the Company**
- **Shareholders' Corner. To get timely access to up-to-date operating and financial information about Telefónica Shareholder's Corner provides a personal mailbox, a alerts service and personalized information.**

The Investor Office has an e-mail address (accion.telefonica@telefonica.es) through which more than 2,500 queries were answered during the year.

Acción Telefónica magazine

This publication provides financial information and reports on current events and on campaigns exclusively for our shareholders. In 2011, we mailed 597,582 copies of the magazine to our shareholders

+Leader in... strategic alliances. Telefónica reinforces its strategic and industrial alliances to consolidate its leadership as a global player.

Telefónica's global reach has been enhanced by its strategic and industrial alliances with China Unicom and Telecom Italia. On the basis of these alliances, Telefónica now has access to a combined total of 808 million customers of the three operators. Through Zon Multimedia, its industrial alliances also give Telefónica a foothold in Portugal.

In addition, in 2011 Telefónica launched its Partners Program to expand its alliances with other operators without cross holdings in markets in which the Company does not operate.

China Unicom

On 23 January 2011, Telefónica strengthened its strategic alliance with China Unicom, agreeing on a new share swap. The aim of this stronger alliance is to enhance strategic cooperation in areas including procurement, mobile-services platforms, provision of services to multinationals, wholesale services, roaming and technology in which the companies had already been working jointly since signing their strategic alliance.

In addition, the two companies bolstered their alliance through a new reciprocal investment in which each of them will acquire a shareholding in the other equivalent to US$500 million. China Unicom is raising its shareholding through the acquisition of 21,827,499 Telefónica treasury shares. For its part, Telefónica bought China Unicom shares on the stock market. After the swap has been carried out, Telefónica's stake in China Unicom will climb to about 9.57%, while China Unicom's stake in Telefónica will total 1.37%.

The agreement also calls for the naming of a new member on Telefónica's Board of Directors representing China Unicom.

The joint development of the Internet of Things

Telefónica, through the newly created Telefónica Digital unit, and China Unicom entered into a strategic agreement to promote the development of the Internet of Things from a global perspective. The objective is to make progress toward improving machine-to-machine connections, or M2M, through various technologies such as radio-frequency identification, sensors or global positioning systems (GPS).

More specifically, China Unicom and Telefónica have agreed to cooperate on the construction, maintenance and operation of M2M platforms and the development of the related technological specifications, which should significantly boost both companies' capacity to offer winning proposals to their customers in the different markets and sectors.

M2M solutions can improve efficiency and economic sustainability ratios and reduce costs, as well as provide new technological dynamics that will contribute to the overall economic recovery. They represent a new wave of innovation in the technology and information industry after those spearheaded by IT, the Internet and mobile-communication networks.

From a commercial standpoint, both companies will participate in purchasing, testing and market-analysis processes. Eventually they will establish alliances with customers and suppliers to leverage their economies of scale so as to improve conditions and accelerate standardisation processes. In this manner, they will provide clients with strategic global M2M solutions in order to jointly develop business opportunities in the new digital era and to make the most of those opportunities: smart mobility, energy efficiency, connected cars, consumer electronics, smart cities and intelligent production systems.

Another facet envisioned by Telefónica and China Unicom has to do with roaming, which involves agreeing on special conditions related to the needs of M2M, thus increasing the quality of the service, and promoting international M2M communications standards.

The important scale resulting from the cooperation between the two groups will enable joint testing and joint technological certifications throughout the world. Regarding certifications, the teams from China Unicom and Telefónica will work with the International Organization for Standardization and will take part in its most important forums.

Telefónica Ambassadors Event, Beijing 2012.
From left to right: César Alierta (Chairman of Telefónica);
Ferran Adrià (el Bulli); Lang Lang (pianist); Chang Xiaobing (Chairman of China Unicom).

Telecom Italia

Telefonica holds 10.5% of the voting rights in Telecom Italia through its 46.2% stake in Telco. The alliance between Telefonica and Telecom Italia is the largest in Europe with more than 60 million customers in Italy and presence in 8 European countries. The Industrial Alliance has laid the foundations for the development of an operational synergies program to take advantage of the scale of both companies.

Between 2008 and 2010 the program generated synergies of over €1,300 million. This has been extended for three more years with the aim of achieving continued synergies of approximately €500 million a year. The results are based on increased technical alignment, using best operational practice, alignment of marketing strategies and implementing best business practice, as well as work done on leadership and innovation projects.

Specifically we are developing a wide range of initiatives within infrastructure, particularly in the next generation networks of fixed and mobile. This facilitates the exchange of best practice in relation to new technologies, deployment plans and the optimization of the processes.

The alliance is also working hard on the development of innovation projects in areas as diverse as Cloud Services, M2M and the internet of things, unified communications, financial services and content services. The main objectives are the transfer of knowledge and the development of joint projects like those that are currently underway as part of the collaboration with the European Union.

Telefónica Partners Program

Telefónica Partners Program is the Company's tool for expanding its alliances into new markets. Utilizing the experience gained through its strategic alliances with China Unicom and Telecom Italia, in 2011 Telefónica implemented this ambitious programme in order to extend its alliances to operators with which Telefónica has no shareholding relationship and that are in markets where it does not operate but that are of interest to it.

+Leader in brand portfolio. Movistar and O2 among the 100 Most Valuable Brands.

Telefónica yacht, which competed in the Volvo Ocean Race.

Telefónica's brand strategy is differentiated into different roles: Telefónica plays an institutional-brand role, and is responsible for overseeing relations with employees, shareholders, global customers, suppliers, public institutions and society at large; while Movistar, O2, and Vivo are the commercial brands that interact with customers of the residential and corporate segments in each of their benchmark markets.

Evolution of the Implementation of the Brand Strategy

In 2011, we completed the implementation of Telefónica's role as an institutional brand, moved forward with the commercial rebranding of Movistar and developed the new strategy for Vivo to gradually transform its mobile-business brand into a convergent brand in the Brazilian market. In addition, we have broadened our portfolio with successful brands in the digital segments (Tuenti, Jajah) and created new brands that will allow us to compete with other brands in the digital environment and that will exist side-by-side our commercial brands.

Institutional Brand: Telefónica

To strengthen the vision of the "The power to transform" brand as well as its values and its institutional role in society, we have developed a communication strategy that includes advertising, the alignment of the Telefónica Foundation's social actions under the company's brand, and the "Brand Ambassadors" programme. This programme has been consolidated and promoted with the inclusion of the Chinese pianist Lang Lang in 2011. In addition, we have taken part in the institutional sponsoring of the Volvo Ocean Race 2011-2012.

In 2011, we finished implementing the Telefónica institutional brand, with its launch in Latin America and the new operations in Costa Rica and Brazil (in particular, outside of the state of São Paulo, following the acquisition of Vivo).

In Europe, Telefónica has become the sole-employer brand for 25,977 employees. This was disseminated through the "Did you know?" internal campaign, winner of the Digital Impact Awards in the 'Best Digital Employee Communication' category and the European Excellence Awards in the 'Best Change Communication' category.

Commercial brands: Movistar, O2 and Vivo

In 2011, we successfully completed the commercial rebranding of the new Movistar, a process that began in 2010. This change was carried out progressively in the different markets.

In January, Peru implemented the new brand for all of its services. In the second and third quarters, the mobile-business brand was repositioned in Argentina, Colombia, El Salvador, Panama, Nicaragua and Guatemala and a new launch was carried out in Costa Rica. In 2012, in Colombia, all services are expected to be integrated under the Movistar brand.

In 2011, we completed the implementation of Telefónica's role as an institutional brand, moved forward with the commercial rebranding of Movistar and developed a new strategy for Vivo

Brand awareness

Spontaneous awareness of the Telefónica Brand, total number of mentions

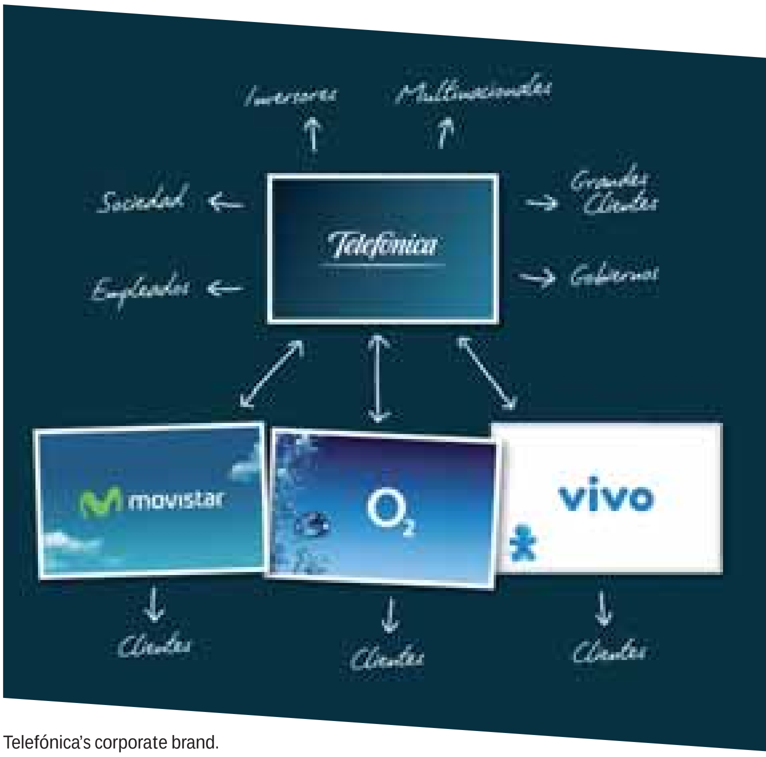
Mobile Telephony

Country	Top of mind Percentage	Total number of mentions Percentage	Total number of mentions Ranking
Spain	41	92	1
Chile	30	68	1
Peru	54	93	2
Argentina	41	95	1
Mexico	31	94	2
Uruguay	48	98	1
El Salvador	25	97	1
Guatemala	28	99	1
Nicaragua	52	100	1
Venezuela	38	100	1
Colombia	15	93	1
Ecuador	40	99	1
Panama	44	99	1
Costa Rica	4	69	2
Brazil	28	72	3
Ireland	41	95	2
Slovakia	22	88	3
Czech Republic	34	92	2
England	26	71	2
Germany	20	66	2

Fixed Telephony

Country	Top of mind Percentage	Total number of mentions Percentage	Total number of mentions Ranking
Spain	60	97	1
Chile	30	68	1
Peru	44	60	2
Brazil	47	69	1
Argentina (Broadband)	59	89	1
Colombia	17	48	1

Data from TPSM (ATP) of MillwardBrown, cumulative as of Q4 2011



Telefónica's corporate brand.

O2 and Vivo have also held onto their position as the sole brands for the residential and corporate segments in their markets (Europe and Brazil, respectively).

Although O2's positioning and visual identity remained unchanged in 2011, the group has been developing a new strategy for Vivo to gradually transform the mobile-business brand into a convergent brand under the concept of "Connected for a better life". In these efforts, we remain committed to the values of innovation, simplicity, proximity, enthusiasm and trust ahead of the April 2012 launch.

Brand Ranking

In 2011, we successfully completed the commercial rebranding of the Movistar, O2 and Vivo are among the brands most highly regarded by customers in every country where we operate. Various studies published in 2011 and carried out by large global consulting firms such as Interbrand and MillwardBrown placed our commercial brands among the top brand-valuation rankings.

In its 2011 ranking, Interbrand, which focuses on the Spanish market, rated Movistar as the most highly regarded Spanish brand.

In addition, MillwardBrown's prestigious 'Brandz Top 100 Most Valuable Global Brands 2011' ranked Movistar twenty-first, making it the top Spanish brand. This is the first time a Spanish brand has had one of the twenty-five top spots. In the same ranking, O2, Telefónica's commercial brand for Europe, also had a relatively high standing, as it placed seventy-fourth.

This significant climb in brand value underscores the strategic rebranding of Telefónica's brands and the consistent implementation of this rebranding in the countries.

+Leader in... sustainability. Risk and opportunities management of Telefónica is internationally recognized.

In 2011, Telefónica was once again among the world's leading companies in terms of sustainability criteria, according to the **Dow Jones Sustainability Index (DJSI),** while improving its position by four points from 2010.

In 2011, Telefónica was once again among the world's leading companies in terms of sustainability criteria, according to the Dow Jones Sustainability Index (DJSI), while improving its position by four points from 2010.

In its annual review, Sustainable Asset Management (SAM)—the rating agency that evaluates companies in terms of sustainability management—gave the Group a score of 88 out of 100 based on economic, environmental and social criteria. This is 23 percentage points above the sector average and places Telefónica among the top five companies in the sector.

Telefónica, which has been listed on this index—one of the most demanding in the world—for four years, once again heads up the list in the social category and raised its score in the other two categories.

For the DJSI, "Corporate Sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments". And Telefónica has formulated its sustainability strategy according to this definition.

Telefónica is recognised as the company in its sector with the best practices in six key categories, and is ahead of the South Korean company KT Corp by 90 points. For the second year in a row, Telefónica scored first in risk and crisis management; environmental management; human capital development; impact of telecommunication services; and stakeholder engagement. And for the first time it was the top-ranked company in digital inclusion issues.

Economic dimension (87 points)

Telefónica received a score of 87 points for its economic impact, a 4-point improvement and 18 percentage points above the sector average. This part of the index examines issues relating to customer relations management; privacy; risk management; corporate governance; corporate guidelines and anticorruption; brand management; and innovation management. In addition, in what is a new category this year, it places more emphasis on the development of services.

One of the most prominent aspects is Telefónica's Risk Management model, which was awarded the highest score (100 out of 100). The model provides us with a high level of awareness about the possible risks specific to our activity (business, financial, operational and global risks), which ensures greater efficiency when allocating resources to manage the risks identified. Standing out among the global risks are reputational risks and risks associated with breach of the Business Principles, for which improvement plans, mitigation projects, regulations and procedures are defined which ensure appropriate management through a specific projects unit at the company, which is responsible for articulating correct internal conduct relating to responsibility for the supply chain, human rights, integrity, privacy and data protection, health and safety, electromagnetic fields, child protection, responsible advertising and diversity, etc.

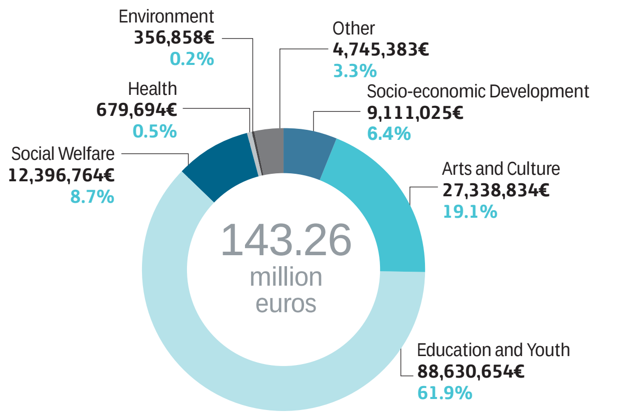
Noteworthy in innovation is the utilisation of opportunities for growth offered by the digital world through widening the portfolio of products and services, as well as the commitment shown to technological development through BlueVia (Telefónica's platform for developers), investment in social and environmental innovation, Movilforum and Wayra (an initiative launched by the company in 2011 to help talented entrepreneurs to accelerate their ICT-related business ideas).

Social Dimension (90 points)

In social issues, Telefónica remained at 90 points, the highest score in the sector and 27 points above average. We should stress the Telefónica Foundation's Debate and Knowledge programme, which aims to foster social awareness of and discussion on the impact of ICTs; the internal push for telework or teleconferences; the efforts to ensure that the supply chain acts responsibly and guarantees respect for human rights and the corporate guidelines (in 2010, more than 1,100 supplier audits were conducted); and Telefónica Foundation's programmes, in particular, Proniño.

We should also stress the improvement in talent retention and human capital development—areas in which the Company has the highest score in the industry. This effort regarding our employees was channelled through the new bravo! People programme, which launched a Global Share Purchase Plan in which more than 40,000 employees are registered. The programme gave awards for employee commitment and good performance. In addition, the Company moved forward with its training effort, investing €56.4 million in e-learning programmes and a Corporate University.

Invesment in social projects



The rating agency that evaluates companies' sustainability gave the Telefónica Group a score of 88 out of 100, 23 points higher than the sector average

Regarding stakeholder engagement, in which Telefónica is rated Best in Class, the Company stepped up its use of social networking in order to improve service and forge trust-based relationships with stakeholders such as its customers.

Environmental dimension (87 points)

The Company's environmental score was 87 points, 14 higher than last year and 30 points above the average. This category covers issues related to environmental policy, ecoefficiency, environmental information and climate change. Telefónica continues to lead the sector in environmental management, thanks to the implementation of its Global Environmental Management System, which is now in place at 80% of its operations, and the ISO 14001 certification, which has now been awarded to more than 65% of its companies.

Telefónica made significant improvement—115%—in ecoefficiency thanks to proper management of resources (energy, CO2 emissions, waste). Indeed, by 2010 the Company was halfway to meeting its goal of reducing network energy consumption by 30% by 2015.

II Global Energy and Climate Change Workshop Lima, September 2011.

Leadership 2011 in Green ICT

In Energy and Carbon management

For the second consecutive year, Telefónica received the highest score in the telecommunications sector in the Carbon Disclosure Project (CDP), composed of two indexes which list 551 institutional investors with US$71 trillion under management and rate companies' transparency and performance vis-à-vis climate change.

With a score of 90 points out of 100—one point higher than last year—Telefónica is the only Spanish company listed on the Carbon Disclosure Leadership Index (CDLI), which measures the quantity and quality of the information that companies provide on climate change. The 52 best companies in the world are listed on it.

Energy management and CO2 emissions, green services, and, in general, the utilisation of opportunities and the minimisation of risks associated with climate change are the keys for the Company's attainment of this position on the leading investment index on carbon.

We attained merely 20% of the goal we set in 2007 of reducing our network electricity consumption by 30% by 2015 (Kwh/access eq).

In Green ICT services

In 2011, we were recognised as a leading ICT company in Europe based on our provision of energy-efficient services, according to the "green quadrant", by Verdantix, a firm of analysts of the global industry. In 2011, who worked with the business lines to expand our portfolio of Green ICT services globally. In 2011, Telefónica invested 15 million euros in I+D processes for energy efficient services (transports, utilities, smart buildings) in particular and solutions based on M2M. Our "Green ICT" services help promote an ecoefficient, low-carbon economy. The consolidated our global smart city model in which Green ICT services play an important role for energy management, the environment and local transportation.

2011 Earnings

In 2011, the Company registered a record free cash flow of 9,270 million euros, representing robust year-on-year growth of 9.5%, while also investing heavily in what was an adverse operating environment. In these challenging conditions, the Company attained its revenue, OIBDA and CapEx targets for 2011.

Mobile net adds reached a record 7.8 million accesses, while the number of mobile broadband accesses were 1.6 times higher than in December 2010 at 38 million. The contract segment now represents one third of the Group's total mobile accesses. Telefónica Latinoamerica, with 10% year-on-year organic growth in accesses, consolidated its position as the main driver of growth in Telefónica's accesses.

2011 revenues totalled 62,837 million euros, representing year-on-year growth of 3.5% and of 4.8% excluding the impact of the reduction in call termination rates. Telefónica Latinoamérica was again the Company's growth driver, accounting for 47% of total revenues. Mobile data revenue grew by 19% year-on-year, accounting for more than 31% of mobile service revenue. This increase was driven by the rapid increase in non-SMS data revenue, which now accounts for more 52% of total data revenue.

With an underlying OIBDA margin of 36.1%, the Company has maintained a high level of profitability despite increased commercial activity. The negative impact of regulation reduced 2011 OIBDA by 188 million euros.

Financial Highlights

Telefónica. Selected Financial Data

Unaudited figures (Euros in millions)	January - December 2011	January - December 2010	% Chg Reported	% Chg Organic	2011 Guidance	Guidance fulfillment
Revenues	**62,837**	**60,737**	**3.5**	**0.1**	**"up to 2%"**	**0.1**
Telefónica España	17,284	18,711	(7.6)	(7.6)		
Telefónica Latin America	29,237	25,756	13.5	5.0		
Telefónica Europe	15,524	15,724	(1.3)	(1.6)		
OIBDA	**20,210**	**25,777**	**(21.6)**	**(5.1)**		
Telefónica España	5,072	8,520	(40.5)	(12.0)		
Telefónica Latin America	10,941	13,713	(20.2)	(1.4)		
Telefónica Europe	4,233	4,080	3.8	(2.5)		
OIBDA margin	**32.2%**	**42.4%**	**(10.3 p.p.)**	**(2.0 p.p.)**	**"upper 30's"**	
Telefónica España	29.3%	45.5%	(16.2 p.p.)	(2.2 p.p.)	Limited erosion y-o-y	**36.1%**
Telefónica Latin America	37.4%	53.2%	(15.8 p.p.)	(2.4 p.p.)		**(2.0 p.p.)**
Telefónica Europe	27.3%	25.9%	1.3 p.p.	(0.3 p.p.)		
Operating Income (OI)	**10,064**	**16,474**	**(38.9)**	**(9.6)**		
Telefónica España	2,984	6,511	(54.2)	(16.8)		
Telefónica Latin America	6,157	9,759	(36.9)	(4.3)		
Telefónica Europe	1,116	879	27.0	(0.9)		
Net income	**5,403**	**10,167**	**(46.9)**			
Basic earnings per share (euros)	**1.20**	**2.25**	**(46.7)**			
CapEx	**10,224**	**10,844**	**(5.7)**	**3.3**	**- 9,000**	**8,819**
Telefónica España	2,914	2,021	44.2 2.6	(12.6)		
Telefónica Latin America	5,299	5,455	(2.9)	6.6		
Telefónica Europe	1,705	3,152	(45.9)	(3.8)		
OpCF (OIBDA-CapEx)	**9,986**	**14,933**	**(33.1)**	**(9.8)**	**- 9,000**	**8,819**
Telefónica España	2,158	6,499	(66.8)	(16.5)		
Telefónica Latin America	5,641	8,258	(31.7)	(6.9)		
Telefónica Europe	2,528	928	n.s.	(1.5)		

- Reconciliation included in the excel spreadsheets..

Notes:

- OIBDA and OI are presented before brand fees and management fees.
- OIBDA margin calculated as OIBDA over revenues.
- 2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.
- OIBDA, OIBDA margin, OI and OpCF of Telefónica include 2,671 million from the workforce provision related to the Redundancy Program in Spain in the third quarter of 2011.
- Figures in million Euros. CapEx includes, in the second quarter of 2011, 417 from the the spectrum acquired in Brasil (349) and Costa Rica (68); 37 from the spectrum acquired in Colombia in the fourth quarter of 2011 and 842 from the acquisition of spectrum in Spain in 2011. 2010 CapEx includes 1,379 from the acquisition of spectrum in Germany in the second quarter of 2010 and 1,237 from the acquisition of spectrum in Mexico in the third quarter of 2010.
- **T.España**: Figures in million euros. OIBDA, OIBDA margin, OI and OpCF of T. España include a net gain of 40 from the sale of non-strategic assets in the fourth quarter of 2011 (73 in 2011) and the booking during the third quarter of 2011 of the workforce provision related to the redundancy programme (2,591) and 202 in the fourth quarter of 2010. In 2010, Company results in reported terms were affected by the following: booking of the Universal Service (95 in revenues and 31 in OIBDA; 38 in revenues and 13 in OIBDA in the fourth quarter), sale of application rights (101 in revenues and also in OIBDA; 49 in the fourth quarter) and bad debts recovery (20 in OIBDA). Associated to the Universal Service, it was booked in 2011, 35 in revenues and 13 in OIBDA in the fourth quarter.
- **T. LatAm**: 2011 T. Latin America results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007. OIBDA, OIBDA margin, OI and OpCF in T. Latinoamérica are affected by the positive impact from the revaluation of the previously-held stake in Vivo at its fair value at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,797 million euros in the third quarter of 2010) and by non-recurrent restructuring expenses mainly related to personnel reorganization and firm commitments relating to the Telefónica Foundation's social activities of 410 in the fourth quarter of 2010.
- **T.Europe**: Figures in million euros. OIBDA, OIBDA margin, OI and OpCF of T. Europe include a capital gain of 61 from the sale of Manx Telecom in the second quarter of 2010 and is affected by non-recurrent restructuring expenses mainly related to personnel reorganization and firm commitments in the second half of the year (202 recorded in the third quarter and 118 in the fourth quarter).
- **Organic criteria**: In financial terms, it assumes constant average exchange rates as of January-December 2010, and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in January-December 2010 the consolidation of Vivo, HanseNet and Tuenti are included whereas the revaluation of our pre-existing stake in VIVO accounted for in Q3 10 and the results of Manx Telecom are excluded from organic growth calculation. In addition, excluded from OIBDA and OI in 2010 is the impact of the capital gain from the sale of Manx Telecom booked in the second quarter of 2010, and the one-off restructuring expenses, most of which were associated with workforce adjustment plans and firm commitments relating to the Telefónica Foundation's social activities, registered in the second half of 2010. In OIBDA terms, in January-December 2011 the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded, as well the workforce provision related to the Redundancy Program approved in Spain. Results from the Costa Rica operation are excluded from the organic growth calculation. Telefónica's CapEx excludes the Real Estate Efficiency Programme at T. España, the real estate commitments associated with Telefónica's new headquarters in Barcelona and investments in spectrum. 2011 financial results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007. In addition, 2011 results include from September (retroactive effect August 1st) the global consolidation of Acens Technologies.
- **Guidance criteria**: 2011 guidance assumes constant exchange rates as of 2010 (average FX in 2010) and excludes hyperinflationary accounting in Venezuela in both years. At the OIBDA level it excludes write-offs (impairments of subsidiaries), capital gains/losses from companies disposals and significant exceptionals mainly related with restructuring costs. Results from the operation in Costa Rica are excluded from guidance calculation. Group CapEx excludes Real Estate Efficiency Program of T. España, the Real State commitments associated to the new Telefónica premises in Barcelona and spectrum licenses.

January – December 2011
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The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). This financial information is unaudited.
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Telefónica Accesses

Telefónica Accesses

Unaudited figures (thousands)	2011	2010	% Chg
Final Clients Accesses	301,311.8	282,994.9	6.5
Fixed telephony accesses[1]	40,119.2	41,355.7	(3.0)
Internet and data accesses	19,134.2	18,611.4	2.8
Internet and data accesses	909.2	1,314.1	(30.8)
Broadband[2]	18,066.3	17,129.6	5.5
Other[3]	158.7	167.8	(5.4)
Mobile accesses	238,748.6	220,240.5	8.4
Prepay	162,246.9	151,273.9	7.3
Contract	76,501.7	68,966.6	10.9
Pay TV[4]	3,309.9	2,787.4	18.7
Wholesale Accesses	5,296.0	4,637.4	14.2
Unbundled loops	2,928.7	2,529.2	15.8
Shared ULL	205.0	264.0	(22.3)
Full ULL	2,723.7	2,265.3	20.2
Wholesale ADSL[5]	849.3	687.4	23.5
Other[6]	1,518.0	1,420.7	6.8
Total Accesses	**306,607.8**	**287,632.3**	**6.6**

1. PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use and total fixed wireless included. Includes VoIP and Naked ADSL.
2. ADSL, satellite, optical fibre, cable modem and broadband circuits.
3. Retail circuits other than broadband.
4. Includes 153 thousand clients of TVA from June 2011.
5. Includes ULL rented by T. Germany and T. UK.
6. Circuits for other operators. Includes Wholesale Line Rental (WLR) in Spain.

Notes:
Year-on year changes are affected by the inclusion of the customers of HanseNet since March 2010 and the exclusion of the customers of Manx since July 1st, 2010.

Telefónica Consolidated Results

Despite Telefónica's new organizational structure approved in September 2011, the Company continued to report its third and fourth quarter results of 2011 in the previous organization structure as this was the base to settle the Company's commitments for 2011 and also the structure employed to report the results of the first half of 2011.

The restructuring of Telefónica by business unit, Telefónica España, Telefónica Latin America and Telefónica Europe, in line with the current integrated, regional management model, means that the legal structure of the companies is not relevant for the presentation of Group financial information.

Therefore, the operating results of each of these business units are presented independently, regardless of their legal structure. For the purpose of presenting information on a regional basis, revenue and expenses arising from invoicing among companies within the Telefónica consolidation scope for the use of the brand and management contracts have been excluded from the operating results for each Group region, while centrally-managed projects are included at the regional level. This form of presentation does not affect the consolidated results of Telefónica.

In line with this organisation, Telefónica has included in the Telefónica España, Telefónica Latin America and Telefónica Europe regional businesses units all information pertaining to wireline, wireless, cable, internet and television businesses, in accordance with its location. The "Other companies" heading includes the Atento business and other holding companies and eliminations in the consolidation process.

As of 1 January 2011, and in accordance with the new organization approved by the Company in September 2010, Telefónica Europe, in addition to the businesses in the UK, Germany, Ireland, the Czech Republic and Slovakia, also includes in its consolidation perimeter Telefónica International Wholesale Services (TIWS) and Telefónica North America (TNA), whose activities are primarily focused on the provision of services to multinationals as well as the provision of global wholesale telecommunications services to international fixed and wireless voice operators, ISPs and content providers.

In the fiscal year 2010 both companies were part of the consolidation perimeter of Telefónica Latin America. Therefore, the results of Telefónica Europe and Telefónica Latin America have been restated for the fiscal year 2010 to reflect the new organizational structure as of 1 January 2010. As this is an intragroup change, Telefónica results are unaffected.

Furthermore, in Brazil, with the objective to facilitate a more clear evolution of the fixed and wireless businesses regardless of the way in which ownership of the licenses affects accounting procedures, long distance revenues have been reclassified, so that revenue from long-distance services arising from the wireless network is considered as wireless revenue, and revenue arising from the fixed-line network is considered as fixed-line revenue, being presented also net of intercompany eliminationsrom the fourth quarter of 2011, and retroactively to 1 January 2010. This reclassification has no effect on the consolidated results in Brazil.

Also, in the context of the organization and integrated management of the fixed and wireless businesses in Latin America, and with the aim of facilitating the understanding and monitoring of the financial performance of the Company's operations in this region and avoiding distortions which, without affecting the consolidated results of Telefónica Latin America, may result in an erroneous interpretation of the individual performance of each of the businesses -especially at the level of operating expenses and investment-, from the first quarter of 2011 the Company has decided to publish the selected consolidated financial data corresponding to Telefónica Latin America, providing breakdowns by business only at a revenue level. The Company has not changed the criteria for reporting operating metrics.

The organizational structure of Telefónica's regional management means that the legal structure of the companies is not relevant for the release of Group financial information

In a year characterized by adverse macroeconomic conditions, strong competition and negative impacts from regulation, Telefónica obtained solid results, meeting the revenue, OIBA margin and CapEx targets committed for 2011, thanks to the high diversification of its operations.

Against this backdrop, Telefónica has continued making progress in its strategy to capture growth in its different markets, being noteworthy the sharp increase in the Company's activity during the second half of 2011, as a result of the refocused commercial strategy that led to changes in the commercial offer in the main countries of operations.

This strategy led to a year-on-year increase in total **accesses** of almost 7% in organic terms, to 306.6 million in 2011, with a significant growth in the number of contract and mobile broadband customers. It is worth highlighting the acceleration in the Company's access growth during the second half of the year, period in which net additions reached almost 13 million accesses (72% more than in the first half of 2011 and more than duplicating that in the second half of 2010). By region, Telefónica Latinoamérica's performance is noteworthy, which, with a 10% year-on-year organic growth in accesses, consolidated its position as the main contributor to the expansion of Telefónica's accesses.

- Telefónica's **mobile** accesses stood at 238.7 million in 2011, with a year-on-year increase of 8% in organic terms, following an acceleration in the growth rate during the second half of the year, period in which, excluding the disconnections accounted for in the year, the Company registered net additions of almost 13 million accesses (1.8 times the increase registered during the first half of the year and 1.4 times those in the second half of 2010). It is also worth highlighting net additions posted during the fourth quarter, reaching a record in the year (7.8 million accesses, excluding the disconnection of 1 million inactive prepaid accesses in Brazil in December), with a year-on-year increase of 45% (+59% quarter-on-quarter).

  The Company's focus on capturing high-value customers led to a sustained increase in the **contract** segment (+11% year-on-year), which accounted for almost a third of total mobile accesses. As a result, the contract segment contribution to total net additions stood close to 40% over the full year, exceeding 100% at Telefónica España and Telefónica Europe. In Latin America, it is important to highlight the Company's leading position in the contract segment, where Telefónica has the largest customer base in the region.

  Mobile broadband accesses -accesses with a data rate attached and therefore active users of the service- exceeded 38 million at the end of 2011 (+61% year-on-year). This figure represents a penetration rate of 16% over Telefónica's total mobile access base (+5 percentage points versus December 2010). Telefónica Europe reached a penetration rate of 31%, followed by Telefónica España (29%). Meanwhile, there is huge scope for increasing penetration of these services at Telefónica Latinoamérica (10%).

  The Company's differential focus on the data business is reflected in the sustained increase in mobile data revenues, with a 19.0% year-on-year increase in organic terms, to account for more than 31% of Telefónica's total mobile service revenue in 2011. Noteworthy was the strong increase in non-SMS data revenues (+37.5% year-on-year in organic terms), which now account for more than 52% of total mobile data revenues.

- Retail **fixed broadband** accesses reached a total of 18.0 million (+5% year-on-year). The strategy of bundling voice, broadband, and TV services has proved to be key to control the churn rate, with the percentage of retail broadband accesses (in both Spain and Latin America) bundled in a dual or triple service package rising gradually to around 90% in 2011.

- The number of **Pay TV** accesses stood at 3.3 million in 2011 (+19% year-on-year), with a pickup in the growth rate, basically due to the successful commercial repositioning in Latin America, where net additions in 2011 tripled those of 2010, the inclusion of TVA's Brazilian customers as of June and the good commercial performance in Spain during the second half of the year.

The contribution of services with the highest growth potential, such as mobile and broadband, continues to increase, and now accounts for 26% of Telefónica's consolidated revenue

- **Fixed telephony** accesses reached 40.1 million, down 3% year-on-year. This decline remained stable throughout 2011.

It is important to bear in mind that Vivo has been fully consolidated since October 2010 (prior to that date, the results of Vivo were proportionately consolidated). Consequently, this had an impact on the year-on-year comparisons of Telefónica's financial results in reported terms.

In 2011 **revenues** totalled 62,837 million euros, a year-on-year increase of 3.5%, driven by higher revenues from Telefónica Latinoamérica (+13.5% year-on-year). Changes in the consolidation perimeter contributed with 4.1 percentage points to this growth, while foreign exchange rates had a negative impact on revenue growth of 0.7 percentage points.

In organic terms, revenues rose 0.1% in 2011, negatively impacted by mobile termination rate cuts across all regions, which dragged 842 million euros to revenue growth. Excluding this impact, organic revenue growth for the full year would have reached 1.4% (+4.8% in reported terms).

By services, the contribution of services with the highest growth potential continued to increase (fixed and mobile broadband, services beyond connectivity), exceeding 26% of consolidated revenues (+3 percentage points versus 2010). This contribution offset the lower contribution by traditional access and voice revenues.

By regions, revenues from Telefónica Latinoamérica already account for 47% of total consolidated revenues (+4 percentage points with respect to 2010) and remained the Company's main growth driver and the largest contributor to consolidated revenues in organic terms (+2.2 percentage points). Revenues from Telefónica Europe represent 25% of the consolidated revenues, while Telefónica España contributes with some 28%, both decreasing by -1.2 percentage points year-on-year and -3.3 percentage points year-on-year, respectively.

Consolidated **operating expenses** stood at 44,501 million euros in 2011. It is important to remember that the year-on-year performance in reported terms (+10.2%) is mainly affected by the increase in personnel expenses (+31.8% year-on-year in reported terms), as a result of:

- non-recurrent restructuring expenses recorded in the second half of 2010 (1,262 million euros), mainly related to personnel reorganization (658 million euros) and firm commitments relating to the Telefónica Foundation's social activities (400 million euros; of this total, 280 million euros were recorded in Telefónica S.A. and the remainder was registered in Telefónica Latinoamérica).

- the non-cash impact provision for restructuring expenses (2,671 million euros in consolidated terms) register in the third quarter of 2011, associated to the workforce restructuring plan approved by the Company in Spain.

In organic terms, the year-on-year increase in operating expenses stood at 3.2%, explained by:

- **Supply costs** amounted to 18,256 million euros, with a year-on-year increase of 1.3% in organic terms (+3.7% in reported terms), as a result of increased handset costs in the three regions associated with growing smartphone adoption. Nevertheless, this effect is offset by lower mobile termination costs in all the regions.
- **Subcontract expenses** totalled 13,019 million euros, up 4.4% year-on-year in organic terms (+6.5% in reported terms), mainly coming from Telefónica Latinoamérica, reflecting higher investment in customer care, increased commercial costs linked to higher activity, and higher expenses associated to the deployment of the 3G network.
- **Personnel expenses** amounted to 11,080 million euros, rising 6.2% in organic terms, mainly due to the higher expenses in Latinoamérica, following the in-sourcing process developed in Brazil in 2010 and the salaries revision in June 2011, as well as higher inflation in certain markets within the region.

The average number of employees at the end of 2011 was 286,145 (17,098 more than at the end of 2010), mainly due to the larger workforce at Atento. Excluding Atento, Telefónica's consolidated average workforce was 133,948 employees (128,011 in 2010).

Additionally, Telefónica's global efficiency projects continued to contribute very positively to consolidated results in 2011 (636 million euros in terms of revenues and 523 million euros in OIBDA).

In this regard, and reflecting the benefits of our scale, it is worth highlighting that Telefónica's "Partners Programme" now includes three operators (Bouygues, Etisalat and Sunrise). The "Partners Programme" is an initiative that makes available to selected operators and, under commercial terms, a host of services that allows partners to leverage on Telefónica's scale and to cooperate on key business topics (roaming, services to multinationals, procurement, devices, etc.).

Gains on sales of fixed assets totalled 823 million euros in 2011, mainly due to the impact of sales of non-strategic towers within the framework of a number of initiatives developed by the business units to optimize the use of capital (impact of 541 million euros in 2011, with 467 million in the fourth quarter; and 242 million in 2010, 179 million in the fourth quarter). Moreover, 2011 results include the positive impact of the partial reduction of our economic exposure to Portugal Telecom (184 million euros) as well as T. España's sale of non-strategic assets, amounting to 73 million euros (40 million euros accounted for in the fourth quarter).

It is worth noting that in the third quarter of 2010 this item included the positive impact of the revaluation of the previously-held stake in Vivo at its fair value at the date of acquisition of the 50% stake in Brasilcel owned by Portugal Telecom (3,797 million euros) as well as the capital gain from the disposal of Manx Telecom (61 million euros).

Thus, **operating income before depreciation and amortization (OIBDA)** for 2011 stood at 20,210 million euros. In underlying terms, OIBDA decreased 2.1%, affected by the loss of higher-margin revenues, the sharp increase in commercial activity and negative impact of interconnection (188 million euros in 2011). In organic terms, OIBDA dropped 5.1% over the twelve-month period.

Despite the difficult operating business environment and the strong activity throughout the year, the Company maintained a high level of efficiency, with OIBDA margin reaching 36.1% in organic terms, a limited erosion of 2.0 percentage points versus 2010. In underlying terms, OIBDA margin stood also at 36.1% (-2.1 percentage points year-on-year).

By region, Telefónica Latinoamérica continued to increase its contribution to consolidated OIBDA, already accounting for 48% of underlying OIBDA (+4 percentage points year-on-year), rising to 67% including the contribution from Telefónica Europe.

The average number of employees at the end of 2011 was 286,145, or 17,098 more than in December 2010

Depreciation and amortization in 2011 (10,146 million euros) posted a year-on-year increase of 9.1% in reported terms, reflecting full consolidation of Vivo and the amortization of Vivo's purchase price allocation (336 million euros for the full year vs. 84 million euros in 2010). Total depreciation and amortization charges derived from purchase price allocation processes amounted to 1,119 million euros in 2011 (-2.0% year-on-year). In organic terms, depreciation and amortization rose by 1.2% with respect to 2010.

As a result, **operating income (OI)** stood at 10,064 million euros for 2011, a 9.0% drop year-on-year in underlying terms. In organic terms, 2011 operating income fell 9.6% year-on-year (-38.9% in reported terms).

Profit from associates stood at -635 million euros for 2011 versus +76 million euros in 2010. The year-on-year change was mainly the result of the non-cash impact of Telco S.p.A.'s revision of its value of its investment in Telecom Italia, as well as of the operating synergies achieved, with both effects totaling 662 million euros (481 million euros after the related tax effect).

Net financial expenses in 2011 stood at 2,941 million euros (+11.0% year-on-year), due to increased average debt with respect to 2010 (+13% to 56,351 million euros). This implied an average cost of debt of 5.22%, which, adjusting for exchange rate differences, fell to below 5% (4.91%), and it is lower than in 2010 (5.0%).

It is worth to highlight that the free cash flow generated in 2011 has allowed Telefónica to reduce net financial debt after cancellation of commitments and dividend payments by 1,600 million euros in 2011. However, after payments devoted to share buyback programmes and divestments (excluding the second payment for Vivo's acquisition, already considered in 2010's net debt), net financial debt increased by

365 million euros. Similarly, accrued interest higher than payments, the increase in the present value of obligations due to fixed rate derivative transactions, and other effects (net of savings due to currency depreciation), have increased net financial debt by 346 million euros. As a result, net financial debt stood at 56,304 million euros in 2011 (+711 million euros versus 2010).

The Company's active management of working capital has contributed with 1,353 million euros to cash flow generation. In addition, 781 million euros coming from cash received from divestments, mainly from non-strategic tower sales, must be added to working capital, explaining part of the difference between the CapEx accrued in the year and the net CapEx payments. The previously mentioned cash flow generation is the result of different management initiatives on working capital.

On the other hand, payment for income tax (1,959 million euros) is 657 million euros lower than in the previous year, mainly due to the accelerated tax depreciation and of the deductibility of certain provisions.

Telefónica's **Free Cash Flow** for 2011 reached 9,270 million euros, an increase of 805 million euros versus 2010 (+9.5% year-on-year), reaching a record level in the cash flow generation of the Company, despite strong investments in spectrum.

FCF per share reached 2.06 euros (+9.8% year-on-year). It is worth to mention that this amount includes 0.20 euros per share related to spectrum payments.

The **leverage ratio,** net debt including commitments over OIBDA (excluding results on the sale of fixed assets and adjusted by the provision related to the redundancy program in Spain), stands at 2.63 times at December 2011. If we consider the new leverage criteria, the ratio net debt over OIBDA (adjusted by the provision related to the redundancy program in Spain) stands at 2.46 times.

During 2011, the **financing activity** of Telefónica, excluding short term Commercial Paper Programmes activity, rose to above 11,500 million equivalent euros, with the main objective of financing in advanced 2011 debt and smoothing our debt maturity profile for 2012 and 2013 at Telefónica S.A. level:

- In the bond market, a 6 year bond issue in the euro market, for an amount of 1,200 million raised in February, increased by another 100 million euros through a private placement in March.
- In the US, Telefónica has issued an American dollar denominated bond for an amount of 2,750 million US dollars raised in February, distributed in two tranches: a 5 year 1,250 million tranche, and a 10-year tranche of 1,500 million.
- In the bank market, in May, a 4,000 million euros extension on the three year tranche Vivo syndicated facility was signed, whereby out of the 5,000 million euros initially maturing in July 2013, 2,000 million euros have been extended by one year, to July 2014, and another 2,000 million euros by three years, to July 2016.
- In May, a loan facility for telecom equipment purchases for an amount of 376 million dollars was also signed with the guarantee of the Finnish Export Credit Agency (Finnvera).
- In November, Telefónica issued a 4 year and 3 month bond in the euro market for an amount of 1,000 million
- Also in November, Telefónica issued, through a private placement, a 5 year JPY denominated bond for an amount of JPY 7,000 million.

It is worth highlighting the financing activity during the first two months of 2012:

- In January, a loan facility with a Chinese financial entity was signed to finance telecom equipment purchases with a local supplier for an amount of 375 million US dollars.
- In February, Telefónica increased the 6 year euro bond issued last February 2011 through a private placement, for an amount of 120 million euros.
- And most recently, Telefónica issued a 6 year bond in the euro market for an amount of 1,500 million euros.

Telefónica S.A. and its holding companies have remained active during 2011 under its various Commercial Paper Programmes (Domestic and European), with an outstanding balance of 1,685 million euros at the end of December.

Regarding Latin America, Telefónica´s subsidiaries have tapped the capital markets up to December 2011 for an amount above 2,600 million equivalent euros. It is worth to highlight the 3,000 million Brazilian reais loan granted to Vivo S.A to be used for investments in expansion and improvement of the current network, implementation of the infrastructure necessary for new technologies, from 2011 to 2013, in addition to research and development. It is also worth highlighting the financing activity in Chile, both in the bond and credit markets for an amount of approximately 300 million euros.

Telefónica maintains total undrawn committed credit lines for an amount above 10,100 million euros, with more than 7,700 million maturing in the long term.

At the end of December 2011, bonds and debentures represented 64%, on the consolidated financial debt breakdown, while debt with financial institutions weighted 36%.

Corporate income tax in 2011 totalled 301 million euros, based on profit before income tax of 6,488 million euros. It is noteworthy the accounting in the fourth quarter of a reversal of deferred tax

Taxes paid amounted to 1,959 million euros in 2011, or 657 million euros less than the previous year, owing to the allowance of accelerated depreciation and the deductibility of certain provisions liabilities recognized as part of the Vivo purchase price allocation in the amount of 1,288 million euros (952 million euros net of taxes and minority interests) resulting from the tax benefit generated by some of the acquired assets.

Profit attributable to minority interests dragged net income by 784 million euros in 2011, mainly due to minority interests in net income at Telefónica Brazil (affected by the cancellation of the deferred tax mentioned above) and at Telefónica Czech Republic.

As a result of the above items, consolidated net profit in 2011 was 5,403 million euros, which, in underlying terms, implies a decrease of 16.6% year-on-year, with the basic earnings per share at 1.66 euros, again in underlying terms (-16.4% year-on-year).

In reported terms, net income fell by 46.9% year-on-year. This performance was affected by various factors. On the one hand, the 2010 consolidated net profit figure was affected by:

- the positive net impact from the revaluation of the previously held stake in Vivo at the date of acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,476 million euros);
- non-recurrent restructuring expenses registered in the second half of 2010 (862 million euros, net of taxes);
- the write-down of tax credits in Colombia (-450 million euros, net of minority interests).

And then, the 2011 consolidated net income figure was affected by:

- the non-cash impact provision for restructuring expenses, recorded in the third quarter, associated to the workforce restructuring plan approved by the Company in Spain, previously mentioned (1,870 million euros).
- cancellation of the deferred tax generated following the acquisition of the 50% stake in Vivo in 2010, with a net impact after profit attributable to minority interests of 952 million euros.

Basic earnings per share stood at 1.20 euros (-46.7% year on year).

CapEx in 2011 reached 10,224 million euros, with a 3.3% year-on-year increase in organic terms. In reported terms, CapEx declined 5.7% year-on-year. It is important to mention that the 2011 CapEx figure includes the cost of the spectrum in Spain, Brazil and Costa Rica, amounting to 1,296 million euros, whereas total investment in 2010 mainly included spectrum investment in Germany and Mexico, for a total of 2,616 million euros.

The Company continued to focus its investments on growth and transformation projects, fostering the development of fixed and mobile broadband services. As a result, 79% of total CapEx was targeted to these projects in 2011.

Consequently, **operating cash flow (OIBDA-CapEx)** totalled 9,986 million euros in 2011 (-9.8% year-on-year in organic terms, -33.1% in reported terms). In underlying terms, operating cash flow stood at 13,769 million euros (-8.0% versus 2010).

Definitions

Organic growth

In financial terms, it assumes constant average exchange rates as of January-December 2010, and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in January-December 2010 the consolidation of Vivo, HanseNet and Tuenti are included whereas the revaluation of our pre-existing stake in VIVO accounted for in Q3 10 and the results of Manx Telecom are excluded from organic growth calculation. In addition, excluded from OIBDA and OI in 2010 is the impact of the capital gain from the sale of Manx Telecom booked in the second quarter of 2010, and the one-off restructuring expenses, most of which were associated with workforce adjustment plans and firm commitments relating to the Telefónica Foundation's social activities, registered in the second half of 2010. In OIBDA terms, in January-December 2011 the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded, as well the workforce provision related to the Redundancy Program approved in Spain. Results from the Costa Rica operation are excluded from the organic growth calculation. Telefónica's CapEx excludes the Real Estate Efficiency Programme at T. España, the real estate commitments associated with Telefónica's new headquarters in Barcelona and investments in spectrum. Net additions exclude accesses disconnections made in the second quarter of 2010 and in the third and fourth quarters of 2011.

2011 financial results and accesses include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007. In addition, 2011 results include from September (retroactive effect August 1st) the global consolidation of Acens Technologies.

Underlying growth

Reported figures, excluding exceptional impacts and spectrum acquisition. In 2011 the following items were excluded: provision for workforce restructuring plan in Spain (-2,671 million euros; -1,870 million euros net of taxes), the positive impact from the partial reduction of our economic exposure to Portugal Telecom (+184 million euros), Telco, S.p.A.'s writedown of its stake in Telecom Italia and operating synergies achieved (-662 million euros, -481 million euros net of taxes), difference in market value of BBVA stake (-80 million euros in net financial income; -56 million euros net of taxes), tax asset reassessment (-30 million euros), deferred tax liability related with PPA on Vivo's acquisition (+1,288 million euros, +952 million euros net of taxes and minority interests) and PPAs (-1,119 million euros; -790 million euros net of taxes and minorities). In 2010 the following items were excluded: the positive impact from the revaluation of the previously-held stake in Vivo at its fair value at the date of acquisition of the 50% in Brasilcel owned by Portugal Telecom (+3,797 million euros; +3,476 million euros net of tax), non-recurrent restructuring expenses (-1,262 million euros; -862 million euros net of taxes), Manx Telecom's capital gain (+61 million euros), write-down of T. Capital (-6 million euros), difference in market value of BBVA stake (-191 million euros in net financial income; -133 m net of taxes), tax asset reassessment in Colombia (-450 million euros net of minorities), PPAs (-1,142 million euros; -847 million euros net of taxes and minorities) and other adjustments (-55 million euros).

Telefónica Financial Data

Telefónica. Consolidated Income Statement

Unaudited figures (Euros in millions)	January - December		
	2011	2010	% Chg
Revenues	**62,837**	**60,737**	**3.5**
Internal exp capitalized in fixed assets	739	737	0.3
Operating expenses	(44,501)	(40,375)	10.2
Supplies	(18,256)	(17,606)	3.7
Personnel expenses	(11,080)	(8,409)	31.8
Subcontracts	(13,019)	(12,228)	6.5
Bad Debt Provisions	(818)	(853)	(4.1)
Taxes	(1,328)	(1,279)	3.8
Other net operating income (expense)	317	494	(35.9)
Gain (loss) on sale of fixed assets	823	4,150	(80.2)
Impairment of goodwill and other assets	(5)	35	c.s.
Operating income before D&A (OIBDA)	**20,210**	**25,777**	**(21.6)**
OIBDA margin	**32.2%**	**42.4%**	**(10.3 p.p.)**
Depreciation and amortization	(10,146)	(9,303)	(9.1)
Operating income (OI)	**10,064**	**16,474**	**(38.9)**
Profit from associated companies	(635)	76	c.s.
Net financial income (expense)	(2,941)	(2,649)	11.0
Income before taxes	**6,488**	**13,901**	**(53.3)**
Income taxes	(301)	(3,829)	(92.1)
Income from continuing operations	**6,187**	**10,072**	**(38.6)**
Non-controlling interests	(784)	95	c.s.
Net income	**5,403**	**10,167**	**(46.9)**
Weighted average number of ordinary shares outstanding during the period (millions)	**4,511**	**4,522**	**(0.2)**
Basic earnings per share (euros)	**1.20**	**2.25**	**(46.7)**

Notes:

- HanseNet and Jajah have been included in T. Europe's consolidation perimeter since mid February 2010 and January 2010, respectively. The perimeter of consolidation of T. España includes Tuenti since August of 2010 and Acens Technologies since August 2011. The perimeter of consolidation of T. Latinoamérica includes 100% of Vivo since October 2010.
- 2011 T. Latinoamérica results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007.
- Telefónica International Wholesale Services (TIWS) and Telefónica North America (TNA) have been included in the consolidation perimeter of Telefónica Europe since 1st January 2011 (previously in the consolidation perimeter of Telefónica Latinoamérica). As a result, the results of Telefónica Europe and Telefónica Latinoamérica have been restated for the fiscal year 2010, to reflect the above mentioned new organization. Telefónica consolidated results for 2010 are not affected.
- Figures in million euros. 2011 figures were affected by the provision for workforce restructuring plan in Spain (-2,671; -1,870 net of taxes), the positive impact from the partial reduction of our economic exposure to Portugal Telecom (+184), Telco, S.p.A.'s writedown of its stake in Telecom Italia and operating synergies achieved (-662, -481 net of taxes), difference in market value of BBVA stake (-80 in net financial income; -56 net of taxes), tax asset reassessment (-30), deferred tax liability related with PPA on Vivo's acquisition (+1,288, +952 net of taxes and minority interests) and PPAs (-1,119; -790 net of taxes and minorities). 2010 figures were affected by the positive impact from the revaluation of the previously-held stake in Vivo at its fair value at the date of acquisition of the 50% in Brasilcel owned by Portugal Telecom (+3,797; +3,476 net of tax), non-recurrent restructuring expenses (-1,262; -862 net of taxes), Manx Telecom's capital gain (+61), write-down of T. Capital (-6), difference in market value of BBVA stake (-191 in net financial income; -133 net of taxes), tax asset reassessment in Colombia (-450 net of minorities), PPAs (-1,142; -847 net of taxes and minorities) and other adjustments (-55).
- For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period have been obtained applying IAS rule 33 "Earnings per share". Thereby, there are not been taken into account as outstanding shares the weighted average number of shares held as treasury stock during the period.
- 2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.

Telefónica. Results by Regional Business Units

Unaudited figures (Euros in millions)	Revenues January - December 2011	2010	% Chg	OIBDA January - December 2011	2010	% Chg	OIBDA MARGIN January - December 2011	2010	Chg
Telefónica España (1) (2)	17,284	18,711	(7.6)	5,072	8,520	(40.5)	29.3%	45.5%	(16.2 p.p.)
Telefónica Latin America (1) (2) (3) (4)	29,237	25,756	13.5	10,941	13,713	(20.2)	37.4%	53.2%	(15.8 p.p.)
Telefónica Europe (1) (2) (4)	15,524	15,724	(1.3)	4,233	4,080	3.8	27.3%	25.9%	1.3 p.p.
Other companies and eliminations	792	545	45.2	(36)	(535)	(93.3)	n.s.	n.s.	n.s.
Telefónica (1) (2) (3)	**62,837**	**60,737**	**3.5**	**20,210**	**25,777**	**(21.6)**	**32.2%**	**42.4%**	**(10.3 p.p.)**

Unaudited figures (Euros in millions)	Operating Income January - December 2011	2010	% Chg	CAPEX January - December 2011	2010	% Chg	OpCF (OIBDA-CAPEX) January - December 2011	2010	% Chg
Telefónica España (1) (2) (5)	2,984	6,511	(54.2)	2,914	2,021	44.2	2,158	6,499	(66.8)
Telefónica Latin America (1) (2) (3) (4) (5)	6,157	9,759	(36.9)	5,299	5,455	(2.9)	5,641	8,258	(31.7)
Telefónica Europe (1) (2) (4) (5)	1,116	879	27.0	1,705	3,152	(45.9)	2,528	928	n.s.
Other companies and eliminations	(193)	(675)	(71.3)	306	217	40.9	(342)	(752)	(54.5)
Telefónica (1) (2) (3) (5)	**10,064**	**16,474**	**(38.9)**	**10,224**	**10,844**	**(5.7)**	**9,986**	**14,933**	**(33.1)**

1 HanseNet and Jajah have been included in T. Europe's consolidation perimeter since mid February 2010 and January 2010, respectively. The perimeter of consolidation of T. España includes Tuenti since August of 2010 and the perimeter of consolidation of T. Latinoamérica includes 100% of Vivo since October 2010.

2 Figures in million euros. OIBDA, OIBDA margin, OI and OpCF of T. España include a net gain of 40 from the sale of non-strategic assets in the fourth quarter of 2011 (73 in 2011) and the booking during the third quarter of 2011 of the workforce provision related to the redundancy programme (2,591; 2,671 at a Group level) and 202 in the fourth quarter of 2010. In 2010, Company results in reported terms were affected by the following: booking of the Universal Service (95 in revenues and 31 in OIBDA; 38 in revenues and 13 in OIBDA in the fourth quarter), sale of application rights (101 in revenues and also in OIBDA; 49 in the fourth quarter) and bad debts recovery (20 in OIBDA). It was booked in 2011, 35 in revenues and 13 in OIBDA in the fourth quarter associated to the Universal Service. In T. Latinoamérica OIBDA, OIBDA margin, OI and OpCF are affected by the positive impact from the revaluation of the previously-held stake in Vivo at its fair value at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,797 in the third quarter of 2010) and by non-recurrent restructuring expenses mainly related to personnel reorganization and firm commitments relating to the Telefónica Foundation's social activities of 410 in the fourth quarter of 2010. In T. Europe include a capital gain of 61 from the sale of Manx Telecom in the second quarter of 2010 and and is affected by non-recurrent restructuring expenses mainly related to personnel reorganization in the second half of the year 2010 (202 recorded in the third quarter and 118 in the fourth quarter).

3 2011 T. Latinoamérica results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007.

4 Telefónica International Wholesale Services (TIWS) and Telefónica North America (TNA) have been included in the consolidation perimeter of Telefónica Europe since 1st January 2011 (previously in the consolidation perimeter of Telefónica Latam). As a result, the results of Telefónica Europe and Telefónica Latinoamérica have been restated for the fiscal year 2010, to reflect the above mentioned new organization. Telefónica consolidated results for 2010 are not affected.

5 Figures in million Euros. CapEx includes, in the second quarter of 2011, 417 from the the spectrum acquired in Brasil (349) and Costa Rica (68); 37 from the spectrum acquired in Colombia in the fourth quarter of 2011 and 842 from the acquisition of spectrum in Spain in 2011. 2010 CapEx includes 1,379 from the acquisition of spectrum in Germany in the second quarter of 2010 and 1,237 from the acquisition of spectrum in Mexico in the third quarter of 2010.

Notes:
- OIBDA and OI are presented bebore brand fees and management fees.
- OIBDA margin calculated as OIBDA over revenues.
- 2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.

Telefónica. Consolidated Statement Of Financial Position

Unaudited figures (Euros in millions)	December 2011	December 2010	% Chg
Non-current assets	108,800	108,721	0.1
Intangible assets	24,064	25,026	(3.8)
Goodwill	29,107	29,582	(1.6)
Property, plant and equipment and Investment properties	35,469	35,802	(0.9)
Non-current financial assets and investments in associates	13,743	12,618	8.9
Deferred tax assets	6,417	5,693	12.7
Current assets	20,823	21,054	(1.1)
Inventories	1,164	1,028	13.2
Trade and other receivables	11,331	12,426	(8.8)
Current tax receivable	1,567	1,331	17.7
Current financial assets	2,625	1,574	66.8
Cash and cash equivalents	4,135	4,220	(2.0)
Non-current assets classified as held for sale	1	475	(99.8)
Total Assets = Total Equity and Liabilities	**129,623**	**129,775**	**(0.1)**
Equity	27,383	31,684	(13.6)
Equity attributable to equity holders of the parent	21,636	24,452	(11.5)
Non-controlling interests	5,747	7,232	(20.5)
Non-current liabilities	69,662	64,599	7.8
Non-current financial debt	55,659	51,356	8.4
Deferred tax liabilities	4,739	6,074	(22.0)
Non-current provisions	7,172	4,865	47.4
Other non-current liabilities	2,092	2,304	(9.2)
Current liabilities	32,579	33,492	(2.7)
Current financial debt	10,652	9,744	9.3
Trade and other payables	9,406	9,314	1.0
Current tax payables	2,568	2,822	(9.0)
Current provisions and other liabilities	9,953	11,612	(14.3)
Financial Data			
Net financial Debt [1]	**56,304**	**55,593**	**1.3**

1 Figures in million euros. Includes: Long term financial debt + other long term liabilities (1,585) + trade and other payables (55) - non-current financial assets and investments in associates (4,830) - trade and other receivables (58) - temporary financial investment included in current financial assets - cash and cash equivalents.

Note:
2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.

Telefónica. Free Cash Flow And Change In Debt

		January - December		
Unaudited figures (Euros in millions)		2011	2010	% Chg
I	**Cash flow from operations**		**21,313**	**0.7**
II	Net interest payment (1)		(2,018)	
III	Payment for income tax		(2,616)	
A = I-II-III	**Net cash provided by operating activities**		**16,679**	**4.9**
B	Payment for investment in fixed and intangible assets (2)		(8,670)	
C = A+B	**Net free cash flow after CapEx**		**8,010**	**14.8**
D	Net Cash received from sale of Real Estate		41	
E	Net payment for financial investment		(6,618)	
F	Net payment for operations with minority shareholders and treasury stock (3)		(7,132)	
G = C+D+E+F	**Free cash flow after dividends**		**(5,700)**	**(59.0)**
H	Effects of exchange rate changes on net financial debt		2,366	
I	Effects on net financial debt of changes in consolid. and others		3,977	
J	Net financial debt at beginning of period		43,551	
K = J-G+H+I	**Net financial debt at end of period**		**55,593**	**1.3**

1 Including cash received from dividends paid by subsidiaries that are not fully consolidated.
2 Figures in million euros. It includes 891 from the spectrum payments in Spain (441) and Latam (450) broken down in Colombia (3), Mexico (26), Brasil (349), Nicaragua (3) and Costa Rica (69).
3 Dividends paid by Telefónica S.A., operations with treasury stock and operations with minority shareholders from subsidiaries that are fully consolidated.

Note:
2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.

Reconciliations of Cash Flow and Oibda Minus Capex

Unaudited figures (Euros in millions)	January - December		
	2011	2010	% Chg
OIBDA	**20,210**	**25,777**	**(21.6)**
- CapEx accrued during the period	(10,224)	(10,844)	
- Payments related to cancellation of commitments	(807)	(834)	
- Net interest payment	(2,011)	(2,018)	
- Payment for tax	(1,959)	(2,616)	
- Results from the sale of fixed assets (1)	1,848	(4,150)	
-Investment In working capital and other deferred income and expenses	2,134	2,694	
= Net Free Cash Flow after CapEx	**9,192**	**8,010**	**14.8**
+ Net Cash received from sale of Real Estate	30	41	
- Net payment for financial investment	(3,590)	(6,618)	
- Net payment for operations with minority shareholders and treasury stock	(7,966)	(7,132)	
= Free Cash Flow after dividends	**(2,334)**	**(5,700)**	**(59.0)**

	January - December		
	2011	2010	% Chg
Net Free Cash Flow after CapEx	**9,192**	**8,010**	**14.8**
+ Payments related to cancellation of commitments	807	834	
- Operations with minority shareholders	(728)	(378)	
= Free Cash Flow	**9,270**	**8,466**	**9.5**
Weighted average number of ordinary shares outstanding during the period (millions)	4,511	4,522	
= Free Cash Flow per share (euros)	**2.06**	**1.87**	**9.8**

1 In 2011, it includes 2,671 million euros from the workforce provision related to the Redundancy Program approved in Spain.

Notes:

- The concept "Free Cash Flow" reflects the amount of cash flow available to remunerate Telefónica S.A. Shareholders, to protect solvency levels (financial debt and commitments), and to accomodate strategic flexibility. The differences with the caption "Net Free Cash Flow after CapEx" included in the table presented above, are related to "Free Cash Flow" being calculated before payments related to commitments (workforce reductions) and after operations with minority shareholders, due to cash recirculation within the Group.
- 2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years.

Net Financial Debt Plus Commitments

Unaudited figures (Euros in millions)		December 2011
	Long-term debt (1)	57,244
	Short term debt including current maturities (2)	10,708
	Cash and cash equivalents	(4,135)
	Short and Long-term financial investments (3)	(7,513)
A	**Net Financial Debt**	**56,304**
	Gross commitments related to workforce reduction (4)	3,875
	Value of associated Long-term assets (5)	(894)
	Taxes receivable (6)	(1,171)
B	**Net commitments related to workforce reduction**	**1,810**
A+B	**Total Debt + Commitments**	**58,114**
	Net Financial Debt / OIBDA (7)	**2.5x**
	Total Net Debt + Commitments/ OIBDA (8)	**2.6x**

1 Includes "long-term financial debt" and 1,585 million euros of "other long-term debt".
2 Includes "short-term financial debt" and 55 million euros of "trade and other payables" from Rent to Rent operations of T. España.
3 Includes "Current financial assets", 4,830 million euros recorded under the caption of "Non-current financial assets and investments in associates" and 58 million euros of "trade and other receivables" from Rent to Rent operations of T. España.
4 Mainly in Spain. This amount is detailed in the captions "Long-term provisions" and "Short-term provisions and other liabilities" of the Statement of Financial Position, and is the result of adding the following items: "Provision for Pre-retirement, Social Security Expenses and Voluntary Severance", "Group Insurance", "Technical Reserves", and "Provisions for Pension Funds of Other Companies".
5 Amount included in the caption "Non-current financial assets and investments in associates" of the Statement of Financial Position. Mostly related to investments in fixed income securities and long-term deposits that cover the materialization of technical reserves of the Group insurance companies.
6 Net present value of tax benefits arising from the future payments related to actual workforce reduction commitments.
7 Calculated based on the OIBDA adjusted by the workforce provision in Spain.
8 Calculated based on the OIBDA excluding results on the sale of fixed assets and adjusted by the workforce provision in Spain.

Note:
2011 reported figures include the hyperinflationary adjustments in Venezuela.

Debt Structure by Currency

Unaudited figures	December 2011				
	EUR	LATAM	GBP	CZK	USD
Debt structure by currency	75%	14%	6%	3%	2%

Credit Ratings

	Long-Term	Short-Term	Perspective	Date of last rating change
Moody's [1]	Baa1	P-2	Negativo	02/02/2012
JCR[2]	A	-	Estable	12/17/2008
S&P[1]	BBB+	A-2	Negativo	12/21/2011
Fitch/IBCA[1]	BBB+	F-2	Estable	09/27/2011

1 The rating is issued by a credit rating agency established in the EU and registered under Regulation (EC) 1060/2009..
2 The rating is issued by a third country credit rating agency that is certified in accordance with Regulation (EC) 1060/2009.

Telefónica. Exchanges Rates Applied

	P&L and CapEx [1]		Statement of Financial Position [2]	
	Jan - Dec 2011	Jan - Dec 2010	December 2011	December 2010
USA (US Dollar/Euro)	1.391	1.324	1.294	1.336
United Kingdom (Sterling/Euro)	0.868	0.857	0.835	0.861
Argentina (Argentinean Peso/Euro)	5.743	5.180	5.569	5.313
Brazil (Brazilian Real/Euro)	2.325	2.328	2.427	2.226
Czech Republic (Czech Crown/Euro)	24.591	25.291	25.800	25.060
Chile (Chilean Peso/Euro)	672.246	674.363	671.795	625.356
Colombia (Colombian Peso/Euro)	2,568.667	2,509.215	2,513.662	2,557.460
Guatemala (Quetzal/Euro)	10.831	10.660	10.106	10.708
Mexico (Mexican Peso/Euro)	17.252	16.711	18.047	16.502
Nicaragua (Cordoba/Euro)	31.185	28.271	29.726	29.239
Peru (Peruvian Nuevo Sol/Euro)	3.828	3.738	3.489	3.754
Uruguay (Uruguayan Peso/Euro)	26.835	26.537	25.746	26.850
Venezuela (Bolivar Fuerte/Euro) [3]	5.564	5.746	5.564	5.746

1 These exchange rates are used to convert the P&L and CapEx accounts of Telefónica foreign subsidiaries from local currency to euros.
2 Exchange rates as of 12/31/11 and 12/31/10.
3 After considering Venezuela as an hyperinflationary country, P&L and CapEx from the operations in the country are to be accounted at the closing exchange rate Bolivar Fuerte/Euro.

Results by regional business units

Telefónica Latin America [1]

Latin America ended 2011 in a highly favourable macroeconomic context, maintaining a positive growth differential against other developed economies and a considerable potential for future growth.

Against this backdrop, at the end of 2011 Telefónica managed more than 201 million accesses in the region, accelerating its year-on-year growth for the third quarter in a row to 10%. This positive trend reflected a higher commercial activity in the second half of the year, with record levels of customer acquisition during the fourth quarter, a performance not seen since 2007, despite higher market penetration.

Some of the highlights of key trends in the **mobile business** in 2011 were as follows:

- Estimated **penetration** in Latin America stood at 111% (+11 percentage points year-on-year).
- Telefónica's **mobile accesses** increased year-on-year by 11% to 166 million, posting an acceleration during the quarter.
- **Net additions** in 2011 totalled 18.4 million accesses (excluding disconnection of 1 million inactive prepay accesses in Brazil in December and 360 thousand accesses in Chile during the third quarter), following the acquisition of 7.5 million customers in the last quarter of the year, representing a year-on-year net additions of 66% in the fourth quarter (+60% with respect to the third quarter) and of 26% for the full year.
- The sustained focus on the customer base quality was reflected in the Company's leadership in the contract segment. Telefónica has the largest contract customer base in the region, over 35.2 million at year-end 2011 following year-on-year growth of 18%, and now accounting for 21% of the total.
- **Mobile broadband** accesses grew by 114% year-on-year, already accounting for 10% of the Company's mobile accesses in the region (+5 percentage points year-on-year), following net additions of 8.7 million new mobile broadband accesses boosted by a substantial expansion of smartphones, where the base tripled with respect to 2010.
- The **churn** rate stood at 2.8% for 2011 (2.9% during the fourth quarter following disconnection of inactive prepay customers in Brazil; +0.3 percentage points year-on-year).
- **Traffic** managed grew faster than accesses to 13% year-on-year for 2011.
- **Data revenue** consolidated in 2011 as one of the Company's main growth levers, and increased by 32% in organic terms (+31% in the quarter), fuelled by a larger portion of mobile broadband customers. Data revenues now account for 26% of mobile service revenues in the region, being particularly noteworthy the growing contribution by non-SMS data revenues, which now represent 53% of total data revenues.
- The quality of the growth during 2011 was reflected in **ARPU** trend, which remained practically stable year-on-year throughout 2011 (-0.5% in organic terms) despite double-digit growth in the customer base and lower interconnection rates, improving its evolution in the fourth quarter (+0.3% year-on-year).

Highlights in the **fixed-telephony** business are:

- Telefónica managed a total of 35.2 million **accesses** in the region in 2011 (+2% year-on-year).
- The constant focus on **bundling** and broadband was reflected in the fact that 73% of wireline accesses had already signed up some form of bundled offer (+7 percentage points year-on-year), while 90% of broadband accesses were also under 2P/3P offers.
- The Company's **broadband** accesses totalled 8.4 million (+13% year-on-year), following net additions of 944 thousand accesses in 2011 (251 thousand in the quarter).
- Net additions of **pay TV** customers in 2011 totalled 465 thousand accesses (312 thousand excluding TVA) thanks to a successful commercial refocusing of the service, more than tripling the figure registered in 2010. Thus, Pay TV customers totalled 2.3 million accesses.
- The Company's **traditional fixed** accesses stood at 24 million in 2011 (-2% year-on-year).

It should be noted that Telefónica Latinoamérica's reported year-on-year financial results reflect the full consolidation of Vivo from October 2010 (previously this company's results were proportionately consolidated). In the third quarter of 2010 3,797 million euros were booked arising from the positive impact of the revaluation of the previously held stake in Vivo at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom. Moreover, it should be highlighted that OIBDA in 2010 was impacted by non-recurrent restructuring expenses booked in the last quarter of 2010 (410 million euros).

In addition, negatively affecting year-on-year comparisons in both organic and reported terms, it is particularly noteworthy the **regional projects** contribution, which made no material contribution to 2011 results, whereas in 2010 contributed with 200 million euros in revenue and 241 million euros in OIBDA (88 million euros in OIBDA in the fourth quarter of 2010). Consideration

1 Organic growth: In financial terms, it assumes constant average exchange rates as of January-December 2010, and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in January-December 2010 the consolidation of Vivo is included whereas the revaluation of our pre-existing stake in Vivo is excluded. In addition, excluded from OIBDA and OI in 2010 are non recurrent restructuring expenses registered in the second half of 2010. In OIBDA, in January-December 2011 the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded. Results from the Costa Rica operation are excluded from the organic growth calculation. Telefónica's CapEx excludes investments in spectrum. Net additions exclude accesses disconnections in the third and fourth quarter of 2011. 2011 financial and accesses results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007.

must also be taken of the impact of the sale of non-strategic towers in 2011 (541 million euros, against 242 million euros in 2010; 467 million euros and 179 million euros respectively in the fourth quarter), and the positive effect in 2010 stemming from the collection of insurance claims to cover the effects of the earthquake in Chile, mainly recognised in the fourth quarter.

Revenue in 2011 stood at 29,237 million euros, showing reported year-on-year growth of 13.5%. It is noteworthy the positive trend in organic terms, increasing by 5.0% in the full year and accelerating during the last quarter of the year (+5.3%; +4.9% up to September). Excluding Mexico, where business was affected by the substantial reduction in mobile termination rates, revenue would have posted a strong growth in the region of 6.2% in organic terms in the year.

The trend in revenues reflects higher growth in mobile service revenues during the fourth quarter thanks to the Company's efforts to boost commercial activity during the second half of the year to capture market potential, despite the short-term effect on commercial expenses.

Brazil reinforced its role as the region's main market, accounting for 49% of revenue in the region in 2011, and being the main driver of organic growth in Telefónica's revenues in Latin America (+2.6 percentage points).

Operating expenses amounted to 19,311 million euros in 2011, up 8.7% year-on-year in organic terms (+15.3% reported) against a backdrop of significantly higher commercial activity than in the same period a year earlier aimed at boosting the Company's future revenue growth.

- **Supply expenses** climbed by 5.4% year-on-year in organic terms to 7,519 million euros, as the result of market dynamic market driven by the growth of new businesses. Thus, content providers and services expenses growth were posted, as well as higher circuits, sites and towers expenses and higher handsets costs, affected in particular by the increasing weight of high-end handsets such as smartphones.

- **Subcontract expenses** amounted to 7,826 million euros, up 9.5% year-on-year in organic terms (+20.3% reported). This trend derived from the efforts to maintain high levels of quality resulting in higher commissions, higher network and systems costs, and in further improve in customer care service, as well as higher energy costs linked to new sites as a result of higher network deployment.

- **Personnel expenses** totalled 2,644 million euros, up 13.4% year-on-year in organic terms, a consequence of the increase in headcount levels in Brazil and higher inflation in some of the region's markets.

OIBDA stood at 10,941 million euros in 2011, relatively stable in organic terms (-1.4%) despite more intense commercial activity and a smaller contribution of regional projects. In reported terms OIBDA fell by 20.2% strongly affected by non-recurrent items already mentioned.

The OIBDA trend in the fourth quarter reflected the higher commercial efforts focus on high-value customers, the sale of non-strategic towers, the business performance in Mexico, and the lower contribution by regional projects and other non-recurrent effects.

Thus, despite of higher commercial activity in a highly competitive environment, the Company maintained high operating efficiency ratios, reaching a reported OIBDA margin of 37.4% for 2011 (41.2% in the quarter).

CapEx stood at 5,299 million euros in 2011 (+6.6% in organic terms; -2.9% reported). The year-on-year trend was affected by the spectrum awarded in 2010 in Brazil booked in 2011 (349 million euros), the spectrum purchase during the second quarter in Costa Rica (68 million euros) and during the fourth quarter in Colombia (37 million euros), as against the spectrum acquired in Mexico for 1,237 million euros in 2010.

The **operating cash flow** stood at 5,641 million euros, down by 6.9% year-on-year in organic terms.

BRAZIL (year-on-year changes in organic terms)

2011 was the year of consolidation of Telefónica's market leadership in Brazil, a market registering high growth once again and leading the adoption of new services in the region. Against this backdrop and despite strong competition, Telefónica improved its positioning across all services, leveraging on its competitive edge as an integrated operator, especially remarkable is the leadership strengthening in those segments of higher value, with better future prospects which demand better service quality.

As such, during the last quarter of 2011 the Company again carried out intense commercial activity, launching new products and services and making improvements to its commercial offer. Among the new products are a fixed service using fixed wireless technology at 90 locations in the country outside Sao Paulo state, thereby launching the expansion of fixed business outside the traditional area of influence which will be launched on a national scale through the first quarter of 2012. Additionally, the "push to talk" offer (Vivo Direto) launched during the previous quarter remained showing solid acceptance levels. Likewise, from the beginning of November it was launched an offer of high definition channels for satellite DTH customers.

There is also remarkable the launch of commercial activity upon 1,800 MHz band in the North and North-eastern regions (in October); Bahia, Sergipe and Espirito Santo (November); Sao Paulo, Rio and Parana Santa Catalina (December), which boosts the Company's commercial position, especially in the prepay segment. The Company also launched new tariffs on the Vivo Sempre campaign to strengthen its positioning on the prepay segment, and also stimulate to recharges for local and long-distance voice services.

In the fixed broadband arena, the market commercial intensity remains, and the Company has met this challenge by intensifying its offer, particularly at the end of the year. High-speed additions increased throughout the year, reaching the maximum level during the last quarter.

As the result of all its new commercial initiatives, Telefónica finished the year with a total of 87.2 million **accesses** in Brazil (+15% year-on-year, an acceleration of almost 2 percentage points with respect to the previous quarter), on the back of a positive trend in mobile accesses (+19% year-on-year) and fixed broadband (+10% year-on-year).

Particularly noteworthy was the excellent performance in terms of wireless net additions over the last three months, which excluding the disconnection of accesses done in December 2011, is more than two times higher than in the fourth quarter of 2010 and almost two times higher quarter-on-quarter.

It should be noted that reported year-on-year financial results reflect the full consolidation of Vivo from October 2010 (previously this company's results were proportionately consolidated). Similarly, as of June 2011 and retroactively to January 1st 2011, TVA has been fully consolidated and has contributed 153 thousand pay TV accesses, revenues of 81 million euros and 22 million euros in OIBDA in 2011.

On the other hand with the objective to facilitate a more clear evolution of the fixed and wireless businesses regardless of the way in which ownership of the licenses affects accounting procedures long distance revenues have been reclassified from the fourth quarter 2011 and retroactively to January 1st, 2010, so that revenue from long-distance services arising from the wireless network is considered as wireless revenue, and revenue arising from the fixed-line network is considered as fixed-line revenue, being presented also net of intercompany eliminations. This reclassification has no effect on the consolidated results in Brazil.

The strong commercial activity during the second half of 2011 and the launch of new services clearly affected trends in Company revenue during the fourth quarter, which increased year-on-year by 5.3% to show a significant acceleration with respect to the previous quarter (+3.5% year-on-year). Total revenue for 2011 stood at 14,326 million euros, a year-on-year increase of 5.4%.

Operating expenses rose by 6.0% year-on-year, due to increased expenditure on external services (+8.5% year-on-year) associated to strong customer expansion amid intensified commercial activity and the launch of new products during the year. Personnel expenses rose by 17.7% with respect to 2010 reflecting the consolidation of TVA and its employees in June, retroactively to January, the increase in salaries in the last quarter of the year and the increase in headcount derived from the internalization of personnel in 2010.

OIBDA totalled 5,302 million euros in 2011, a year-on-year increase of 5.2%. The Company maintained solid operating efficiency, with an OIBDA margin of 37.0% (flat year-on-year). The year-on-year evolution of OIBDA and the OIBDA margin for both the year and the quarter reflect commercial effort along with the recognition of sales of non-strategic towers (186 million euros in 2011; 163 million euros during the fourth quarter and 117 million euros in 2010, all during the fourth quarter) and non-recurrent restructuring expenses related to personnel reorganization during the last quarter of 2010 (60 million euros).

CapEx for the year totalled 2,468 million euros, of which 349 million euros were related to the spectrum awarded in 2010. Excluding the spectrum, CapEx remained practically stable year-on-year in organic terms (-0.1%), reflecting the Company's focus on increasing 3G network coverage, now standing at 82% of Brazil's population, well ahead of competitors. The Company also continued to roll out fibre on a selective basis in Sao Paulo.

Finally, **operating cash flow** stood at 2,834 million euros in 2011 affected by the spectrum acquisition, (+9.1% year-on-year in organic terms).

Commercial activity and revenue performance by business unit

Wireless business

Estimated penetration in the Brazilian wireless market stood at 124% at the end of 2011, up 20 percentage points year-on-year.

Following the trend initiated during the third quarter of 2011, in the fourth quarter Telefónica again posted record levels of commercial activity in Brazil. Net additions during the fourth quarter amounted to 5.5 million accesses (excluding the disconnection of 1 million inactive prepay accesses in December), a record quarterly figure over the last 3 years. These translate as year-on-year growth of 115% and 86% with respect to net additions during the previous quarter, enabling the Company to finish 2011 with a total of 71.6 million **accesses** (+19% year-on-year).

Net additions for the year as a whole totalled 12.3 million accesses, 69% of which were captured in the last six months. It is worth to highlight the Company's acceleration in terms of mobile broadband, with net additions of 4.2 million customers (almost tripling the net additions of 2010), mainly due to increased smartphone additions (7 times 2010 figure), with mobile broadband penetration reaching 11% of the total base (+5 percentage points year-on-year).

As a result, the Company to lead the market growth in high-value customers, with a market share in December of 29.5%, practically stable with respect to 2010 (-0.2 percentage points year-on-year). It must be said, however, that the market share rose in higher-value segments despite of fierce competition, to 36.6% in contract (+1.3 percentage point year-on-year) and 43.4% in mobile data (+3.3 percentage points year-on-year), reflecting the competitive advantages of the Company in aspects such as service quality and network coverage.

The **churn** rate stood at 2.8% for 2011, increasing to 3.0% during the quarter as the result of disconnection of 1 million inactive prepay accesses. It is noteworthy the lower contract churn (1.5%) which remains stable with respect to 2010.

Traffic climbed 20% during the quarter and 19% in the year, pointing to the quality growth in our customer base and the success of commercial campaigns deployed to boost consumption.

ARPU fell year-on-year by 3.6% in 2011, improving this evolution in the fourth quarter (-3.0%) mainly due to the strong growth in data ARPU reflecting the impact of data plans on smartphones.

Revenue growth including already the whole mobile long-distance business and net of eliminations, accelerated in the fourth quarter reaching a year-on-year increase of 12.0% (+10.6% for the year) to stand at 8,437 million euros for 2011, on the back of the strong growth of mobile service revenue (+12.6% year-on-year in 2011), accelerating in the fourth quarter to 15.8%.

The Company's differential focus on data business was reflected one additional quarter in the sustained increase of data revenue (+42% year-on-year in 2011), accounting for 24% of service revenue (+5 percentage points year-on-year) and now consolidated as the Company's main growth driver. Non-SMS data revenue accounts for 62% of total data revenue, fuelled by the good performance of mobile broadband business.

Wireline business

Telefónica managed 15.6 million **fixed-line** accesses in Brazil at the end of 2011, stable in year-on-year terms (-0.1%). Traditional business accesses at year-end totalled 11.0 million (-2.8% year-on-year).

The Company's **broadband** accesses totalled 3.6 million, showing a steady year-on-year increase of 10%, thereby improving their weighting against the Company's fixed-line accesses by 4 percentage points with respect to 2011 to 33%. Net additions for the year as a whole totalled 329 thousand accesses (80 thousand in the quarter) against a backdrop of intense commercial pressure of competitors.

With respect to **pay TV**, the Company managed a total of 699 thousand accesses at year-end 2011 (+44% year-on-year), including TVA accesses (153 thousand customers), after capturing net additions of 60 thousand accesses during the year (excluding TVA).

Revenue stood at 5,890 million euros in 2011, with year-on-year decline of 1.4% (-3.9% in the quarter).

Revenue from traditional fixed-line telephony, excluding intercompany revenue from long-distance, fell year-on-year by 8.0% in 2011 (-9.8% in the quarter). This decrease reflects mainly the increase in fixed to mobile substitution derived from the success of mobile long distance. On the other hand, it is relevant to highlight the increase in revenues from Internet and pay TV in 2011 (+16.1% year-on-year), as well as revenues from TI and data (+16.2% year-on-year) accounting together for 32% of total revenue (+5.4 p.p. year-on-year).

ARGENTINA (year-on-year changes in local currency)

Telefónica Argentina consolidated its focus on customer value as main growth lever in 2011, mainly concentrating on a differential fixed and mobile broadband offer.

The Company managed 23.0 million **accesses** (+3% year-on-year) at the end of 2011, highlighting the solid fixed broadband accesses growth, the positive performance from the mobile business and the stable traditional wireline accesses.

Revenues stood at 3,174 million euros for the full year, with a year-on-year increase of 14.5% (12.9% in the fourth quarter) and higher revenues in both wireline and wireless businesses.

Operating expenses rose by 15.4% year-on-year (+17.7% in organic terms), affected by a general increase on prices and the rise in mobile traffic, leading to higher interconnection and roaming costs. The year-on-year comparison in the quarter is affected by the impact of non-recurrent restructuring expenses related to personnel reorganization (40 million euros) booked in the fourth quarter of 2010.

OIBDA stood at 1,085 million euros in 2011, a year-on-year increase of 11.1% (+20.5% in the fourth quarter), while the OIBDA margin was 33.4% (-1.0 percentage points year-on-year). In organic terms, stripping out the non-recurring items recorded in 2010, OIBDA would have increased by 7.2% year-on-year (+5.5% in the fourth quarter).

Operating cash flow reached 636 million euros in 2011 (+3.2% year-on-year; -2.5% in organic terms), following an increase in **CapEx** to 449 million euros in the twelve months of the year (+24.9% year-on-year), mainly devoted to improve service quality in fixed and mobile broadband and to progressively increase coverage levels.

The Company was the market leader in 2011 in terms of growth of high-value customers, with a market share of 29.5% in December

Commercial activity and revenue performance by business unit

Wireless business

The estimated penetration rate in Argentina's mobile market stood at 138% at the end of 2011, a year-on-year increase of 9 percentage points.

Telefónica Argentina managed 16.8 million accesses at the end of December 2011 (+4% year-on-year) following a high level of commercial activity in the year reflected in net additions of 618 thousand accesses, almost tripling 2010 net additions, and of 364 thousand in the fourth quarter.

Particularly noteworthy was the performance of the contract segment, with a 7% year-on-year increase, accounting for 37% of total **accesses** and two thirds of net additions in the year (407 thousand accesses).

Churn in 2011 stood at 2.6% (+0.3 percentage points year-on-year), affected by the increase in prepay churn, though churn posted an improved trend in the fourth quarter (2.5%, -0.5 percentage points quarter-on-quarter).

Traffic increased by 7% year-on-year thanks to the good performance of outgoing traffic (+9% year-on-year).

ARPU continued posting a strong year-on-year increase (+17.3%; +16.5% in the quarter), mainly on the back of the higher outgoing ARPU (+20.2% in the year; +19.3% in the quarter).

Revenues in 2011 amounted to 2,039 million euros, up 14.2% year-on-year (+11.1% in the quarter). This solid performance is driven by the positive trend of mobile service revenue, with a year-on-year increase of 12.9% in 2011; (+10.0% in the fourth quarter) and the higher handset sales (+32.4% year-on-year) linked to increased commercial activity.

The positive reaction to the commercial campaigns launched in the quarter, focused on increasing mobile broadband take-up, led to an important data revenue growth (+27.3% in the full year; +27.4% in the quarter) already accounting for 39% of mobile service revenues in the year (+4 percentage points year-on-year).

Wireline business

Telefónica Argentina managed 6.3 million **fixed accesses** at the end of the year, a year-on-year increase of 2%.

In the broadband business, Telefónica continued to reinforce its market position, leveraging its high quality levels and the excellence of its service. Thus, broadband accesses totalled 1.6 million at the end of 2011, a solid year-on-year growth of 11%, with 155 thousand net additions in the year (27 thousand accesses in the quarter). These results reflect the Company's commercial focus on its Speedy offering and on its new digital and entertainment services.

Traditional telephony accesses stood at 4.6 million at the end of December, stable year-on-year. The ongoing focus on bundling services is reflected in that 74% of accesses already include some type of service bundling (+2 percentage points year-on-year).

Revenues totalled 1,237 million euros in 2011, with year-on-year growth accelerating in the quarter (+16.4%; +15.6% in the year). Particularly noteworthy is the strong increase in revenues from internet and content (+29.5% year-on-year in 2011), and also in data, IT and capacity rental revenues (+18.1% year-on-year), that remained as the main drivers of revenue growth and together accounted for 44% of revenues (+3 percentage points year-on-year).

CHILE (year-on-year changes in local currency)

Telefónica maintained in 2011 its leadership position in Chile, consolidating its competitive advantages with a unique integrated offer in a highly competitive market.

Telefónica managed 12.7 million **accesses** in Chile at the end of 2011, a year-on-year increase of 6%, with strong growth both in fixed broadband and pay TV and also in mobile accesses.

Revenues stood at 2,310 million euros in 2011, up 4.8% year-on-year (+1.5% in the fourth quarter), boosted by double-digit growth in mobile and stable fixed business revenues.

Operating expenses increased by 8.6% year-on-year (+9.7% in organic terms), as a result of higher supply expenses (+24.2% year-on-year) mainly due to increased commercial activity in the mobile business, higher content expenses and growth in interconnection traffic. The year-on-year comparison in the quarter is affected by the booking in the fourth quarter of 2010 of non-recurrent restructuring expenses related to personnel reorganization (12 million euros).

OIBDA stood at 1,035 million euros (-5.5% year-on-year; -6.6% year-on-year in organic terms), with OIBDA margin standing at 44.8%. The trend in organic terms is heavily impacted by the collection of insurance claims to cover the effects of the earthquake of February 2010 that were booked in 2010 and the sale of non-strategic towers (50 million euros in 2011; 15 million euros in 2010). Stripping out these effects, OIBDA growth would be positive.

Operating cash flow reached 507 million euros (-12.3% year-on-year; -14.2% in organic terms) following a year-on-year increase of 2.1% in CapEx, which totalled 529 million euros in 2011, mainly as a result of investment efforts related with quality improvement in fixed broadband and increased 3G coverage in the mobile business.

Commercial activity and revenue performance by business unit

Wireless business

Estimated penetration of the Chilean mobile market stood at 141% at the end of 2011 (+15 percentage points year-on-year).

The Company managed 9.5 million **mobile accesses** at the end of December 2011, with a year-on-year of 9%, following net additions of 423 thousand accesses in the quarter and of 1.1 million in the full year (excluding the disconnection of 360 thousand inactive prepay accesses in the third quarter). It is important to note that campaigns ahead of number portability launching were done along the quarter to highlight the benefits linked to the Movistar community.

Churn stood at 2.0% in 2011 (+0.7 percentage points year-on-year), affected by the above mentioned disconnections, though an improvement was posted in the quarter (1.9%).

Traffic managed increased by 3.6% year-on-year in 2011 (+2.9% in the fourth quarter).

The year-on-year decline in ARPU slowed in the fourth quarter (-1.6%; -4.1% in the year) due to the strong performance of data revenues.

Revenues in 2011 totalled 1,399 million euros, up 10.1% year-on-year (+6.8% in the quarter), boosted by the increase in mobile service revenues (+8.9% year-on-year; +4.7% in the quarter) and higher handset sale revenues. It is noteworthy the strong dynamism posted by data revenues (+33.8% year-on-year in 2011; +18.0% in the fourth quarter), already accounting for 19% of mobile service revenue (+4 percentage points year-on-year). Non-SMS revenue accounted for 73% of data revenue (+6 percentage points year-on-year), reflecting the commercial focus on promoting the sale of smartphones.

Wireline business

Telefónica managed 3.1 million fixed **accesses** at the end of 2011, flat vs. December 2010. The Company's strategy focus based on maximize customer value is reflected in the fact that almost all accesses are packaged in a bundled offer.

Broadband accesses stood at 878 thousand, with year-on-year growth accelerating to 7%, following net additions in 2011 of 57 thousand (13 thousand in the quarter), significantly higher than a year ago (+48% year-on-year).

In **pay TV** Telefónica developed in 2011 a TV service that takes into account the differentiated profiles of its customers and reinforcing its offer with the launch of high-definition channels and of the prepay TV service. Pay TV accesses stood at 391 thousand, up 15% year-on-year, with net additions of 50 thousand accesses in the twelve-month period (10 thousand in the quarter).

Traditional fixed accesses stood at 1.8 million (-5% year-on-year).

Revenue stood at 1,037 million euros in 2011, virtually unchanged compared with 2010 (-0.4% year-on-year), thanks to higher Internet, TV and content (+12.3% year-on-year) and data, IT and capacity rental (+12.3% year-on-year) revenues, which together accounted for 48% of fixed business revenue in the year (+5 percentage points vs. 2010) and almost completely offsetting the decline in traditional revenue (-7.9% year-on-year).

In the fourth quarter, revenue fell by 3.7% year-on-year due to the worse performance of the traditional business, which could not be offset by the accelerated growth in Internet, TV and content (+15.5% in the quarter), and data, IT and rental capacity (+16.0% in the quarter).

PERÚ (year-on-year changes in local currency)

In 2011 Telefónica consolidated its market leadership on the Peruvian market with an 11% year-on-year increase to reach 18.8 million **accesses**, thanks to the solid growth in mobile business, pay TV and broadband businesses.

Revenue in 2011 totalled 2,030 million euros, posting year-on-year growth of 6.1%, which accelerated to 7.0% during the quarter, despite a reduction in mobile termination rates in October, reflecting a sound trend in mobile service revenue and the transformation process of fixed business.

Operating expenses increased by 8.2% year-on-year in reported terms, reflecting the non-recurrent restructuring expenses related to workforce reduction programmes (23 million euros) posted in 2010. In organic terms, expenses rose by 10.3% due to higher supply costs and subcontract expenses, due to acceleration in network rollout and increased commercial activity. This increase was partially offset by lower personnel expenses and bad debt provisions.

OIBDA totalled 751 million euros in 2011 (-5.3% year-on-year; -13.9% for the quarter), with an OIBDA margin of 37.0% (-4.5 percentage points year-on-year) and of 35.0% for the quarter. The year-on-year comparison was affected by the sale of non-strategic towers (2 million euros in 2011; 39 million euros in 2010) and the non-recurrent expenses previously mentioned.

In organic terms, OIBDA was down by 8.0% for 2011. Thereby, excluding the regulatory impacts that took place throughout 2011, OIBDA was down 4.3% year-on-year.

CapEx in 2011 stood at 302 million euros, showing year-on-year growth of 4.8%, focusing mainly on rollout of fixed broadband, the expansion of pay TV and the deployment of 2G/3G networks. Thus **operating cash flow** totalled 449 million euros (-11.1% year-on-year).

Commercial activity and revenue performance by business unit

Wireless business

The estimated penetration of the Peruvian mobile market in 2011 was 76% (+10 percentage points year-on-year).

At the end of 2011 Telefónica managed 14.0 million mobile **accesses** in Peru (+12% year-on-year), accelerating gradually its growth throughout the year thanks to the solid performance of the contract segment, which increased by 21% year-on-year to account for 21% of total accesses (+2 percentage points year-on-year). Net additions showed a significant increase with respect to 2010 (+42%) totalling 1.5 million accesses during 2011 as a whole, and 491 thousand during the fourth quarter (+35% year-on-year).

The **churn** rate stood at 3.3% for the year (+0.3 percentage point year-on-year), and 3.4% for the quarter (+0.5 percentage point year-on-year), affected by the disconnection of low-value prepay customers.

Traffic increased by 25% over the year (+23% for the quarter), thanks to the solid performance of outgoing traffic.

ARPU slightly increased in 2011 (+0.4% year-on-year) on the back of growth in outgoing ARPU (+2.8% year-on-year).

Revenue totalled 1,088 million euros for the year (+11.3% year-on-year; +8.3% on the quarter), reflecting the good performance of mobile service revenues (+10.6% year-on-year in 2011; +7.6% over the quarter). Excluding the impact of mobile interconnection rates, mobile service revenues rose by 13.2% year-on-year for 2011 overall, and by 10.0% over the quarter.

It is important to note the positive evolution of data revenue, which rose by 32.2% year-on-year (+15.6% in the quarter), thanks to a 46.6% increase in non-SMS data revenues (+22.7% in the quarter), which now accounts for 64% of data revenues (+6 percentage points year-on-year).

Wireline business[2]

Telefónica managed a total of 4.8 million fixed accesses in Peru at the end of 2011, with solid year-on-year growth of 7%.

Traditional telephony accesses totalled 2.8 million, virtually stable in comparison to year-end 2010 (-1% year-on-year), decelerating with line losses showing a deceleration versus previous year (-23 thousand lines in 2011 against -100 thousand in 2010).

2 Fixed-line phone accesses include all Telefónica's fixed accesses in Peru, both those managed by the fixed wireless business and those managed by the mobile business. However, earnings from fixed wireless accesses are included in the results of the Peruvian mobile business.

Broadband accesses totalled 1.1 million, accelerating their year-on-year growth for the sixth quarter in a row (+28% year-on-year), and consolidated as the main growth driver of wireline business. Net additions set a new record in the full year (240 thousand accesses; 50 thousand during the quarter), almost tripling the level of 2010 and reflecting the effectiveness of the Company's commercial offer and churn control success.

Pay TV accesses posted a positive trend over the quarter and year-on-year growth accelerated, with net additions of 26 thousand accesses over the quarter and 108 thousand for the year (+4 thousand accesses in 2010), totalling 799 thousand accesses (+16% year-on-year).

At the end of 2011, 63% of traditional phone accesses were bundled (+9 percentage points year-on-year), and 79% of fixed broadband accesses were marketed under a Dúo or Trío package (+7 percentage points year-on-year), consolidating bundling of services as one of the key drivers behind the Company's positive trend.

Revenue amounted to 1,069 million euros in 2011, in line with 2010 (-0.2% year-on-year), thanks to an increase of 2.5% during the fourth quarter driven by accelerated growth of Internet and TV revenues on the back of excellent commercial activity throughout the year. Lower revenues from traditional telephony were practically offset by higher Internet, TV and content revenue (+10.4% year-on-year) and revenue from data, IT and capacity rentals (+8.1% year-on-year). Revenue from Internet, TV, data and IT already account for 55% of total revenue (+5 percentage points year-on-year).

Excluding regulatory measures, revenue increased by 1.0% year-on-year for the full year, and by 3.9% on the quarter.

COLOMBIA (year-on-year changes in local currency)

In a fiercely competitive environment, Telefónica recorded high commercial activity in 2011, with an increase in its customer base to a total of 13.8 million **accesses** (+11% year-on-year), mainly thanks to a solid performance by mobile accesses and increases in fixed broadband and pay TV accesses.

Revenue in 2011 totalled 1,561 million euros, a year-on-year increase of 4.5% (+3.4% in the quarter), thanks to the positive trend in mobile business revenue and the stabling in the fixed business.

Operating expenses declined by 4.1% year-on-year in reported terms, reflecting the non-recurrent impacts recorded in 2010 related to workforce reduction programmes, bad debt provisions and third-party claims (85 million euros). In organic terms expenses increased by 3.4% year-on-year, mainly due to an increase in supply costs arising from the dynamism of fixed and mobile broadband services, partially offset by lower bad debt provisions and lower expenses on external services, reflecting the Company's efforts to maximise its efficiency.

The contribution of services with the highest growth potential, such as mobile and broadband, continues to increase, and now accounts for 26% of Telefónica's consolidated revenue

OIBDA stood at 540 million euros in 2011 (+14.2% year-on-year; +79.8% in the quarter). It should be pointed out that 25 million euros were posted in 2011 for the sale of non-strategic towers, significantly lower than the figure for 2010 (71 million euros). The OIBDA margin stood at 34.6% for the year (+2.9 percentage points year-on-year), and 38.6% in the quarter.

In organic terms, excluding the non-recurring impacts of 2010, OIBDA was down by 2.9% in 2011.

CapEx for 2011 amounted to 405 million euros (+24.1% year-on-year; +12.7% in organic terms), reflecting the effort in deploying the 2G/3G network, service platforms and quality improvement in the fixed broadband network. The quarter included 37 million euros in spectrum acquisition, with the operating cash flow reaching 135 million euros (-7.8% year-on-year).

Commercial activity and revenue performance by business unit

Wireless business

Penetration of Colombia's mobile market in 2011 was estimated at 110%, a year-on-year increase of 11 percentage points compared to 2010.

Telefónica managed 11.4 million mobile **accesses** in Colombia at year-end 2011, showing a significant year-on-year growth of 14% driven by the expansion on the contract segment (+19% year-on-year). As in the previous quarter, it is worth to highlight the strong net additions (691 thousand accesses; 2.4 times higher than the same period in 2010) reaching 1.4 million accesses for the full year (+33% year-on-year). In 2011 the commercial offer was focused on integrated voice and data plans, expansion of mobile internet and voice offers with all-destination plans.

The **churn** rate dropped 0.4 percentage point year-on-year compared to 2010 to stand at 2.8%, improving during the last quarter of the year (2.1%; -0.7 percentage point year-on-year).

Traffic rose by 10% during the year, boosted by outgoing traffic performance.

ARPU in 2011 slightly declined (-1.0% year-on-year), although growth in outgoing ARPU (+2.2% year-on-year) must be highlighted.

Revenue stood at 916 million euros in 2011, with a strong year-on-year increase of 7.5% (+4.2% in the quarter), reflecting the good performance of mobile service revenues (+6.9% year-on-year; +3.9% in the quarter) and revenues from handset sales (+15.2% year-on-year; +7.9% in the quarter).

Excluding the impact of lower interconnection rates, mobile service revenues rose by 7.9% year-on-year in 2011 (+5.1% in the quarter).

Data revenue showed a particularly good performance rising 51.1% year-on-year (+37.2% in the quarter), to account for 23% of mobile service revenues (+7 percentage points year-on-year), thanks to a strong increase in non-SMS data revenues (+62.5% year-on-year; +43.6% in the quarter), which represent 87% of data revenue (+6 percentage points year-on-year).

Wireline business

Telefónica managed 2.4 million fixed **accesse**s in Colombia at year-end 2011, virtually unchanged in year-on-year terms.

Within an environment of strong competitive pressure, **broadband** accesses totalled 612 thousand in 2011, posting a 12% year-on-year growth, with net additions of 64 thousand accesses in the year (6 thousand in the quarter).

Pay TV accesses increased 24% year-on-year totalling 255 thousand by year-end, with net additions of 50 thousand accesses in 2011 (9 thousand in the quarter).

In the **traditional business,** accesses totalled 1.5 million in December 2011 (-7% year-on-year).

During 2011, the Company focused on bundling of service with 87% of fixed-line services bundled (+8 percentage points year-on-year). Broadband accesses were marketed as part of either a Dúo or Trío package.

Revenue stood at 682 million euros in 2011, virtually stable compared to 2010 (-0.4% year-on-year, -0.5% in the quarter). Internet, TV and content revenues increased year-on-year by 15.6%, and already account for 27% of total wireline revenues (+4 percentage points year-on-year). In parallel, data, IT and capacity rental revenue accelerated its year-on-year growth to 5.3% (+12.1% in the quarter), virtually offsetting the lower traditional revenues (-9.8% year-on-year in 2011).

MEXICO (year-on-year changes in local currency)

MEXICO (year-on-year changes in local currency)

Estimated penetration in the Mexican mobile market reached 83% by the end of 2011, up 1 percentage point year-on-year.

Telefónica Mexico's performance in 2011 was driven by a drastic reduction in mobile termination rates by the regulator during the second quarter of the year (-124 million euros in revenue and -52 million euros in OIBDA for 2011) and the Company's commercial repositioning carried out to adapt its tariff plans to this new framework.

Within this context, the Company has boosted its all-destination tariff plans in order to tap the advantages of lower mobile termination rates, both strengthening its position in a highly competitive mobile market and accelerating the capture of value in the wireline business.

Moreover, and according to a strategy focused on maximizing customer value, the Company began to apply more restrictive criteria to both gross additions and customer disconnections from the third quarter of 2011, and these were reflected in accesses trend over the year. Thus, at year-end 2011 Telefónica Móviles México managed a total of 20.5 **million** accesses (up 1% year-on-year). Mobile accesses stood at 19.7 million and remained virtually stable for the full year (net additions of 81 thousand accesses in 2011), after registering a net loss of 773 thousand accesses in the quarter.

Mobile churn in 2011 stood at 2.9% (+0.8 percentage points year-on-year), reflecting a higher number of disconnections in the prepay segment, though contract churn continued to show significantly lower levels (1.1% over the year; 1.3% on the quarter).

The focus on the quick 3G network deployment is reflected in the positive trend of mobile broadband accesses, which continued accelerating its growth and tripled the accesses recorded in 2010.

Traffic increased by 1% during the year, led by outgoing traffic performance, up 7% in 2011.

ARPU reflected the negative impact of the lower termination rates, and posted a year-on-year decrease of 20.5% in 2011, although the trend improved in the quarter (-15.0%) underpinned by the better performance of the outgoing ARPU that, after several quarters posting decreases, returned to growth (+0.3% on the quarter; -10.7% on the year).

Revenue in 2011 stood at 1,557 million euros, with a gradual improvement in the pace of year-on-year decreases since the third quarter (-11.3% year-on-year in the quarter; -12.3% on the year).

Mobile service revenue fell year-on-year by 13.3% during the year (-14.3% on the quarter), although, excluding the effect of lower mobile termination rates, revenue would have decreased year-on-year by 5.5% in terms of the full year, and by 1.7% on the quarter. It is worth highlighting the outgoing revenues trend, that continued accelerating the growth, with a year-on-year increase of 4.7% over the quarter (-1.6% for the year), driven by the good contract revenue performance and the deceleration in the pace of decreasing prepay revenue, with a gradual improvement in top-ups. Moreover, data revenue increase significantly (+26.3% year-on-year in the quarter; +14.0% in 2011), and now accounts for 29% of mobile service revenue (+7 percentage points against 2010). Non-SMS data revenue was the main driver behind this positive performance, and was 2.3 times higher than 2010.

OIBDA in 2011 stood at 572 million euros (-5.2% year-on-year). The year-on-year comparison was affected by the higher expenses of commercial activity and the rollout of the 3G network, the negative impact of lower mobile termination rates (-19 million euros during the quarter and -52 million euros for the year overall), the sale of non-strategic towers (217 million euros during the quarter; 240 million euros for the year overall) and non-recurrent expenses on bad debt provision during the fourth quarter of 2011 (-23 million euros). 2011 OIBDA margin stood at 36.7%.

CapEx stood at 471 million euros in 2011 (-69.2% year-on-year and +40.0% in organic terms, excluding spectrum investment in 2010), mainly due to strong effort throughout the year to roll out the 3G network. As a result, operating cash flow totalled 101 million euros.

VENEZUELA (year-on-year changes in organic terms)

Venezuela's estimated mobile market penetration at the end of 2011 was 98% (-3 percentage points year-on-year).

Telefónica maintained a benchmark service portfolio in the market during 2011, strengthening its leadership position through a strategy focus on maximizing customer value and on innovation, posting an enhanced operating performance in the fourth quarter. Thus, within the services launched in the last quarter of the year, it is important to highlight the launch of Movitalk (push to talk) and pay TV services with high definition technology. Moreover, in a country where high smartphone penetration stands out, the focus on commercial campaigns to promote mobile broadband take-up was maintained.

Telefónica managed 10.4 million **accesses** in Venezuela at the end of 2011 (-1% year-on-year). Mobile accesses totalled 9.4 million, broadly flat in year-on-year terms (-1%), following an improvement in the fourth quarter (-6% year-on-year to September) underpinned by quarterly net additions (192 thousand accesses).

The mobile **churn** rate stood at 2.6% in the quarter (-0.4 percentage points year-on-year), lower than the full-year rate (2.8%; +0.1 percentage points year-on-year), with a contract churn that stood as a market benchmark at 0.8%.

Traffic consolidated its gradual growth acceleration increasing by 6.2% year-on-year in the quarter (+2.4% in the year).

The strategy to maximize customer value was reflected in **ARPU** trend, which rose by 24.8% year-on-year (+22.8% in the quarter), with the positive trend of data ARPU as the main growth lever.

Revenue in 2011 reached 2,688 million euros, a year-on-year increase of 11.2%, posting growth acceleration (+12.3% year-on-year in fourth quarter). This positive trend reflected the solid performance of mobile service revenue, which advanced 16.2% year-on-year in the quarter (+12.8% year-on-year in 2011), despite lower mobile termination rates (impact of -22 million euros in the year).

It is worth to highlight data revenue trend, up 23.7% year-on-year in 2011 (+26.0% year-on-year in the quarter), and now accounts for 36% of mobile service revenue (+3 percentage points year-on-year).

OIBDA stood at 1,177 million euros in 2011, up 3.4% year-on-year (+2.7% in the quarter). Thus, the Company reached an OIBDA margin of 43.8% (-3.1 percentage points year-on-year), following a margin of 43.0% in the quarter, with continued high levels of efficiency in an environment of widespread price increases that translated into higher personnel expenses and higher subcontract expenses.

CapEx stood at 372 million euros in 2011 (+14.7% year-on-year), mainly linked with projects to improve the quality and capacity of the 2G network and a significant expansion in 3G network coverage. **Operating cash flow** totalled 805 million euros (-0.7% year-on-year).

CENTRAL AMERICA (year-on-year changes in organic terms)[3]

Estimated mobile penetration in Telefónica's Central American markets stood at 103% at the end of December 2011 (+10 percentage points year-on-year).

At the end of 2011, Telefónica managed a total of 8.1 million **accesses** in Central America, posting year-on-year increase of 17%. Mobile accesses totalled 7.6 million (+16% year-on-year), maintaining the trend of accelerating growth seen in 2011 on the back of an increase in gross additions and stable churn.

Mobile net additions stood at 544 thousand in the quarter (1.2 million in 2011), the highest level in recent years, thanks to the

3 Year-on-year changes in organic terms: in financial terms, year-on-year changes are assumed in constant euros, with the results of the Costa Rica operation excluded from calculation of organic growth.

strength of the distribution channel, the launch of new voice and data plans and more aggressive campaigns in the prepay segment, which led to a historical gross additions level.

On November 8th of 2011, Telefónica Costa Rica celebrated its market launch and added 116 thousand accesses in its first two months of commercial activity.

Churn stood at 2.6% in 2011, virtually unchanged both in the full year period (-0.1 percentage points year-on-year) and in the quarter.

Revenue totalled 543 million euros recording a year-on-year growth of 1.3% (+2.6% year-on-year in the quarter) and consolidating the trend of accelerating growth reported in the previous quarter. This improvement is driven by the increase in mobile service revenue in the quarter in countries such as Nicaragua and El Salvador, which offset the lower revenues from Guatemala.

Especially noteworthy is the performance of data revenue, which increased by 31.5% year-on-year in 2011 (+37.4% in the fourth quarter) and now accounts for 19% of mobile service revenue (+4 percentage points year-on-year). This improvement was underpinned by non-SMS data revenue growth (+37.8% year-on-year; +44.2% in the quarter), which account for 52% of data revenue (+2 percentage points year-on-year).

OIBDA stood at 165 million euros in 2011 (+3.8% year-on-year; +42.3% in the quarter), affected by the disposal of non-strategic towers (37 million euros in 2011). The OIBDA margin stood at 30.5% in 2011 (+0.8 percentage points year-on-year).

Operating cash flow totalled -10 million euros in 2011, following CapEx of 176 million euros in the year (including the booking of spectrum licence cost in Costa Rica for 68 million euros), with investment focused on the rollout of 2G/3G infrastructure and the implementation of support platforms and systems. CapEx decreased by 39.0% year-on-year in organic terms.

ECUADOR (year-on-year changes in local currency)

Estimated penetration of the Ecuadorean mobile market stood at 108% in 2011, up 3 percentage points year-on-year.

Telefónica managed a total of 4.5 million **accesses** (+5% year-on-year) in this market at the end of 2011. Mobile accesses totalled 4.5 million, up 6% year-on-year against December 2010, with the contract segment performing very well (+10% year-on-year). Mobile net additions reached 258 thousand accesses in the full year (18 thousand in the quarter).

The mobile churn rate stood at 2.8% in 2011 (+0.2 percentage points year-on-year), having risen in the quarter due to the disconnection of inactive prepay accesses in the CDMA network following its shutdown. Contract churn continues to perform well and stood at 1.1% at the end of the year (-0.7 percentage points year-on-year).

Traffic grew by 11% year-on-year both in the quarter and in the year.

ARPU continued accelerating its growth trend (+8.5% year-on-year in the fourth quarter; +3.4% in the full year), mainly thanks to a strong performance in the contract segment and stable prepay ARPU.

Revenue totalled 408 million euros, consolidating the acceleration growth trend along the year (+12.8% year-on-year in the fourth quarter; +8.4% in the year), reflecting the strong performance of mobile service revenue (+14.9% year-on-year in the fourth quarter; +11.0% in 2011).

Data revenue continued registering a strong growth (+20.7% year-on-year) and already accounts for 27% of mobile service revenue (+2 percentage points year-on-year in 2011). It is worth highlighting the positive performance of non-SMS data revenue, with a 43.0% year-on-year growth in 2011 (+41.6% year-on-year for the quarter), accounting for 63% of total data revenue (+10 percentage points year-on-year).

OIBDA stood at 137 million euros in 2011, up 18.7% year-on-year (+19.2% year-on-year in the fourth quarter). The OIBDA margin stood at 33.6% (34.5% in the quarter), improving by 2.9 percentage points year-on-year in 2011.

Operating cash flow totalled 79 million euros, a 35.1% year-on-year growth, while CapEx amounted 58 million euros (+2.0 year-on-year in 2011) with investment focused on improving the quality and capacity of the 3G network.

Telefónica.
Results by regional business units

Telefónica Latin America. Accesses

Datos no auditados (Miles)	2010	2011				
	December	March	June	September	December	% Chg
Final Clients Accesses	183,686.9	185,984.0	190,832.9	194,832.9	201,402.2	9.6
Fixed telephony accesses (1)	24,403.6	24,196.2	24,173.4	24,126.6	23,960.7	(1.8)
Internet and data accesses	8,235.1	8,327.9	8,513.5	8,720.2	8,885.9	7.9
Narrowband (2)	674.8	586.7	539.5	476.6	389.4	(42.3)
Broadband (3) (4)	7,442.3	7,629.0	7,861.5	8,134.4	8,385.9	12.7
Other (5)	118.0	112.3	112.5	109.2	110.6	(6.3)
Mobile accesses	149,255.4	151,589.0	155,523.1	159,795.4	166,297.9	11.4
Prepay (6)	119,359.1	120,676.5	123,108.6	125,569.4	131,087.2	9.8
Contract	29,896.3	30,912.5	32,414.4	34,226.0	35,210.7	17.8
Pay TV (7)	1,792.7	1,870.9	2,108.0	2,190.6	2,257.7	25.9
Wholesale Accesses	55.9	54.5	54.4	53.8	50.9	(9.0)
Total Accesses	**183,742.8**	**186,038.6**	**190,372.4**	**194,886.7**	**201,453.0**	**9.6**

(1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included. Total "fixed wireless" accesses included.
(2) Includes narrowband ISP of Terra Brasil and Terra Colombia.
(3) Includes broadband ISP of Terra Brasil and Terra México.
(4) Includes ADSL, optical fiber, cable modem and broadband circuits.
(5) Retail circuits other than broadband.
(6) 360 thousand inactive accesses were disconnected in Chile in the third quarter of 2011 and 1.0 million inactive accesses in Brasil in the fourth quarter of 2011.
(7) Includes 153 thousand clients of TVA from June 2011.

Telefónica. Consolidated Income Statement

	January-December		
Unaudited figures (Euros in millions)	2011	2010	% Chg
Revenues	**29,237**	**25,756**	**13.5**
Internal exp. capitalized in fixed assets	157	147	6.7
Operating expenses	(19,311)	(16,749)	15.3
Supplies	(7,519)	(6,718)	11.9
Personnel expenses	(2,644)	(2,344)	12.8
Subcontracts	(7,826)	(6,503)	20.3
Bad debt provision	(503)	(510)	(1.4)
Taxes	(819)	(673)	21.7
Other net operating income (expense)	253	474	(46.6)
Gain (loss) on sale of fixed assets	605	4,079	(85.2)
Impairment of goodwill and other assets	(1)	5	c.s.
Operating income before D&A (OIBDA)	**10,941**	**13,713**	**(20.2)**
OIBDA Margin	**37.4%**	**53.2%**	**(15.8 p.p.)**
Depreciation and amortization	(4,783)	(3,953)	21.0
Operating income (OI)	**6,157**	**9,759**	**(36.9)**

Notes:
- OIBDA and OI before management and brand fees.
- Starting April 2008, Vivo's consolidation perimeter includes Telemig."
- 2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela.
- T. Latinoamérica reported figures include 100% of Vivo since October 2010.
- From January 1st, 2011, the perimeter of consolidation of T. Latin America excludes Telefónica International Wholesale Services (TIWS) and Telefónica North America (TNA) (actually T.Europe). As a result, the results of T. Latinoamérica have been restated for the fiscal year 2010, to reflect the above mentioned new organization from January 1st, 2010.
- 2011 T. Latin America results include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007.
- OIBDA, OIBDA margin and OI are affected by the positive impact from the revaluation of the previously-held stake in Vivo at its fair value at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom (3,797 million euros in the third quarter of 2010) and by non-recurrent restructuring expenses mainly related to personnel reorganization and firm commitments relating to the Telefónica Foundation's social activities of 410 million euros in the fourth quarter of 2010.

Telefónica Latin America. Accesses by Country (I)

Unaudited figures (Euros in millions)	2010	2011				
	December	March	June	September	December	% Chg
BRAZIL						
Final Clients Accesses	75,919.6	77,592.3	79,767.2	82,750.8	87,172.1	14.8
Fixed telephony accesses (1)	11,292.6	11,172.6	11,126.6	11,086.6	10,977.4	(2.8)
Internet and data accesses	3,848.2	3,849.7	3,909.8	3,933.1	3,942.6	2.5
Narrowband	446.2	378.1	344.2	287.7	214.5	(51.9)
Broadband (2)	3,319.2	3,393.6	3,486.9	3,567.5	3,648.0	9.9
Other (3)	82.8	78.0	78.8	77.9	80.0	(3.3)
Mobile accesses	60,292.5	62,061.3	64,049.1	67,038.4	71,553.6	18.7
Prepay (4)	47,658.6	48,742.0	49,809.7	51,679.3	55,438.1	16.3
Contract	12,633.9	13,319.2	14,239.4	15,359.1	16,115.5	27.6
Pay TV (5)	486.3	508.7	681.7	692.7	698.6	43.7
Wholesale Accesses	33.9	32.9	32.4	32.0	28.0	(17.3)
Total Accesses	**75,953.5**	**77,625.2**	**79,799.6**	**82,782.8**	**87,200.1**	**14.8**
ARGENTINA						
Final Clients Accesses	22,275.8	22,142.2	22,537.3	22,630.4	23,008.4	3.3
Fixed telephony accesses (1)	4,621.5	4,614.6	4,621.3	4,617.1	4,611.0	(0.2)
Fixed wireless	35.5	36.8	40.2	38.2	38.2	7.7
Internet and data accesses	1,505.4	1,527.8	1,562.6	1,611.1	1,630.7	8.3
Narrowband	65.7	54.9	48.4	43.4	35.7	(45.7)
Broadband (2)	1,439.7	1,472.9	1,514.1	1,567.7	1,595.1	10.8
Mobile accesses	16,148.9	15,999.8	16,353.5	16,402.2	16,766.7	3.8
Prepay	10,370.4	10,127.8	10,347.3	10,303.2	10,581.3	2.0
Contract	5,778.5	5,871.9	6,006.2	6,099.0	6,185.4	7.0
Wholesale Accesses	13.0	12.8	13.2	13.2	13.9	7.2
Total Accesses	**22,288.8**	**22,155.0**	**22,550.5**	**22,643.6**	**23,022.3**	**3.3**
CHILE						
Final Clients Accesses	11,910.5	12,214.7	12,442.1	12,253.1	12,674.4	6.4
Fixed telephony accesses (1)	1,939.3	1,920.2	1,903.8	1,871.4	1,848.1	(4.7)
Internet and data accesses	836.0	834.9	857.1	875.1	887.4	6.1
Narrowband	6.6	6.3	6.0	6.0	5.8	(12.8)
Broadband (2)	821.5	820.8	844.2	864.9	878.1	6.9
Other (3)	7.9	7.8	6.8	4.2	3.5	(55.9)
Mobile accesses	8,794.0	9,100.5	9,308.3	9,125.5	9,548.1	8.6
Prepay (6)	6,179.3	6,448.1	6,586.0	6,326.0	6,732.7	9.0
Contract	2,614.7	2,652.5	2,722.3	2,799.5	2,815.4	7.7
Pay TV	341.2	359.1	372.9	381.1	390.8	14.5
Wholesale Accesses	5.3	5.1	5.1	4.9	5.2	(1.8)
Total Accesses	**11,915.8**	**12,219.8**	**12,447.1**	**12,258.0**	**12,679.6**	**6.4**

(1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1, ISDN Primary access, 2/6 Access x30. Company's accesses for internal use included. Total "fixed wireless" accesses included.
(2) Includes ADSL, cable modem and broadband circuits.
(3) Retail circuits other than broadband.
(4) 1.0 million inactive accesses were disconnected in Brasil in the fourth quarter of 2011.
(5) Includes 153 thousand clients of TVA from June 2011.
(6) 360 thousand inactive accesses were disconnected in Chile in the third quarter of 2011.

Telefónica Latin America. Accesses by Country (II)

Unaudited figures (Euros in millions)	2010	2011				
	December	March	June	September	December	% Chg
PERU						
Final Clients Accesses	16,954.3	17,057.3	17,504.6	18,205.6	18,766.1	10.7
Fixed telephony accesses (1)	2,871.2	2,852.0	2,842.8	2,855.8	2,848.4	(0.8)
Fixed wireless	537.8	515.4	491.7	471.2	444.6	(17.3)
Internet and data accesses	885.4	934.3	1,005.3	1,070.3	1,120.4	26.5
Narrowband	15.4	11.0	10.5	9.8	9.4	(38.6)
Broadband (2)	850.8	903.6	974.7	1,040.3	1,090.6	28.2
Other (3)	19.2	19.7	20.1	20.2	20.4	5.9
Mobile accesses	12,507.1	12,559.9	12,920.9	13,506.8	13,998.3	11.9
Prepay	10,104.4	10,100.5	10,300.8	10,707.6	11,079.6	9.7
Contract	2,402.7	2,459.5	2,620.1	2,799.2	2,918.7	21.5
Pay TV	690.6	711.1	735.6	772.6	799.0	15.7
Wholesale Accesses	0.5	0.5	0.5	0.5	0.4	(3.7)
Total Accesses	**16,954.8**	**17,057.7**	**17,505.1**	**18,206.0**	**18,766.6**	**10.7**
COLOMBIA						
Final Clients Accesses	12,350.3	12,338.5	12,312.8	13,081.0	13,746.9	11.3
Fixed telephony accesses (1)	1,586.9	1,569.2	1,540.4	1,521.0	1,480.6	(6.7)
Internet and data accesses	553.6	581.6	594.3	613.6	620.3	12.0
Narrowband	5.6	6.0	6.7	7.1	7.9	41.2
Broadband (2)	548.0	575.6	587.6	606.5	612.3	11.7
Mobile accesses	10,004.5	9,970.6	9,949.4	10,700.0	11,391.1	13.9
Prepay	7,679.1	7,531.4	7,420.0	8,047.6	8,626.8	12.3
Contract	2,325.5	2,439.2	2,529.4	2,652.4	2,764.2	18.9
Pay TV	205.3	217.1	228.7	246.4	255.0	24.2
Wholesale Accesses	3.3	3.3	3.3	3.3	3.3	0.0
Total Accesses	**12,353.6**	**12,341.8**	**12,316.1**	**13,084.3**	**13,750.2**	**11.3**
MEXICO						
Mobile accesses	19,661.6	20,057.0	20,566.7	20,515.7	19,742.4	0.4
Prepay	18,061.3	18,476.2	18,930.9	18,731.4	18,149.8	0.5
Contract	1,600.2	1,580.8	1,635.9	1,784.3	1,592.6	(0.5)
Fixed wireless	565.5	604.1	667.6	726.6	745.3	31.8
Total Accesses	**20,227.1**	**20,661.1**	**21,234.3**	**21,242.2**	**20,487.7**	**1.3**
VENEZUELA						
Mobile accesses	9,514.7	9,078.1	9,359.7	9,246.2	9,438.7	(0.8)
Prepay	8,740.3	8,272.2	8,515.7	8,391.7	8,570.9	(1.9)
Contract	774.4	805.9	843.9	854.6	867.8	12.1
Fixed wireless	966.2	916.3	920.0	893.7	883.4	(8.6)
Pay TV	69.3	74.9	89.0	97.8	114.3	64.9
Total Accesses	**10,550.2**	**10,069.2**	**10,368.6**	**10,237.8**	**10,436.4**	**(1.1)**

(1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1, ISDN Primary access, 2/6 Access x30. Company's accesses for internal use included. Total "fixed wireless" accesses included.
(2) Includes ADSL, optical fiber, cable modem and broadband circuits.
(3) Retail circuits other than broadband.

Telefónica Latin America. Accesses by Country (III)

Unaudited figures (Euros in millions)	2010	2011				
	December	March	June	September	December	% Chg
CENTRAL AMERICA [1]						
Fixed telephony accesses [2]	465.7	470.6	491.2	512.3	530.1	13.8
Fixed Wireless	301.7	303.1	314.2	328.0	340.9	13.0
Internet and data accesses	3.0	2.7	2.9	2.9	3.0	1.2
Broadband [3]	0.5	1.6	1.7	1.8	1.8	n.s.
Other [4]	2.4	1.1	1.1	1.2	1.2	(49.2)
Mobile accesses	6,403.7	6,626.3	6,805.8	7,018.2	7,562.5	18.1
Prepay	5,776.0	5,994.9	6,160.9	6,348.5	6,850.7	18.6
Contract	627.7	631.4	644.9	669.7	711.8	13.4
Total Accesses	**6,872.4**	**7,099.7**	**7,299.9**	**7,533.5**	**8,095.6**	**17.8**
ECUADOR						
Mobile accesses	4,219.8	4,392.4	4,454.2	4,459.3	4,477.5	6.1
Prepay	3,561.6	3,723.3	3,775.6	3,758.8	3,756.5	5.5
Contract	658.2	669.1	678.6	700.5	721.0	9.5
Fixed Wireless	94.8	76.5	59.8	42.1	36.4	(61.6)
Total Accesses	**4,314.6**	**4,468.9**	**4,514.0**	**4,501.5**	**4,513.9**	**4.6**
URUGUAY						
Mobile accesses	1,708.5	1,743.1	1,755.6	1,783.0	1,819.0	6.5
Prepay	1,228.1	1,260.0	1,261.7	1,275.4	1300.8	5.9
Contract	480.4	483.1	493.9	507.6	518.2	7.9
Total Accesses	**1,708.5**	**1,743.1**	**1,755.6**	**1,783.0**	**1,819.0**	**6.5**

(1) Includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica from Q4 11.
(2) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access, 2/6 Access x30. Company's accesses for internal use included. Total "fixed wireless" accesses included.
(3) Includes optical fiber, cable modem and broadband circuits.
(4) Retail circuits other than broadband.

Telefónica Latin America. Selected Mobile Business Operating Data by Country

Unaudited figures	2010	2011				
	Q4	Q1	Q2	Q3	Q4	% Chg Local
BRAZIL (1)						
Traffic (Million minutes)	20,283	20,589	22,152	24,395	24,944	n,c,
ARPU (EUR)	11.3	10.3	10.4	10.2	10.1	n,c,
ARGENTINA						
Traffic (Million minutes)	4,713	4,297	4,674	4,871	4,947	5.0
ARPU (EUR)	9.6	9.4	9.3	9.9	10.5	16.5
CHILE						
Traffic (Million minutes)	3,085	3,000	3,006	3,009	3,173	2.9
ARPU (EUR) (2)	12.5	12.0	11.3	11.7	11.6	(1.6)
PERU						
Traffic (Million minutes)	3,881	3,868	3,956	4,551	4,771	22.9
ARPU (EUR)	6.3	6.1	5.7	6.0	6.3	(3.4)
COLOMBIA						
Traffic (Million minutes)	4,303	4,148	4,573	4,727	4,439	3.2
ARPU (EUR)	7.4	6.8	7.1	7.2	6.8	(6.3)
MEXICO						
Traffic (Million minutes)	5,764	5,860	5,857	6,004	5,754	(0.2)
ARPU (EUR)	6.6	5.8	5.3	5.1	5.1	(15.0)
VENEZUELA						
Traffic (Million minutes)	3,593	3,464	3,534	3,714	3,816	6.2
ARPU (EUR) (3)	15.5	15.7	15.7	16.5	19.0	22.8
CENTRAL AMERICA (4)						
Traffic (Million minutes)	2,220	2,249	2,371	2,564	2,676	20.6
ARPU (EUR)	6.4	6.1	5.6	5.6	5.9	(9.5)
ECUADOR						
Traffic (Million minutes)	1,103	1,176	1,158	1,163	1,222	10.8
ARPU (EUR)	6.8	6.4	6.3	6.6	7.4	8.5
URUGUAY						
Traffic (Million minutes)	797	764	744	781	825	3.5
ARPU (EUR)	10.0	9.9	9.7	10.0	10.5	3.2

Notes:
- ARPU calculated as a monthly quarterly average.
- Traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.

(1) 2011 figures have been reclassified according to a proforma criteria regarding the ownership of the licenses and "inter-company" eliminations. ARPU affected by the disconnection of 1.0 million inactive accesses in Brazil in the fourth quarter of 2011.
(2) Changes in ARPU affected by the disconnection of 360 thousand inactive accesses in Chile in the third quarter of 2011.
(3) For comparative purposes and in order to facilitate the interpretation of the year-on-year change versus 2010 results, the variation in local currency of the ARPU in Venezuela is reported excluding the impact of the hyperinflation adjustment.
(4) Includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica.

Telefónica Latin America. Cumulative Selected Mobile Business Operating Data by Country

Unaudited figures	2010	2011				
	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sept	Jan-Dec	% Chg Local
BRAZIL (1)						
Traffic (Million minutes)	77,463	20,589	42,741	67,136	92,081	n,c,
ARPU (EUR)	11.0	10.3	10.3	10.3	10.2	n,c,
ARGENTINA						
Traffic (Million minutes)	17,550	4,297	8,970	13,842	18,788	7.1
ARPU (EUR)	9.2	9.4	9.2	9.5	9.7	17.3
CHILE						
Traffic (Million minutes)	11,791	3,000	6,006	9,045	12,218	3.6
ARPU (EUR) (2)	12.1	12.0	11.6	11.7	11.6	(4.1)
PERU						
Traffic (Million minutes)	13,662	3,868	7,823	12,374	17,145	25.5
ARPU (EUR)	6.2	6.1	5.9	5.9	6.0	0.4
COLOMBIA						
Traffic (Million minutes)	16,226	4,148	8,721	13,448	17,887	10.2
ARPU (EUR)	7.2	6.8	6.9	7.0	6.9	(1.0)
MEXICO						
Traffic (Million minutes)	23,232	5,860	11,717	17,721	23,474	1.0
ARPU (EUR)	6.9	5.8	5.5	5.4	5.3	(20.5)
VENEZUELA						
Traffic (Million minutes)	14,195	3,464	6,998	10,713	14,529	2.4
ARPU (EUR) (3)	14.3	15.7	15.7	15.9	16.7	24.8
CENTRAL AMERICA (4)						
Traffic (Million minutes)	8,035	2,249	4,620	7,184	9,860	22.7
ARPU (EUR)	6.7	6.1	5.9	5.8	5.8	(7.5)
ECUADOR						
Traffic (Million minutes)	4,268	1,176	2,334	3,497	4,720	10.6
ARPU (EUR)	6.8	6.4	6.4	6.5	6.7	3.4
URUGUAY						
Traffic (Million minutes)	2,936	764	1,508	2,290	3,114	6.1
ARPU (EUR)	10.1	9.9	9.8	9.9	10.0	1.0

- ARPU calculated as a monthly quarterly average for each period.
- Traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.

(1) 2011 figures have been reclassified according to a proforma criteria regarding the ownership of the licenses and "inter-company" eliminations. ARPU affected by the disconnection of 1.0 million inactive accesses in Brazil in the fourth quarter of 2011.
(2) Changes in ARPU affected by the disconnection of 360 thousand inactive accesses in Chile in the third quarter of 2011.
(3) For comparative purposes and in order to facilitate the interpretation of the year-on-year change versus 2010 results, the variation in local currency of the ARPU in Venezuela is reported excluding the impact of the hyperinflation adjustment.
(4) Includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica.

Telefónica Latin America. Selected Financial Data by Country (I)

Unaudited figures (Euros in millions)	January-December			
	2011	2010	% Chg	% Chg Local Cur
BRAZIL (1)				
Revenues	14,326	11,119	28.8	28.7
Wireless Business (2)	8,437	4,959	n.c.	n.c.
Service revenues (2)	8,014	4,649	n.c.	n.c.
Wireline Business (2)	5,890	6,843	n.c.	n.c.
OIBDA	5,302	4,074	30.2	30.0
OIBDA margin	37.0%	36.6%	0.4 p.p.	
CapEx	2,468	1,797	37.4	37.2
OpCF (OIBDA-CapEx)	2,834	2,277	24.5	24.3
ARGENTINA				
Revenues	3,174	3,073	3.3	14.5
Wireless Business	2,039	1,979	3.0	14.2
Service revenues	1,880	1,845	1.9	12.9
Wireline Business	1,237	1,187	4.3	15.6
OIBDA	1,085	1,082	0.2	11.1
OIBDA margin (3)	33.4%	34.3%	(1.0 p.p.)	
CapEx	449	398	12.6	24.9
OpCF (OIBDA-CapEx)	636	684	(7.0)	3.1
CHILE				
Revenues	2,310	2,197	5.2	4.8
Wireless Business	1,399	1,266	10.5	10.1
Service revenues	1,283	1,175	9.2	8.9
Wireline Business	1,037	1,038	(0.1)	(0.4)
OIBDA	1,035	1,092	(5.2)	(5.5)
OIBDA margin	44.8%	49.7%	(4.9 p.p.)	
CapEx	529	516	2.4	2.1
OpCF (OIBDA-CapEx)	507	576	(12.0)	(12.3)
PERU				
Revenues	2,030	1,960	3.6	6.1
Wireless Business	1,088	1,001	8.7	11.3
Service revenues	923	854	8.1	10.6
Wireline Business	1,069	1,097	(2.5)	(0.2)
OIBDA	751	812	(7.6)	(5.3)
OIBDA margin (3)	37.0%	41.4%	(4.5 p.p.)	
CapEx	302	295	2.3	4.8
OpCF (OIBDA-CapEx)	449	517	(13.2)	(11.1)
COLOMBIA (4)				
Revenues	1,561	1,529	2.1	4.5
Wireless Business	916	872	5.0	7.5
Service revenues	851	814	4.5	6.9
Wireline Business	682	700	(2.7)	(0.4)
OIBDA	540	484	11.5	14.2
OIBDA margin (3)	34.6%	31.7%	2.9 p.p.	
CapEx	405	334	21.2	24.1
OpCF (OIBDA-CapEx)	135	150	(9.9)	(7.8)

Note:
OIBDA is presented before management and brand fees.
(1) Includes 100% of Vivo since October 2010 and from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007. CapEx includes 349 million euros from the spectrum acquired in the second quarter of 2011.
(2) 2011 figures have been reclassified according to a proforma criteria regarding the ownership of the licenses and "inter-company" eliminations.
(3) Margin over revenues includes fixed to mobile interconnection.
(4) CapEx includes 37 million euros from the spectrum acquired in the fourth quarter of 2011.

Telefónica Latin America. Selected Financial Data by Country (II)

Unaudited figures (Euros in millions)	January-December			
	2011	2010	% Chg	% Chg Local Cur
MEXICO (T. Móviles Mexico) (1)				
Revenues	1,557	1,832	(15.0)	(12.3)
Service revenues	1,387	1,651	(16.0)	(13.3)
OIBDA	572	623	(8.2)	(5.2)
OIBDA margin	36.7%	34.0%	2.7 p.p.	
CapEx	471	1,580	(70.2)	(69.2)
OpCF (OIBDA-CapEx)	101	(957)	c.s.	c.s.
VENEZUELA (T. Móviles Venezuela) (2)				
Revenues	2,688	2,318	16.0	11.2
Service revenues	2,435	2,073	17.5	12.8
OIBDA	1,177	1,087	8.3	4.4
OIBDA margin	43.8%	46.9%	(3.1 p.p.)	
CapEx	372	293	26.9	14.7
OpCF (OIBDA-CapEx)	805	794	1.4	0.6
CENTRAL AMERICA (3)				
Revenues	543	562	(3.4)	1.3
Service revenues	499	522	(4.4)	0.6
OIBDA	165	189	(12.4)	3.8
OIBDA margin	30.5%	33.6%	(3.1 p.p.)	
CapEx	176	105	67.2	65.4
OpCF (OIBDA-CapEx)	(10)	84	c.s.	c.s.
ECUADOR (T. Móviles Ecuador)				
Revenues	408	396	3.2	8.4
Service revenues	364	345	5.6	11.0
OIBDA	137	121	13.0	18.7
OIBDA margin	33.6%	30.7%	2.9 p.p.	
CapEx	58	60	(2.9)	2.0
OpCF (OIBDA-CapEx)	79	61	28.6	35.1
URUGUAY (T. Móviles Uruguay)				
Revenues	228	217	5.0	6.2
Service revenues	219	206	6.3	7.5
OIBDA	104	95	9.5	10.7
OIBDA margin	45.7%	43.8%	1.9 p.p.	
CapEx	23	29	(22.0)	(21.2)
OpCF (OIBDA-CapEx)	82	66	23.4	24.8

Note:
OIBDA is presented before management and brand fees.
(1) CapEx includes 1,237 million euros from the spectrum acquired in Mexico in 2010.
"(2) 2010 and 2011 reported figures include the hyperinflationary adjustments in Venezuela in both years. For comparison purposes and to facilitate the interpretation of the year-on-year changes vs. 2010, variations in local currency of the headings affected by the hyperinflation adjustments are reported excluding the impact of this adjustment.
(3) Includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica. CapEx includes 68 million euros from the spectrum acquired in Costa Rica in the second quarter of 2011.

Results by regional business units

Telefónica España

2011 was marked by an adverse economic climate with weakness in the main macroeconomic indicators towards the end of the year, and also by an intense competitive scenario with strong commercial pressure.

Against this backdrop, Telefónica España adpoted key decisions along the year focused on the one hand, in reducing its operating costs, the main exponent of which was the Redundancy Plan approved during the second half of the year. And on the other hand, in improving the Company's competitive position. Thus, at the end of the third quarter the Company started the launch of its new tariff portfolio guided to step up commercial activity and reinforcing the focus on customer value, boosting customer exclusivity by offering cross discounts for those concentrating all their telecommunications expenses on Movistar.

The Company completed its commercial offer repositioning during the fourth quarter with the launch of new mobile tariffs for contract customers, including a combined voice, data and SMS offer, increasing value to customers by eliminating time and destination discriminations in voice tariffs, or including unlimited SMS in all data tariffs. Tariffs are structured into consumption levels depending on the level of spending required by each customer.

Also during the last quarter of 2011, voice tariffs for prepay customers were simplified, with a very flexible and competitive offer.

In the wireline business, during the third quarter Telefónica launched the 10-mega ADSL with value-added services at 24.9 euros a month, reinforcing its offer in the fourth quarter with a basic ADSL at 19.9 euros per month (excluding value-added services and fixed-to-mobile calls), being noteworthy the higher acceptance of the bundle with value-added services.

The new tariffs launched are being well received by the market, as demonstrated by the Company's commercial results for the last quarter of the year, allowing Telefónica to recover its commercial pulse and achieving positive net additions in terms of total accesses, after registering losses over three consecutive quarters. Improvements are noteworthy in retail fixed broadband accesses, posting positive net additions in December for the first time since April, and also a sharp improvement in mobile accesses, especially in contract customers.

Additionally the new tariff portfolio also had a positive impact on customers' perception, improving customer satisfaction considerably towards the end of the year.

At the end of 2011 Telefónica España managed a total of 47.1 million accesses, virtually stable in year-on-year terms (-1%), despite intense competitive pressure.

With regard to the Company's financial results, it should be highlighted that the year-on-year trend in reported terms was affected by costs related to the redundancy programmes (2,591 million euros in the third quarter of 2011; 202 million euros in the fourth quarter of 2010), the impact of the Universal Service (35 million euros in revenue and 13 million euros in OIBDA in the fourth quarter of 2011; in 2010: 95 million euros in revenue and 31 million euros in OIBDA, 38 million euros in revenue and 13 million euros in OIBDA in the fourth quarter) and sale of non-strategic assets in 2011 (73 million euros in OIBDA and 40 million euros in the fourth quarter). 2010 also included sale of application rights (101 million euros in revenue and OIBDA) and bad debt recovery (20 million euros in OIBDA).

Revenue in 2011 totalled 17,284 million euros (-7.6% year-on-year; -9.5% in the quarter), mainly due to lower ARPU among services and accesses trend in a situation of lower consumption and higher pressure on prices.

Excluding the effects already mentioned, the year-on-year decline in 2011 would have been 6.8% in 2011 and 8.5% in the fourth quarter, mainly due to a weaker performance by mobile voice services revenues in the last months of the year against a backdrop of decreasing private consumption.

It is noteworthy to mention the solid expansion of mobile data revenue, with a year-on-year increase of 10.9% for the year (+9.3% in the quarter), on the back of sharp increase in non-SMS data revenues (+24.1% year-on-year in 2011; +24.5% in the quarter).

Operating expenses totalled 12,622 million euros in 2011, showing a year-on-year increase of 20.3% due to higher restructuring costs on workforce reduction programmes with respect to 2010. Excluding this effects and non-recurrent costs, expenses fell by 2.3% year-on-year (-4.9% in the quarter) thanks to the efficiency measures implemented during the year.

Breakdown by component is the following:

- **Supplies** stood at 3,938 million euros in 2011, a year-on-year decrease of 5.9% (-10.5% in the fourth quarter), on the back of lower interconnection costs and lower expenditure on purchases of mobile handsets.
- **Subcontract expenses** remained practically stable in 2011 (-0.3% year-on-year) at 3,009 million euros, falling by 1.6% in the quarter despite a greater commercial effort at the end of 2011.
- In 2011 **personnel expenses** amounted to 5,109 million euros for the year overall (+92.2% year-on-year) reflecting the costs related to the redundancy programme (2,591 million euros). Excluding this effect and 2010 redundancy provision, personnel expenses increased 1.6% compared to the previous year. This growth was

below the actual CPI for December 2011, a mandatory reference in recent years in terms of salaries, thus reflecting the impact of the new conditions set out in the Collective Agreements which link salary reviews to Company productivity.

The Telefónica España Group had 33,929 employees at year-end 2011 representing a 4.7% reduction in organic terms year-on-year. It should be mentioned that the Redundancy Programme had a good rythm of acceptance, and a total of 2,359 employees joined the programme by the end of the year, of which 1,925 left the Company in 2011, while the remaining 434 over the first few weeks of January 2012.

- **Taxes** amounted to 399 million euros in 2011, a year-on-year decrease of 19.5% (-26.0% in the quarter) mainly due to the lesser impact of the Universal Service with respect to 2010. Excluding this effect, taxes fell by 12.9% on the year (-29.8% in the fourth quarter).
- **Bad debt provisions** amounted to 167 million euros in 2011, representing 1% of revenues. During the year they increased by 25.3%, reflecting the non-recurring effect of bad debt recovery posted during the third quarter of 2010. Excluding this effect, provisions increased by 9.1% year-on-year.

In the fourth quarter of 2011, 40 million euros were booked from the sale of non-strategic assets as gain on sale of fixed assets.

As a result, **OIBDA** for the year stood at 5,072 million euros (40.5% year-on-year), impacted by the negative effect of costs related with the redundancy plan already mentioned. The reported OIBDA margin for 2011 was 29.3% and 41.6% in the quarter.

Stripping out the one-off effects in 2010 and 2011 explained previously, OIBDA in 2011 showed a year-on-year decrease of 11.6% (-14.4% in the fourth quarter), affected by trends in revenues, while OIBDA margin stood at 43.9% in 2011 (-2.4 percentage points year-on-year) and at 40.7% in the fourth quarter of the year (-2.8 percentage points).

The Company continued to invest heavily in the Spanish market despite the adverse scenario, and **CapEx** for the year totalled 2,914 million euros, a year-on-year increase of 44.2% (+2.6% excluding spectrum acquisitions), reflecting Telefónica España's focus to offer high-quality services in a scenario of rapid growth in both fixed and mobile data traffic.

The Company spent a total of 842 million euros on spectrum acquisitions in 2011, reinforcing its competitive position. 441 million euros of this sum had been paid up by the end of the year, while the balance was deferred until June 2012.

Finally, **operating cash flow** stood at 2,158 million euros (-66.8% year-on-year). Excluding the one-off effects explained above and spectrum acquisitions, operating cash flow fell by 15.9% year-on-year.

Commercial activity and revenue performance by business unit

Wireline business

At the end of 2011, the Company managed a total of 15.7 million **wireline accesses** (wireline telephony access, wholesale line rental -AMLT-, fully unbundled loops and naked wholesale ADSL) versus 16.0 million posted in December 2010.

In a context of lower market growth and affected by unbundling of loops, **retail wireline telephony accesses** totalled 12.3 million (-7% vs. December 2010). The lowest access losses during the year were recorded during the fourth quarter (189 thousand), 19% less than the previous quarter. 73% of retail accesses losses in 2011 were offset by net growth in wholesale accesses, which continue to generate revenues for the Company.

Fixed broadband Internet accesses totalled 5.6 million in December 2011 (-2% year-on-year), being remarkable the significant improvement in commercial activity during the last quarter following launch of the new commercial offer. Net additions went into positive figures (1 thousand accesses) after two consecutive quarters of losses.

Pay TV accesses totalled 833 thousand at the end of 2011, posting a year-on-year increase of 6% and net additions of 29 thousand customers during the fourth quarter (20 thousand during the previous quarter), thus confirming the positive commercial performance in the latter half of the year.

In the wholesale business, indirect broadband accesses had risen to 710 thousand by December 2011, slowing a deceleration with respect to the third quarter (+26% year-on-year in 2011; +35% up to September). Unbundled loop leases increased 16% year-on-year to more than 2.8 million loops. Of these, almost 93% are unbundled loops (including 767 thousand naked shared loops) and the rest are shared loops.

Revenue in 2011 amounted to 10,631 million euros, a reported year-on-year decrease of 6.7% which improved slightly during the fourth quarter to 6.2%. Breakdown by component is the following:

- **Traditional access revenues** fell year-on-year by 10.6% (-7.2% in the quarter), mainly due to the decline in the number of accesses and the smaller amount posted for Universal Service (35 million euros in 2011 vs. 95 million euros in 2010). Excluding this effect, revenues fell by 8.4% in 2011 (-7.2% in the quarter).
- **Voice service revenues** decreased 9.0% during the year (-7.4% in the quarter), affected by lower traffic and the growing weight of flat-rates.

- **Internet and broadband revenues** were down 5.3% compared to 2010, with a very similar trend in the last quarter of the year (-5.5%).
  - Retail revenues fell 10.1% year-on-year (-9.9% in the quarter), mainly due to lower effective ARPU (-10.2% year-on-year). The decrease in ARPU decelerated during the quarter (-7.9% year-on-year; -8.4% during the previous quarter), despite the launch of the new commercial offer, showing that many customers were already benefiting from lower effective prices on promotions.
  - Wholesale revenues rose by 23.5% year-on-year (+16.2% in the quarter), pointing to a better performance by the Company in the retail segment during the last quarter of 2011.
- Revenues from **data services** grew 1.8% year-on-year in 2011 (-2.0% in the quarter). Excluding revenues from Telefónica España's wireless business, data revenues remained virtually unchanged in year-on-year terms.
- **IT services revenues** fell by 1.2% year-on-year during 2011 (-8.6% in the quarter). Excluding the sale of application rights posted in 2010 (101 million euros for the year and 49 million in the last quarter), revenues climbed by 7.9% in 2011 and by 5.3% on the quarter.

Wireless business

The Spanish mobile market showed an estimated penetration of 130% by December 2011 (+5 percentage points).

Against a backdrop of strong price competition, the Company's mobile accesses totalled 24.2 million by the end of 2011, virtually stable in year-on-year terms, with a much better performance towards the end of the year.

After completing the voice and data tariff repositioning process during the fourth quarter, with the aim to secure customer loyalty and boost smartphones penetration and data revenue increase, the Company registered net additions of 74 thousand accesses.

It is worth to mention the good performance by contract accesses, which increased by 3% compared to December 2010 and accounted for 70% of total accesses (+2 percentage points year-on-year). Contract net additions in 2011 totalled 425 thousand accesses (155 thousand in the fourth quarter).

The Company's clear focus on expanding mobile broadband services ensured that almost 30% of mobile accesses had this service by the end of December (+10 percentage points year-on-year), thus boosting growth of data revenues.

Contract churn during the fourth quarter of 2011 was stable compared to the previous quarter at 1.8% and total churn was 2.6% (+0.2 percentage point year-on-year) impacted by stiff competition, and portability in particular. For the year overall, churn stood at 2.5% (+0.2 percentage point year-on-year).

Traffic continued to reflect lower customer consumption, and declined 4.3% year-on-year (-7.1% in the quarter) mainly impacted by the private consumption performance.

Total ARPU stood at 22.9 euros in 2011, a year-on-year decrease of 10.2% (-11.9% in the quarter), due to the 15.7% drop in voice ARPU (-18.8% in the quarter), as a result of mobile termination rate cuts, lower consumption and pressure on retail prices. On the other hand, we must point to the positive performance by data ARPU, showing a 9.9% increase in 2011 and consolidating in the fourth quarter the trend observed during the previous quarter (+11.0% year-on-year). In 2011, data ARPU accounted for 26% of total ARPU (+5 percentage points year-on-year), fuelled by rapid growth in mobile broadband.

Revenues from non-SMS services continued to drive growth in data business, rising by 24.1% year-on-year in 2011 (+24.5% in the quarter) and accounting for 75% of data revenues (+8 percentage points year-on-year). Data revenues showed solid year-on-year growth of 10.9% on the year (+9.3% in the quarter).

Revenues totalled 7,747 million euros in 2011, a year-on-year decline of 9.4% (-14.2% in the quarter). Excluding the one-off effects in 2010 already mentioned, the decrease would be 8.8% year-on-year (-13.2% in the quarter):

- **Mobile service revenues** totalled 6,548 million euros, a year-on-year drop of 9.9% (-7.4% excluding the impact of MTR and sale of application rights in 2010), mainly affected by lower consumption and prices in a context of virtual stability of customer base. During the fourth quarter revenues fell by 14.1% year-on-year (-11.2% excluding MTRs cuts and the sale of application rights during the fourth quarter of 2010).
  - **Customer revenues** fell 8.7% year-on-year (-11.9% in the quarter).
  - **Interconnection revenues** dropped by 17.7% year-on-year during the year (-19.8% in the quarter).
  - **Roaming-in revenues** fell by 12.1% year-on-year in 2011 (-21.1% in the quarter), impacted by lower traffic.
- **Revenues from handset sales** totalled 1,199 million euros in 2011, a year-on-year decrease of 6.3% (-14.5% in the quarter).

Telefónica España. Accesses

Unaudited figures (thousands)	2010	2011				
	December	March	June	September	December	% Chg
Final Clients Accesses	44,257.4	44,047.0	43,685.6	43,128.6	43,023.8	(2.8)
Fixed telephony accesses (1)	13,279.7	13,006.2	12,729.0	12,494.7	12,305.4	(7.3)
Naked ADSL	38.1	37.4	37.2	36.3	34.4	(9.6)
Internet and data accesses	5,879.8	5,888.0	5,802.1	5,729.6	5,710.9	(2.9)
Narrowband	136.1	118.4	113.2	103.7	84.4	(38.0)
Broadband (2)	5,722.3	5,749.2	5,669.1	5,607.3	5,608.6	(2.0)
Other (3)	21.4	20.4	19.8	18.5	17.9	(16.6)
Mobile accesses	24,309.6	24,366.4	24,369.9	24,099.9	24,174.3	(0.6)
Prepay	7,919.8	7,823.1	7,708.6	7,440.5	7,359.4	(7.1)
Contract	16,389.7	16,543.3	16,661.3	16,659.4	16,814.9	2.6
Pay TV	788.2	786.4	784.6	804.4	833.2	5.7
Wholesale Accesses	3,333.8	3,536.2	3,686.4	3,854.5	4,031.9	20.9
WLR (4)	294.5	341.7	379.2	415.3	440.6	49.6
Unbundled loops	2,477.1	2,578.9	2,654.2	2,752.2	2,881.1	16.3
Shared ULL	264.0	240.3	223.7	215.0	205.0	(22.3)
Full ULL (5)	2,213.1	2,338.6	2,430.4	2,537.2	2,676.1	20.9
Wholesale ADSL	561.3	614.9	652.3	686.3	709.6	26.4
Other (6)	0.9	0.8	0.7	0.7	0.6	(29.2)
Total Accesses	**47,591.2**	**47,583.2**	**47,372.0**	**46,983.1**	**47,055.7**	**(1.1)**

1 PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included. Includes VoIP and Naked ADSL.
2 ADSL, satellite, optical fibre and broadband circuits.
3 Leased lines.
4 Wholesale Line Rental.
5 Includes naked shared loops.
6 Wholesale circuits.

Telefónica España. Consolidated income statement

Unaudited figures (Euros in millions)	January - December 2011	2010	% Chg
Revenues	**17,284**	**18,711**	**(7.6)**
Internal exp. capitalized in fixed assets	295	238	24.1
Operating expenses	(12,622)	(10,489)	20.3
Supplies	(3,938)	(4,185)	(5.9)
Personnel expenses	(5,109)	(2,658)	92.2
Subcontracts	(3,009)	(3,017)	(0.3)
Bad debt provision	(167)	(133)	25.3
Taxes	(399)	(496)	(19.5)
Other net operating income (expense)	34	50	(32.4)
Gain (loss) on sale of fixed assets	83	14	n.s.
Impairment of goodwill and other assets	(3)	(4)	(39.8)
Operating income before D&A (OIBDA)	**5,072**	**8,520**	**(40.5)**
OIBDA margin	**29.3%**	**45.5%**	**(16.2 p.p.)**
Depreciation and amortization	(2,088)	(2,009)	3.9
Operating income (OI)	**2,984**	**6,511**	**(54.2)**

Notes:
- OIBDA and OI before brand fees.
- Personnel expenses reflect the booking during the third quarter of 2011 of the workforce provision related to the redundancy programme (2,591 million euros) and 202 million euros in the fourth quarter of 2010.
- OIBDA includes the impact of 40 million euros in the OIBDA from the sale of non-strategic assets in the fourth quarter of 2011 (73 million euros in 2011).
- Figures in million euros. In 2010, Company results in reported terms were affected by the following: booking of the Universal Service (95 in revenues and 31 in OIBDA; 38 in revenues and 13 in OIBDA in the fourth quarter), sale of application rights (101 in revenues and also in OIBDA; 49 in the fourth quarter) and bad debts recovery (20 in OIBDA). In 2011 it was booked 35 in revenues and 13 in OIBDA in the fourth quarter associated to the Universal Service.
- 2011 results include from September (retroactive effect from August 1st) the global consolidation of Acens Technologies.

Telefónica España. Wireline business. Selected revenues data

Unaudited figures (Euros in millions)	January - December 2011	2010	% Chg
Traditional Access [(1)]	2,170	2,426	(10.6)
Traditional Voice Services	3,230	3,548	(9.0)
Traffic [(2)]	1,765	1,975	(10.6)
Interconnection [(3)]	763	808	(5.5)
Handsets sales and others [(4)]	702	766	(8.3)
Internet Broadband Services	2,778	2,933	(5.3)
Narrowband	11	17	(35.1)
Broadband	2,767	2,915	(5.1)
Retail [(5)]	2,229	2,480	(10.1)
Wholesale [(6)]	537	435	23.5
Data Services	1,382	1,358	1.8
IT Services	597	604	(1.2)
Subsidiaries and eliminations	475	528	(10.2)
Revenues	**10,631**	**11,397**	**(6.7)**

1 Monthly and connection fees (PSTN, Public Use Telephony, ISDN and Corporate Services) and Telephone booths surcharges and WLR access.
2 Local, domestic long distance, fixed to mobile and international traffic, Intelligent Network Services, Special Valued Services, Information Services (118xy), bonuses and others.
3 Includes revenues from fixed to fixed incoming traffic, mobile to fixed incoming traffic, and transit and carrier traffic.
4 Managed Voice Services and other businesses revenues.
5 Retail ADSL services and other Internet Services.
6 Includes Megabase, Megavía, GigADSL and local loop unbundling.

Notes:
- 95 million euros are included in traditional acceses in 2010 associated to the recognition of the Universal Service (38 million euros in the fourth quarter) and 35 million euros in the fourth quarter of 2011.
- IT Services include a positive impact of 51 million euros from the sale of software rights in 2010 (25 million euros in the fourth quarter).

Telefónica España. Wireless Business. Selected revenues data

Unaudited figures (Euros in millions)	January - December 2011	2010	% Chg
Service Revenues	6,548	7,270	(9.9)
Customer Revenues	5,686	6,226	(8.7)
Interconnection	652	792	(17.7)
Roaming - In	123	140	(12.1)
Other	87	113	(22.6)
Handset revenues	1,199	1,280	(6.3)
Revenues	**7,747**	**8,550**	**(9.4)**

Note:
Service revenues include a positive impact of 51 million euros from the sale of software rights in 2010 (25 million euros in the fourth quarter) and include Tuenti since August of 2010.

Telefónica España. Wireless Business. Selected operating data

Datos no auditados	2010	2011				
	Q4	Q1	Q2	Q3	Q4	% Chg
Traffic (Million minutes)	**10,412**	**9,936**	**10,229**	**10,068**	**9,677**	**(7.1)**
ARPU (EUR)	**24.5**	**23.2**	**23.2**	**23.4**	**21.5**	**(11.9)**
Prepay	10.6	9.6	9.5	9.6	8.4	(20.0)
Contract	31.2	29.7	29.6	29.7	27.3	(12.6)
Data ARPU (EUR)	**5.7**	**5.7**	**5.8**	**6.2**	**6.3**	**11.0**
% non-SMS over data revenues	67.85%	72.0%	73.3%	75.4%	77.2%	9.4 p.p.

Telefónica España. Wireless Business. Cumulative selected operating data

Unaudited figures	2010	2011				
	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sept	Jan-Dec	% Chg
Traffic (Million minutes)	**41,700**	**9,936**	**20,165**	**30,233**	**39,909**	**(4.3)**
ARPU (EUR)	**25.4**	**23.2**	**23.2**	**23.3**	**22.9**	**(10.2)**
Prepay	11.4	9.6	9.6	9.6	9.3	(18.7)
Contract	32.6	29.7	29.7	29.7	29.1	(10.8)
Data ARPU (EUR)	**5.5**	**5.7**	**5.8**	**5.9**	**6.0**	**9.9**
% non-SMS over data revenues	66.6%	72.0%	72.7%	73.6%	74.6%	7.9 p.p.

Notes:
- ARPU calculated as monthly quarterly average of each period.
- Traffic is defined as minutes used by the Company's customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.

Results by regional business units

Telefónica Europe[1]

Despite a challenging economic backdrop and highly competitive trading conditions across its footprint in 2011, Telefónica Europe posted a solid customer base growth which was underpinned by an increase in mobile contract customers and mobile broadband adoption, key levers to drive value growth.

At the end of December 2011 Telefónica Europe's total **customer base** grew 3% year-on-year to 58.1 million. The mobile customer base totalled 48.3 million (+3% year-on-year) driven by strong commercial momentum in the contract segment with 1.8 million net additions in the year (+7% year-on-year), and 559 thousand in the fourth quarter (+5% year-on-year). Contract customers grew 8% year-on year, to account for 51% of the total mobile base at the end of the year, 2 percentage points higher year-on-year.

The mobile broadband customer base increased by 31% year-on-year to 14.8 million in December 2011, to represent 31% of the total mobile base (+6 percentage points year-on-year).

Telefónica Europe's wireline **retail broadband accesses** grew by 107 thousand lines in the year (+2% year-on-year) to stand at 4.1 million at the end of 2011.

Revenues declined 1.3% year-on-year to reach 15,524 million euros in 2011 (-1.6% in organic terms). Excluding the impact from mobile termination rate cuts, revenues grew 1.7% year-on-year in organic terms despite economic headwinds. The successful mobile data strategy based on tiered data pricing tariffs and increasing smartphone penetration were the main drivers of top line growth. As a result, in 2011 non-SMS data revenues posted an organic growth of 33.5% year-on-year, to represent 43% of total data revenues. Total mobile data revenue grew 10.9% year-on-year in organic terms in 2011, to account for 42% of mobile service revenues (+6 percentage points above 2010).

Operating expenses decreased 3.4% in 2011 to reach 11,503 million euros (-1.1% in organic terms). In 2010, expenses were impacted by non-recurrent restructuring expenses mainly related to personnel reorganization accrued in the second half (202 million euros in the third quarter; 118 million euros in the fourth quarter). By component:

- **Supplies** decreased 0.4% year-on-year to 6,873 million euros in 2011. On an organic basis, these expenses decreased 0.7% year-on-year mainly driven by lower interconnection costs in the year, offsetting the increased volume of smartphone sales.
- **Personnel** expenses decreased 17.7% to 1,391 million euros, impacted by the personnel restructuring expenses accrued in the second half of 2010. In organic terms, personnel expenses declined 3.2% year-on-year, positively affected by the benefits of the above-mentioned restructuring plans.
- **Subcontract expenses** reached 3,067 million euros in 2011, a decrease of 1.3% year-on-year (+0.3% in organic terms).

OIBDA totalled 4,233 million euros in 2011, a growth of 3.8% year-on-year (-2.5% year-on-year in organic terms). This evolution reflects top line pressures (including regulatory price cuts) and higher customer investment costs due to the increased commercial activity in the second half of the year, particularly with the launch of new high-end smartphones in the fourth quarter.

Reported OIBDA margin stood at 27.3% in 2011, broadly flat in organic terms (+1.3 percentage points year-on-year reported).

CapEx stood at 1,705 million euros in 2011, down 45.9% year-on-year, which was affected by spectrum acquisition in Germany in 2010. In organic terms, CapEx declined 3.8% in 2011, with the Company continuing to drive benefits from its network sharing agreements and focused investment on new mobile infrastructures to address data growth.

Operating cash flow was 2,528 million euros in 2011 (-1.5% year-on-year in organic terms).

1 Organic growth: assumes constant exchange rates (average of January-December 2010) and includes HanseNet consolidation in 2010. OIBDA also excludes the capital gain from the sale of Manx Telecom (€61 m in Q2 10), non-recurrent restructuring expenses mainly related to personnel reorganization in the second half of the year of 2010 (202 recorded in the third quarter and 118 in the fourth quarter) and CapEx excludes acquisition of spectrum in Germany in May 2010 (€1,379 m). Manx T. financial results and accesses are excluded from the calculation.

NOTE: 2010 figures are reported including TNA and TIWS accordingly.

Telefónica UK (Year-on-year changes in local currency)

In 2011, the UK market remained intensely competitive amidst a challenging economy. Against this backdrop, and after an initial focus on value over volume during the first half, the Company decided to focus on regaining commercial momentum, leveraging the new smartphone tariff structure launched in August and a proactive retention management in the contract segment.

The Company reinforced its commitment to provide O2 customers with the best service experience, including innovations around new digital services, customer care and smartphone devices' distribution. This strategy supports Telefónica UK's customer oriented focus and helped to retain its position as the operator with the lowest number of customer complaints in the market[2].

Contract mobile net additions in the fourth quarter were the highest in the year reaching 175 thousand (+93% quarter-on-quarter), maintaining momentum on the back of the continued popularity of the new smartphone tariffs and the launching of new high-end devices from October. The focus taken by the Company on retaining its high-value customer base as they came out of contract also increased smartphone upgrades in the quarter (+35% year-on-year vs. -17% in the previous nine-month period). This led to an increased commercial spend but Telefonica UK benefits from maintaining these valuable customers on long term contracts.

As a result, the mobile contract base increased 4% year-on-year to account for 49% of the total **mobile customer base** (+2.1 p.p. year-on-year), which stood at 22.2 million at year end (broadly flat year-on-year).

The continued strong demand for smartphones resulted in an increase in smartphone penetration to 38% at the end of 2011 compared to 29% in 2010 and 36% at the end of the third quarter. Over 95% of handset sales during the fourth quarter in the consumer contract segment were smartphones.

The Tesco Mobile joint venture (not included in the Company's total customer base) continued to show strong momentum, adding 153 thousand customers in the fourth quarter to reach 2.9 million customers by year end (+15% year-on-year).

In 2011 **churn** increased 0.4 percentage points year-on-year to 3.1% (3.4% in the quarter; +0.5 percentage points year-on-year), with broadly stable contract churn in 2011 year-on-year and in the fourth quarter (1.2%) amidst strong competition.

The **total access base** stood at 23.0 million at the end of 2011, unchanged from 2010, which reflects a flat performance in mobile, as well as positive fixed telephony growth which compensated a marginal year-on-year decline in retail broadband fixed internet accesses.

In 2011, **mobile voice traffic** decreased 10% year-on-year (-16% in the fourth quarter), mainly driven by a lower prepay customer base and usage optimization.

Total **ARPU** declined 6.6% year-on-year in 2011 (-9.5% in the fourth quarter). Excluding the impact of regulation, total ARPU in the year would have declined 3.5% (-5.6% in the fourth quarter).

Voice ARPU declined 14.6% year-on-year in 2011 (-17.7% in the fourth quarter). Excluding the impact from mobile termination rate cuts, voice ARPU dropped 9.2% year-on-year in 2011, which reflects continued out of bundle usage optimization and tariff price reductions amid adverse conditions.

Data ARPU growth was steady at 5.1% year-on-year in 2011 (+2.2% in the fourth quarter). It should be highlighted that over 80% of the consumer contract customers with a data tariff are already on a tiered plan, and over 80% of new customers choose one of the top two tier data bundles during the quarter.

As a result, 2011 **revenues** totalled 6,926 million euros, down 2.7% year-on-year (-6.8% in the fourth quarter). Excluding the impact from mobile termination rate cuts, revenues would have increased 0.3% year-on-year in 2011 (-3.3% in the quarter).

Mobile service revenues reached 6,198 million euros in 2011, which was a decline of 3.7% year-on-year (-8.7% in the fourth quarter). Excluding the impact from regulation, mobile service revenues declined 0.4% year-on-year in 2011, mainly as a result the already mentioned ARPU performance. The slower rate of growth of customer base also impacted performance in the quarter (-4.8% year-on-year, excluding regulation).

2 Study relative to the third quarter of 2011 (Ofcom, Dec-2011).

Non-SMS data revenues continued to contribute heavily to data growth, increasing 33.1% year-on-year in 2011 mainly due to increased smartphone penetration and continued adoption of tiered data packages. Growth in the fourth quarter was 30.1% year-on-year, affected by tariff price reductions.

Total data revenue grew 7.9% year-on-year in 2011 (+3.1% in the fourth quarter) to account for 45% of mobile service revenues (+4.8 percentage points year-on-year).

OIBDA amounted to 1,836 million euros in 2011 (-2.3% year-on-year in organic terms). In reported terms it grew 1.5% year-on-year, as 2010 figures recorded non-recurrent restructuring expenses of 72 million euros. OIBDA margin in 2011 stood at 26.5%, flattish over the previous year in organic terms amidst lower commercial activity in the first half.

The fourth quarter saw an OIBDA decline of 9.0% (-21.1% year-on-year in organic terms) primarily due to higher commercial costs and also impacted by revenue performance. As such, quarterly OIBDA margin reached 24.2%.

CapEx in 2011 increased 3.3% year-on-year to 732 million euros. Efficiencies in network rollout continued to be delivered through the refarming of 900 MHz spectrum in urban areas and the progress of the network share agreement with Vodafone.

As a result, **operating cash flow** stood at 1,104 million euros in 2011 (+0.3% year-on-year; -5.7% in organic terms).

Telefónica Germany

In 2011, Telefónica Germany delivered a successful year and further strengthened its position in the German market on the back of its strong trading momentum around the "O2 Blue" tariff refresh, the "My Handy" proposition, continued activity from partners and sustained improvements on mobile data monetization.

The Company has started in 2012 making significant progress, with new tiered smartphone tariff structure enhancing customer value with integrated voice, data and SMS, launched in January 2012. At the same time, the Company has signed a long-term network cooperation agreement with Deutsche Telekom to deploy a new transport network for 3G and LTE ensuring the networks' capability to capture future expansion in the mobile data market, operating in a flexible and cost-efficient way.

At the end 2011, Telefónica Germany's **total access base** grew 6% year-on-year to reach 24.5 million.

The **total mobile customer base** increased 8% year-on-year to 18.4 million, primarily driven by the 12% increase in the contract segment, which accounted for 50% of the total mobile base at the end of 2011 (+1.8 percentage points year-on-year). Contract net additions continued to be solid with 271 thousand in the fourth quarter, the highest quarterly gain in 2011, and 982 thousand in the full year. This was mainly driven by sustained traction with the "O2 Blue" tariffs within the consumer segment and also the strong performance of the business segment and partner distribution channels. Total net additions in 2011 amounted to 1.3 million (235 thousand in the fourth quarter). The prepay segment registered 349 thousand net additions in 2011.

Smartphone demand continued to be strong and led to an increase in mobile broadband penetration of 6 percentage points year-on-year, reaching 26% at the end of 2011. The Company's share of smartphone shipments over total, with 90% in the quarter, was the highest of the market.

Contract **churn** showed an improvement of 0.1 percentage points year-on-year to reach 1.7% in 2011 (1.8% in the fourth quarter). Total churn stood at 2.2% in 2011 (+0.1 percentage points year-on-year), and 2.5% in the fourth quarter (+0.1 percentage points year-on-year), primarily because of the prepay segment.

Mobile voice traffic posted a strong growth of 10% year-on-year in 2011 (+7% in the fourth quarter), driven by the solid customer base growth and increased overall usage.

Total **ARPU**[3] continued easing its rate of year-on-year decline to 5.2% in the fourth quarter (-7.8% in 2011), after the steep cut in mobile termination rates from December 2010. Excluding regulatory impacts, total ARPU would have declined 1.6% in the year (-0.6% in the quarter), mainly driven by the prepay segment.

Voice ARPU performance was mainly affected by regulation and declined 18.5% year-on-year in 2011 (-15.0% in the fourth quarter). However, this was partially compensated by continued strong data ARPU (+13.2% year-on-year in 2011; +12.1% in the quarter) as a result of increased mobile broadband penetration and the uptake of tiered data tariffs.

3 Revenues from the "My Handy" model are not being reported under mobile service revenues and are instead reported in hardware revenue, thus increased smartphone device sales is not being reflected in ARPU.

Retail **broadband fixed** internet accesses stood at 2.6 million at the end of December 2011, growing 2% year-on-year. Fixed wholesale business accesses totalled 1.0 million, a 7% year-on-year decline due to the disconnection of 78 thousand inactive lines in December.

Revenue showed solid growth in 2011 to reach 5,035 million euros, a 4.3% year-on-year increase (+1.6% on an organic basis; +1.2% in the fourth quarter). Excluding mobile termination rate cuts, year-on-year organic growth would have been 5.5% (+4.0% in the fourth quarter).

Mobile service revenues recorded a very positive performance in the fourth quarter (+2.2% year-on-year) to reach 2,946 million euros in 2011 (+0.5% year-on-year). Excluding the impact from mobile termination rate cuts, mobile service revenues grew strongly at 7.1% in both 2011 and in the fourth quarter, the latter impacted by very strong performance in the prior year.

The robust growth of non-SMS data revenues (+48.9% year-on-year in 2011; +46.6% in the quarter) was central to mobile revenue performance. Mobile data revenue grew 23.5% year-on-year in 2011 (+20.4% in the fourth quarter) to represent 41% of mobile service revenues, 8 percentage points more than in 2010.

This performance in mobile service revenues, as well as continued growth in handset sales through the "My Handy" model, led to a total **mobile revenue** increase of 5.7% year-on-year in 2011, and 4.9% in the fourth quarter (+11.4% and +9.0%, excluding the impact from regulation, respectively), to reach 3,606 million euros in 2011.

OIBDA totalled 1,219 million euros in 2011, showing a solid year-on-year organic increase of 4.9% (+12.0% year-on-year in the quarter). OIBDA margin for 2011 stood at 24.2% (+0.8 percentage points above 2010 in organic terms) and reached 26.1% in the fourth quarter (+2.5 percentage points year-on-year in organic terms), with the benefits of the finalised business restructuring programme and increased scale and further efficiencies offsetting increased commercial spend.

CapEx in 2011 declined 18.8% year-on-year on an organic basis to reach 558 million euros, with LTE network deployment continuing in line with plan. An increase in CapEx due to start of LTE "White Spot" rollout was overcompensated by reduced 2G and fixed investments following the completed access network rollout in 2010. **Operating cash flow** reached 662 million euros in 2011, a strong 39.2% year-on-year increase in organic terms.

Telefónica Czech Republic (Year-on-year changes in constant currency)

Telefónica Czech Republic showed improving financial trends during 2011, with solid commercial momentum amid intense competition. Additionally, the Company maintained best in class OIBDA margin in CEE region, on the back of operating expenses efficiencies and improving performance in Slovakia.

The **total number of accesses** for Telefónica Czech Republic, including Slovakia, increased 5% year-on-year to 8.9 million at the end of 2011.

The **mobile customer base** in the Czech Republic totalled 4.9 million at the end of December (+2% year-on-year), driven by the growth in the contract segment (+6% year-on-year). The prepay segment improved its declining trend (-4% in 2011 vs. -7% in the nine months to September 2011) and posted the best net additions since the fourth quarter of 2009, thanks in part to the successful Christmas campaign. Net additions in the year rose sharply to 103 thousand (-106 thousand in 2010), posting the strongest performance in the fourth quarter of 2011 driven by the continued momentum in the contract segment (54 thousand in the fourth quarter, 186 thousand net additions in 2011). Mobile broadband adoption continued, with penetration increasing by 4 percentage points year-on-year to reach 16% at the end of 2011.

Fixed telephony accesses declined 5% year-on-year to 1.6 million at the end of 2011, with fixed telephony losses of 20 thousand in the fourth quarter. **Retail broadband internet accesses** added 87 thousand customers in the year (13 thousand in the fourth quarter), to reach 0.8 million at the end of 2011 (+11% year-on-year). The migration of existing customers with above average ARPU to VDSL in the year helped to manage ARPU and improved churn. **Pay TV** customers reached 136 thousand at the end of 2011.

Telefónica Slovakia continued to gain market share and reached 1.2 million customers at the end of 2011 (+32% year-on-year), with 284 thousand net additions in the year (85 thousand in the fourth quarter). This was mainly driven by growth in the contract segment (+49% year-on-year) by adding 164 thousand customers in 2011 (+53 thousand in the fourth quarter), so that it represented 43% of total base at the end of the year (+5 percentage points year-on-year).

Mobile churn in the Czech business continued to improve to 1.9% in 2011, with contract churn at 1.1% (-0.5 percentage points year-on-year for both).

Mobile voice traffic grew 1.9% year-on-year in 2011, with a better performance in the fourth quarter (+3.5% year-on-year).

ARPU declined 9.6% year-on-year in 2011 (-10.1% in the fourth quarter), which was impacted by mobile termination rate cuts. Excluding this impact, ARPU would have declined 5.7% year-on-year in 2011 as a result of the intense competitive environment.

Revenues for the Czech Republic and Slovakia totalled 2,130 million euros in 2011 (-5.5% year-on-year) showing an improving trend in the second half of the year (-6.4% up to June). In Slovakia revenues reflected the continued base expansion and grew 40.9% year-on-year in 2011.

Fixed revenues in 2011 totalled 913 million euros (-6.9% year-on-year; -4.4% in the fourth quarter), with the better performance in the fourth quarter driven by a sound performance of ICT revenues, an improving trend in fixed voice and growth in DSL.

In the Czech Republic mobile service revenues totalled 995 million euros in 2011 (-10.2% year-on-year) posting an improved performance towards the end of the year (-9.3% year-on-year in the fourth quarter). This was due to the stabilization in residential spend, while revenues continued to be impacted by ongoing competitive pressures in the SME and Corporate segments, together with the mobile termination rate cuts from the third quarter. Mobile service revenue excluding regulatory cuts showed a slower rate of decline in the fourth quarter (-5.4%; -6.4% year-on-year in 2011).

Operating expenses decreased 4.3% year-on-year in 2011 despite higher commercial activities driven by the positive impact coming from restructuring programs (-9.0% year-on-year reduction in personnel expenses in 2011), while supplies also decreased (-6.1% year-on-year) primarily due to lower interconnection costs.

OIBDA for 2011 stood at 931 million euros, with efficiency measures, sale of non-core fixed assets (14 million euros) and better profitability in Slovakia leading to a better trend than revenues (-4.9% year-on-year). As a result of continued cost control, OIBDA margin improved 1.2 percentage points year-on-year in the fourth quarter to 45.6%, and by 0.3 percentage points year-on-year in 2011 to 43.7%.

CapEx totalled 229 million euros in 2011, which was broadly stable year-on-year (+0.5%) as the Company continued to direct investments into the capacity expansion and quality improvement of 3G network and quality enhancement of fixed broadband network (VDSL). **Operating cash flow** reached 702 million euros in 2011 (-6.3% year-on-year).

Telefónica Ireland

In 2011, the results of Telefónica Ireland were impacted by adverse trading conditions.

Telefónica Ireland's **mobile customer** base stood at 1.6 million customers at the end of 2011 (-4% year-on-year), impacted by the lower prepay base (-10% year-on-year). The contract base grew 3% after adding 23 thousand customers in 2011 (6 thousand in the fourth quarter), to represent 46% of the customer base at the end of the year (+3 percentage points year-on-year).

Churn increased to 2.6% in 2011 and to 2.9% for the fourth quarter (+0.3 percentage points year-on-year in both the fourth quarter and in the year).

Mobile voice traffic fell 7.1% year-on-year (-13.5% in the fourth quarter), driven by the decline in the prepay base and as consumers continued to optimize their usage.

Total **ARPU** was impacted by the trading conditions and declined 10.7% year-on-year in 2011 (-14.4% in the fourth quarter). Excluding mobile termination rate cuts, ARPU would have declined 3.3% in the year (-6.2% year-on-year in the fourth quarter).

Data ARPU continued to grow (+8.9% year-on-year in 2011; +3.8% in the fourth quarter), mainly due to the sustained growth of mobile broadband penetration to reach 39% and the adoption of tiered data tariffs.

In 2011, **revenues** totalled 723 million euros, a year-on-year decline of 14.7% (-16.7% in the fourth quarter). Mobile service revenues declined 13.1% year-on-year to 677 million euros (-18.0% in the quarter). Excluding mobile termination rate cuts, mobile service revenues would have declined 6.0% in 2011 (-10.3% in the fourth quarter).

Data revenues grew 6.0% year-on-year in 2011, driven by the healthy performance of non-SMS data revenues (+16.3% year-on-year in 2011; +13.7% in the fourth quarter), to account for 42% of data revenues (+4 percentage points year-on-year).

OIBDA stood at 206 million euros for 2011 (-25.0% year-on-year), reflecting the decline in mobile service revenues and higher commercial costs as a result of the increasing demand for smartphones, including high-end devices in the fourth quarter. This resulted in an OIBDA margin of 28.5% in 2011 (-3.9 percentage points year-on-year) and of 24.8% in the fourth quarter.

In 2011, **CapEx** stood at 61 million euros (+1.4% year-on-year), with **operating cash flow** totaling 145 million euros (-32.5% year-on-year).

Telefónica Europe. Accesses

Unaudited figures (thousands)	2010	2011				
	December	March	June	September	December	% Chg
Final Clients Accesses	55,050.6	55,603.6	56,025.5	56,575.0	56,885.9	3.3
Fixed telephony accesses (1)	3,672.4	3,744.0	3,791.5	3,826.3	3,853.1	4.9
Internet and data accesses	4,496.4	4,553.5	4,594.1	4,555.8	4,537.4	0.9
Narrowband	503.2	480.3	464.4	451.0	435.4	(13.5)
Broadband	3,964.9	4,045.1	4,101.4	4,075.5	4,071.8	2.7
Other (2)	28.3	28.1	28.3	29.3	30.3	6.9
Mobile accesses	46,675.5	47,098.1	47,430.6	47,979.6	48,276.4	3.4
Prepay	23,994.9	23,972.0	23,934.6	24,062.4	23,800.3	(0.8)
Contract	22,680.6	23,126.1	23,496.0	23,917.2	24,476.1	7.9
Pay TV	206.4	208.0	209.3	213.4	219.0	6.1
Wholesale Accesses (3)	1,247.7	1,265.6	1,253.3	1,271.7	1,213.2	(2.8)
Total Accesses	**56,298.3**	**56,869.2**	**57,278.8**	**57,846.7**	**58,099.1**	**3.2**

1 PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included. Includes VoIP and Naked ADSL.
2 Retail circuits other than broadband.
3 Includes unbundled lines by T. Germany and T. UK. In the fourth quarter of 2011, 78 thousand inactive acceses were disconnected in Germany.

Telefónica Europe. Consolidated Income Statement

	January - December		
Unaudited figures (Euros in millions)	2011	2010	% Chg
Revenues	**15,524**	**15,724**	**(1.3)**
Internal exp. capitalized in fixed assets	179	198	(9.8)
Operating expenses	(11,503)	(11,912)	(3.4)
Supplies	(6,873)	(6,900)	(0.4)
Personnel expenses	(1,391)	(1,691)	(17.7)
Subcontracts	(3,067)	(3,106)	(1.3)
Bad debt provision	(140)	(178)	(20.9)
Taxes	(32)	(37)	(12.5)
Other net operating income (expense)	17	5	n.s.
Gain (loss) on sale of fixed assets	18	66	(73.3)
Impairment of goodwill and other assets	(1)	(1)	18.6
Operating income before D&A (OIBDA)	**4,233**	**4,080**	**3.8**
OIBDA Margin	**27.3%**	**25.9%**	**1.3 p.p.**
Depreciation and amortization	(3,117)	(3,201)	(2.6)
Operating income (OI)	**1,116**	**879**	**27.0**

Notes:
- OIBDA and OI before management and brand fees.
- HanseNet and Jajah have been included in T. Europe's consolidation perimeter since mid February 2010 and since January 2010 respectively, and Manx Telecom has been excluded from the consolidation perimeter since July, 2010.
- Figures in million euros. In 2010, OIBDA includes a capital gain of 61 from the sale of Manx Telecom in the second quarter and is affected by non-recurrent restructuring expenses mainly related to personnel reorganization in the second half of the year (202 recorded in the third quarter and 118 in the fourth quarter).
- Due to the entry of Telefónica International Wholesale Services (TIWS) and Telefónica North America (TNA) in the consolidation perimeter of Telefónica Europe since 1st January 2011 (previously within T. Latin America) the results of Telefónica Europe have been restated for the fiscal year 2010.

Telefónica Europe, Accesses by Country

Unaudited figures (Thousands)	2010	2011				
	December	March	June	September	December	% Chg
TELEFÓNICA UK						
Final Clients Accesses	22,969.8	23,071.7	22,931.3	23,021.2	23,003.9	0.1
Fixed telephony accesses (1)	86.7	116.1	135.9	182.3	216.1	149.1
Internet and data accesses	671.6	669.2	652.9	625.3	620.3	(7.6)
Broadband	671.6	669.2	652.9	625.3	620.3	(7.6)
Mobile accesses	22,211.5	22,286.4	22,142.6	22,213.6	22,167.5	(0.2)
Prepay	11,712.3	11,636.5	11,468.0	11,448.2	11,227.3	(4.1)
Contract	10,499.2	10,649.9	10,674.6	10,765.4	10,940.3	4.2
Wholesale Accesses (2)	-	-	-	22.6	26.7	n.d,
Total Accesses	**22,969.8**	**23,071.7**	**22,931.3**	**23,043.8**	**23,030.7**	**0.3**
TELEFÓNICA GERMANY						
Final Clients Accesses	21,957.5	22,383.2	22,849.5	23,219.7	23,440.9	6.8
Fixed telephony accesses (1)	1,916.4	1,988.6	2,044.8	2,042.1	2,055.1	7.2
Internet and data accesses	2,914.7	2,958.5	2,977.2	2,949.2	2,922.3	0.3
Narrowband	385.7	367.7	356.8	346.7	334.6	(13.2)
Broadband	2,529.1	2,590.8	2,620.4	2,602.5	2,5877	2.3
Mobile accesses	17,049.2	17,357.2	17,748.0	18,145.6	18,380.1	7.8
Prepay	8,795.2	8,896.8	9,035.1	9,180.7	9,144.5	4.0
Contract	8,254.0	8,460.4	8,712.8	8,964.9	9,235.7	11.9
Pay TV	77.2	79.0	79.5	82.8	83.3	8.0
Wholesale Accesses (3)	1,116.5	1,127.6	1,118.2	1,112.3	1,042.4	(6.6)
Total Accesses	**23,074.0**	**23,510.8**	**23,967.7**	**24,332.0**	**24,483.2**	**6.1**
TELEFÓNICA IRELAND						
Internet and data accesses	11.2	15.2	18.5	21.3	24.2	115.7
Narrowband	11.2	15.2	18.5	21.3	24.2	115.7
Mobile accesses	1,695.8	1,680.3	1,668.8	1,659.1	1,622.9	(4.3)
Prepay	966.5	944.2	927.1	912.5	870.1	(10.0)
Contract	729.4	736.0	741.7	746.6	752.9	3.2
Total Accesses	**1,707.1**	**1,695.4**	**1,687.2**	**1,680.4**	**1,647.2**	**(3.5)**
TELEFÓNICA CZECH REPUBLIC						
Final Clients Accesses	7,535.8	7,505.6	7,554.7	7,574.7	7,629.8	1.2
Fixed telephony accesses (1)	1,669.2	1,639.3	1,610.8	1,601.9	1,581.9	(5.2)
Naked ADSL	163.7	186.7	198.2	222.1	237.4	45.0
VoIP	38.6	41.1	47.1	50.1	52.1	35.0
Internet and data accesses	898.8	910.7	945.6	960.0	970.6	8.0
Narrowband	117.5	112.6	107.6	104.3	100.7	(14.3)
Broadband	753.0	769.9	809.6	826.4	839.6	11.5
Other (4)	28.3	28.1	28.3	29.3	30.3	6.9
Mobile accesses	4,838.6	4,826.6	4,868.6	4,882.2	4,941.7	2.1
Prepay	1,975.0	1,927.1	1,912.3	1,886.9	1,892.4	(4.2)
Contract	2,863.6	2,899.5	2,956.4	2,995.4	3,049.3	6.5
Pay TV	129.2	129.0	129.8	130.6	135.6	5.0
Wholesale Accesses	131.2	138.0	135.1	136.8	144.1	9.8
Total Accesses	**7,667.0**	**7,643.6**	**7,689.9**	**7,711.5**	**7,773.9**	**1.4**
TELEFÓNICA SLOVAKIA						
Mobile accesses	880.4	947.7	1,002.6	1,079.0	1,164.1	32.2
Prepay	545.9	567.4	592.1	634.1	666.1	22.0
Contract	334.5	380.3	410.5	444.9	498.0	48.9
Total Accesses	**880.4**	**947.7**	**1,002.6**	**1,079.0**	**1,164.1**	**32.2**

1 PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company's accesses for internal use included. Includes VoIP and Naked ADSL.
2 Includes Unbundled Lines by T. UK.
3 Includes Unbundled Lines by T. Germany. 78 thousand inactive accesses were disconnected in the fourth quarter of 2011.
4 Retail circuits other than broadband.
• Accesses in UK and Ireland show a more detailed split than in previous quarters: Telefónica UK details fixed telephony and wholesale acccesses and Telefonica Ireland, Internet and data accesses, which all were previously recorded within T.Europe. Total T.Europe acceses in 2010 are not affected.a

Telefónica Europe. Selected Operating Mobile Business Data by Country

Unaudited figures	2010	2011				
	Q4	Q1	Q2	Q3	Q4	% Chg Local
TELEFÓNICA UK						
Traffic (Million minutes)	**15,076**	**13,500**	**13,139**	**12,920**	**12,690**	**(15.8)**
ARPU (EUR)	**25.2**	**24.2**	**22.6**	**23.1**	**22.9**	**(9.5)**
Prepay	12.0	10.8	10.1	10.1	10.1	(15.8)
Contract	40.0	39.0	36.1	37.0	36.2	(9.7)
Data ARPU (EUR)	**10.4**	**10.5**	**10.3**	**10.6**	**10.7**	**2.2**
% non-SMS over data revenues	33.5%	37.6%	40.2%	41.7%	42.3%	8.8 p.p.
TELEFÓNICA GERMANY						
Traffic (Million minutes)	**6,729**	**6,859**	**7,018**	**6,907**	**7,208**	**7.1**
ARPU (EUR)	**14.5**	**13.1**	**13.6**	**14.0**	**13.8**	**(5.2)**
Prepay	6.6	5.4	5.7	5.8	5.8	(12.0)
Contract	23.0	21.3	21.8	22.5	21.8	(5.3)
Data ARPU (EUR)	**5.2**	**5.2**	**5.6**	**5.8**	**5.9**	**12.1**
% non-SMS over data revenues	43.6%	47.5%	50.2%	51.6%	52.0%	8.4 p.p,
TELEFÓNICA IRELAND						
Traffic (Million minutes)	**1,213**	**1,117**	**1,140**	**1,088**	**1,048**	**(13.5)**
ARPU (EUR)	**36.6**	**34.4**	**34.0**	**32.5**	**31.3**	**(14.4)**
Prepay	24.3	20.1	22.4	21.6	21.1	(13.3)
Contract	53.1	53.0	48.5	45.9	43.4	(18.2)
Data ARPU (EUR)	**12.5**	**14.3**	**13.0**	**13.0**	**13.0**	**3.8**
% non-SMS over data revenues	37.7%	37.4%	43.0%	44.7%	42.9%	5.2 p.p.
TELEFÓNICA CZECH REPUBLIC (1)						
Traffic (Million minutes)	**2,233**	**2,159**	**2,274**	**2,213**	**2,310**	**3.5**
ARPU (EUR)	**18.8**	**17.4**	**17.6**	**17.4**	**16.5**	**(10.1)**
Prepay	8.6	7.5	7.8	7.7	7.3	(13.0)
Contract	26.0	24.2	24.1	23.6	22.3	(12.4)
Data ARPU (EUR)	**5.0**	**4.7**	**4.7**	**4.9**	**4.7**	**(3.3)**
% non-SMS over data revenues	44.8%	45.5%	44.7%	45.3%	45.5%	0.7 p.p.

1 KPIs for mobile business in Czech Republic do not include Slovakia.

Notes:
- Traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.
- ARPU calculated as monthly quarterly average.

Telefónica Europe, Cumulative Selected Operating Mobile Business Data by Country

Unaudited figures	2010	2011				
	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sept	Jan-Dec	% Chg Local
TELEFÓNICA UK						
Traffic (Million minutes)	**58,143**	**13,500**	**26,639**	**39,560**	**52,250**	**(10.1)**
ARPU (EUR)	**25.1**	**24.2**	**23.4**	**23.3**	**23.2**	**(6.6)**
Prepay	11.8	10.8	10.5	10.3	10.3	(11.4)
Contract	40.6	39.0	37.5	37.4	37.1	(7.6)
Data ARPU (EUR)	**10.1**	**10.5**	**10.4**	**10.5**	**10.5**	**5.1**
% non-SMS over data revenues	32.8%	37.6%	38.9%	39.8%	40.5%	7.7 p.p.
TELEFÓNICA GERMANY						
Traffic (Million minutes)	**25,543**	**6,859**	**13,877**	**20,785**	**27,993**	**9.6**
ARPU (EUR)	**14.8**	**13.1**	**13.4**	**13.6**	**13.6**	**(7.8)**
Prepay	6.1	5.4	5.6	5.7	5.7	(7.0)
Contract	23.8	21.3	21.5	21.9	21.9	(8.4)
Data ARPU (EUR)	**5.0**	**5.2**	**5.4**	**5.5**	**5.6**	**13.2**
% non-SMS over data revenues	41.9%	47.5%	48.9%	49.8%	50.4%	8.5 p.p.
TELEFÓNICA IRELAND						
Traffic (Million minutes)	**4,732**	**1,117**	**2,257**	**3,345**	**4,394**	**(7.1)**
ARPU (EUR)	**37.0**	**34.4**	**34.2**	**33.6**	**33.1**	**(10.7)**
Prepay	24.3	20.1	21.3	21.4	21.3	(12.4)
Contract	54.7	53.0	50.8	49.1	47.7	(12.9)
Data ARPU (EUR)	**12.3**	**14.3**	**13.7**	**13.5**	**13.4**	**8.9**
% non-SMS over data revenues	38.2%	37.4%	40.1%	41.6%	41.9%	3.7 p.p.
TELEFÓNICA CZECH REPUBLIC (1)						
Traffic (Million minutes)	**8,790**	**2,159**	**4,433**	**6,645**	**8,956**	**1.9**
ARPU (EUR)	**18.5**	**17.4**	**17.5**	**17.5**	**17.2**	**(9.6)**
Prepay	8.1	7.5	7.6	7.7	7.6	(9.5)
Contract	26.1	24.2	24.1	23.9	23.5	(12.5)
Data ARPU (EUR)	**4.8**	**4.7**	**4.7**	**4.8**	**4.8**	**(2.4)**
% non-SMS over data revenues	44.7%	45.5%	45.1%	45.2%	45.3%	0.6 p.p.

1 KPIs for mobile business in Czech Republic do not include Slovakia.

Notes:
- ARPU calculated as monthly quarterly average of each period.
- Traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.

Telefónica Europe. Selected Financial Data by Country

Unaudited figures (Euros in millions)	January - December			
	2011	2010	% Chg	% Chg Local Cur l
TELEFÓNICA UK				
Revenues	6,926	7,201	(3.8)	(2.7)
Mobile service revenues	6,198	6,513	(4.8)	(3.7)
OIBDA (1)	1,836	1,830	0.3	1.5
OIBDA margin	26.5%	25.4%	1.1 p.p.	
CapEx	732	717	2.1	3.3
OpCF (OIBDA-CapEx)	1,104	1,113	(0.8)	0.3
TELEFÓNICA GERMANY				
Revenues	5,035	4,826	4.3	4.3
Mobile service revenues	2,946	2,932	0.5	0.5
OIBDA (2)	1,219	944	29.1	29.1
OIBDA margin	24.2%	19.6%	4.7 p.p.	
CapEx (3)	558	2,057	(72.9)	(72.9)
OpCF (OIBDA-CapEx)	662	(1,113)	c.s.	c.s.
TELEFÓNICA IRELAND				
Revenues	723	848	(14.7)	(14.7)
Mobile service revenues	677	779	(13.1)	(13.1)
OIBDA	206	275	(25.0)	(25.0)
OIBDA margin	28.5%	32.4%	(3.9 p.p.)	
CapEx	61	60	1.4	1.4
OpCF (OIBDA-CapEx)	145	214	(32.5)	(32.5)
TELEFÓNICA CZECH REPUBLIC (4)				
Revenues	2,130	2,197	(3.0)	n.c.
Mobile service revenues	995	1,078	(7.6)	n.c.
OIBDA	931	953	(2.3)	n.c.
OIBDA margin	43.7%	43.4%	0.3 p.p.	
CapEx	229	224	2.1	n.c.
OpCF (OIBDA-CapEx)	702	729	(3.7)	n.c.

1 OIBDA is affected by 72 million euros of restructuring costs in the fourth quarter of 2010.
2 OIBDA is affected by 202 million euros of restructuring costs in the third quarter of 2010.
3 CapEx includes 1,379 million euros from the acquisition of spectrum in the second quarter of 2010.
4 Includes Slovakia, except for mobile service revenues.

Notes:
- OIBDA before management and brand fee.
- HanseNet has been included in T. Germany's consolidation perimeter since mid February 2010.

Results by regional business units

Other Companies

Atento[1]

Atento's **revenues** totalled 1,802 million euros in 2011, up 8.4% year-on-year (+9.4% in organic terms). In the fourth quarter of 2011, revenue growth stood at 1.1% year-on-year, impacted by lower activity in Brazil.

Multi-sector customer revenues (outside Telefónica) maintained their 50% contribution to Atento's revenues, the same level as in 2010, and increased by 8.8% year-on-year in 2011.

By region, Brazil accounted for 54% of revenues, in line with previous year, the Americas for 31% (30% in 2010), and EMEAA for 16%, maintaining its contribution.

Revenues from offshored business, which accounted for 6% of Atento's revenues (7% in 2010), declined by 1.3% year-on-year.

Operating income (OI) amounted to 101 million euros in 2011 (-30.2% year-on-year in reported terms; -28.6% in organic terms). In the fourth quarter, operating income declined 80.6% year-on-year, as a result of lower revenue growth and, most significantly, the booking of 23 million euros of non-recurrent costs associated with workforce restructuring and depreciation of intangible assets.

Operating margin (OI) was 5.6% in 2011 (8.7% in 2010) and is impacted by the abovementioned factors.

CapEx in 2011 reached 122 million euros (+38.5% year-on-year; +39.4% in organic terms).

At the end of 2011, Atento had 156,734 employees (+3.2% year-on-year).

1 Organic growth assumes 2010 average exchange rates for the period and excludes hyperinflationary adjustments in both years.

NOTE: The Americas includes Mexico, Argentina, Peru, Venezuela, Colombia, Chile, Central America, Puerto Rico, and the US. EMEAA includes Spain, Czech Republic and Morocco. Given its high business volume, Brazil is considered a región.

Atento. Consolidated earnings

	January-December		
Unaudited data (millions of euros)	2011	2010	% Var
Revenue	**1,802**	**1,663**	**8.4**
Operating expenses	(1,633)	(1,475)	10.7
Supplies	(98)	(97)	0.8
Personnel expenses	(1,277)	(1,151)	11.0
External services	(248)	(220)	12.9
Change and trade provisions	(2)	(1)	87.1
Taxes	(7)	(6)	24.9
Other revenue/(expenses)	2	2	21.9
Gains/(losses) on asset disposals	(4)	(0)	n.s.
Operating income before depreciation and amortization (OIBDA)	**161**	**190**	**(15.0)**
OIBDA margin	**9.0%**	**11.4%**	**(2.5 p.p.)**
Depreciation and amortization	(60)	(45)	34.4
Operating income (OI)	**101**	**145**	**(30.2)**
OI margin	**5.6%**	**8.7%**	**(3.1 p.p.)**

Note:
Figures for 2010 and 2011 adjustments for hyperinflation in Venezuela.

In the regions in which it provides services to its customers, Atento leases buildings instead of buying them like the rest of its competitors. For this reason, Atento's OIBDA and operating expenses compare unfavourably with those of its competitors, and its depreciation compares favourably. For this reason, OI is the best measurement to use when making comparisons.

Addenda

Key Holdings of the Telefónica Group detailed by regional business units

Telefónica España

	% Part
Telefónica de España	100.0
Telefónica Móviles España	100.0
Telyco	100.0
Telefónica Telecomunic. Públicas	100.0
T. Soluciones de Informática y Comunicaciones de España	100.0
Acens Technologies	100.0
Iberbanda	100.0
Tuenti	91.4

Telefónica Europe

	% Part
Telefónica United Kingdom	100.0
Telefónica Germany	100.0
Telefónica Ireland	100.0
Be	100.0
T. Intm. Wholesale Serv. (TIWS)	100.0
Jajah	100.0
Telefónica Czech Republic (1)	69.4
Tesco Mobile	50.0

1 Includes 100% of Telefónica Slovakia.

Telefónica Latin America

	% Part
Telefónica Móviles Perú	100.0
Telefónica de Argentina	100.0
Telefónica Móviles Argentina	100.0
Telefónica Móviles Chile	100.0
Telefónica Móviles México	100.0
Telefónica Móviles Guatemala	100.0
Telefónica Venezolana	100.0
Telefónica Móviles Colombia	100.0
Otecel	100.0
Telefónica Móviles Panamá	100.0
Telefónica Móviles Uruguay	100.0
Telefónica Celular Nicaragua	100.0
Telefónica Costa Rica	100.0
Telefónica Móviles El Salvador	99.2
Telefónica del Perú	98.3
Telefónica Chile	97.9
Telefónica Brazil (1)	73.9
Telefónica Telecom	52.0

1 Includes 100% of Vivo.

Other participations

	% Part
Atento	100.0
Telefónica de Contenidos	100.0
Telco SpA (1)	46.2
DTS, Distribuidora de Televisión Digital	22.0
Hispasat	13.2
China Unicom	9.6
Amper	5.8
ZON Multimedia (2)	5.3
Portugal Telecom	2.0
BBVA	0.9

1 Telefónica holds indirect stake in the ordinary capital (with voting rights) of Telecom Italia through Telco, of approximately 10.46%. If we take into account the saving shares (azioni di risparmio), which do not have voting rights, the indirect stake of Telefónica over Telecom Italia would be 7.20%.
2 Telefónica's effective percentage. Without considering minority interests, Telefónica would have a 5.37% stake.

Changes to the Perimeter

The main changes in the scope of consolidation during 2011 were as follows:

- Pursuant to the Strategic Partnership Agreement signed up between Telefónica, S.A. and China Unicom on the 23rd of January 2011, Telefónica, S.A. had increased its ownership stake in China Unicom by approximately 1.2% ($501 million) to stand at 9.6% at the end of the year. The company continues to be accounted for by the equity method within the consolidated accounts of Telefónica.

- In February, Telefónica Costa Rica TC, S.A., a Costa Rican company, was included in Telefónica's consolidation perimeter under the full consolidation method following Telefónica, S.A's purchase of 100% of its initial share capital for 2.2 million US dollars.

- On the 25th of March, following approval by the respective Boards of Directors of the Brazilian companies Telecomunicaçoes de São Paulo, S.A. ("Telesp") and Vivo Participações S.A. ("Vivo Part."), the former has acquired 100% of the shares of the latter via a capital increase with an exchange ratio of 1.55 new Telesp shares for each Vivo share. Additionally, Telefónica now holds a direct and indirect share of 73.9% of Telesp's share capital. Both companies are included in the Telefónica's consolidation perimeter using the full consolidation method. In October, Telesp changed its corporate denomination to Telefónica Brasil S.A.

- In April, the Spanish company, Wayra Investigación y Desarrollo, S.L. was established. The main objective of this initiative is to identify new Information and Communication Technology (ICT) talent in Spain and Latin America and to promote its development through full support and by providing entrepreneurs with the tools and funding they need. The company has been incorporated in Telefónica's consolidation perimeter under the full consolidation method.

Thereby and along the year, Wayra in Perú, Venezuela, Mexico, Argentina and Colombia were set up. All of them have been added to Telefónica's consolidation perimeter using the full consolidation method.

- In the first half of the year and starting from 1 January 2011, Telesp has included the following companies in its consolidated financial statements under the full consolidation method: GTR Participações e Emprendimentos S.A., TVA Sul Paraná S.A., Lemontree S.A., and Comercial Cabo TV São Paulo S.A. Until last year, these companies were included in Telefónica's consolidated financial statements under the equity method.

- On the 7th of June 2011, Telefónica formalized the acquisition of 100% of Acens Technologies S.L., a "hosting/housing" service provider for small and medium enterprises in Spain. The amount paid for the acquisition rose to roughly 55 million euros. The corporation has been incorporated to Telefónica's consolidation perimeter under the full consolidation method.

- In August, Telefónica de España, S.A.U. raised its stake in the Spanish company, Iberbanda, S.A. from 51% to 100%. This company continues to be accounted by the full consolidation method.

Derivative financial instruments and risk management policies

a) Derivative financial instruments

During 2011, the Group continued to use derivatives to limit interest and exchange rate risk on otherwise unhedged positions, and to adapt its debt structure to market conditions.

At December 31, 2011, the total outstanding balance of derivatives transactions was 141,155 million euros (102,008 million euros at December 31, 2010), of which 119,772 million euros related to interest rate risk and 21,383 to foreign currency risk. In 2010 81,470 million euros related to interest rate risk and 20,538 million euros to foreign currency risk.

It should be noted that at December 31, 2011, Telefónica, S.A.was not a party to any transaction with financial institutions to hedge interest-rate risk for other Telefónica Group companies; however, it was a party to transactions worth 696 million euros to hedge exchange rate risk in behalf of other Group companies. In 2010, trades of this nature amounted to 38 million euros for interest rate risk and 987 million euros for exchange rate risk. These external trades are matched by intra-group hedges with identical terms and maturities between Telefónica, S.A. and Group companies, and therefore involve no risk for the Company. External derivatives not backed by identical intragroup transactions consist of hedges on net investment and future acquisitions that, by their nature, cannot be transferred to Group companies and/or transactions to hedge financing raised by Telefónica, S.A. as parent company of the Telefónica Group, which are transferred to Group subsidiaries in the form of financing rather than via derivative transactions.

The breakdown of Telefónica, S.A.'s interest-rate and exchange-rate derivatives at December 31, 2011, their notional amounts at year end and the expected maturity schedule is as follows:

2011

Millions of euros Type of risk	Value in Euros	Telefónica receives Carrying	Telefónica receives Currency	Telefónica pays Carrying	Telefónica pays Currency
Euro interest rate swaps	**92,082**				
Fixed to fixed	2,078	2,078	EUR	2,078	EUR
Fixed to floating	21,812	21,812	EUR	21,812	EUR
Floating to fixed	63,977	63,977	EUR	63,977	EUR
Floating to floating	4,215	4,215	EUR	4,215	EUR
Foreign currency interest rate swaps	**19,971**				
Fixed to floating					
GBP/GBP	2,412	2,015	GBP	2,015	GBP
JPY/JPY	220	22,000	JPY	22,000	JPY
USD/USD	14,385	18,612	USD	18,612	USD
Floating to fixed					
GBP/GBP	909	760	GBP	760	GBP
USD/USD	2,045	2,446	USD	2,446	USD
Exchange rate swaps	**12,422**				
Fixed to fixed					
EUR/BRL	331	318	EUR	804	BRL
EUR/CLP	131	112	EUR	87,800	CLP
EUR/CZK	606	631	EUR	15,641	CZK
Fixed to floating					
MAD/EUR	88	1,000	MAD	88	EUR
JPY/EUR	95	15,000	JPY	95	EUR
Floating to fixed					
EUR/MAD	90	90	EUR	1,000	MAD
Floating to floating					
EUR/CZK	319	322	EUR	8,228	CZK
EUR/GBP	484	588	EUR	405	GBP
JPY/EUR	244	37,000	JPY	244	EUR
USD/EUR	10,034	13,482	USD	10,034	EUR
Forwards	**6,820**				
ARS/USD	-	2	ARS	1	USD
CLP/EUR	147	101,490	CLP	147	EUR
CZK/EUR	5	125	CZK	5	EUR
EUR/BRL	18	17	EUR	44	BRL
EUR/CZK	556	567	EUR	14,335	CZK
EUR/GBP	941	933	EUR	786	GBP
EUR/MXN	2	2	EUR	35	MXN
EUR/USD	1,690	1,625	EUR	2,186	USD
GBP/EUR	2,447	2,094	GBP	2,447	EUR
GBP/USD	17	14	GBP	22	USD
USD/ARS	1	1	USD	6	ARS
USD/BRL	168	224	USD	408	BRL
USD/CLP	11	14	USD	7,183	CLP
USD/COP	1	1	USD	2,756	COP
USD/EUR	763	1,014	USD	763	EUR
USD/GBP	53	69	USD	44	GBP
USD/PEN	-	-	USD	1	PEN
Spot	**1**				
MXN/EUR	1	17	MXN	1	EUR
USD/EUR	-	-	USD	-	EUR
Subtotal	**131,296**				

Millions of euros Notional amounts of structured products with options	Value in euros	Notional	Currency
Interest rate options	**7,719**		
Swaptions	**850**	**850**	**EUR**
Caps & Floors	**6,869**	**6,869**	**EUR**
USD	54	69	USD
EUR	4,900	4,900	EUR
GBP	1,915	2,293	GBP
Currency options	**2,140**		
USD/EUR	2,140	2,769	USD
Subtotal	**9,859**		
TOTAL	**141,155**		

The breakdown by average maturity is as follows:

Millions of euros Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
With underlying instrument					
Promissory notes	**536**	**56**	**280**	**-**	**200**
Loans	**37,993**	**22,567**	**1,794**	**3,430**	**10,202**
In national currency	33,911	21,447	1,400	2,950	8,114
In foreign currencies	4,082	1,120	394	480	2,088
Debentures and bonds	**80,299**	**16,439**	**13,181**	**23,220**	**27,459**
In national currency	34,446	7,014	7,951	9,145	10,336
In foreign currencies	45,853	9,425	5,230	14,075	17,123
Other underlying*	**22,327**	**8,979**	**5,343**	**2,499**	**5,506**
Swaps	10,767	1,045	4,871	1,999	2,852
Swaptions	850	850	-	-	-
Currency options	2,140	283	138	160	1,559
Forwards	6,820	6,801	19	-	-
IRS	1,750	-	315	340	1,095
Total	**141,155**	**48,041**	**20,598**	**29,149**	**43,367**

(*) Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries, and provisions for restructuring plans.

The breakdown of Telefónica, S.A.'s derivatives in 2010, their fair value at year end and the expected maturity schedule is as follows:

2010

Millions of euros Type of risk	Value in Euros	Telefónica receives		Telefónica pays	
		Carrying	Currency	Carrying	Currency
Euro interest rate swaps	**56,424**				
Fixed to fixed	55	55	EUR	55	EUR
Fixed to floating	18,290	18,290	EUR	18,290	EUR
Floating to fixed	37,987	37,984	EUR	37,984	EUR
Floating to floating	92	92	EUR	92	EUR
Foreign currency interest rate swaps	**17,325**				
Fixed to floating	14,261				
GBP/GBP	1,801	1,550	GBP	1,550	GBP
JPY/JPY	138	15,000	JPY	15,000	JPY
USD/USD	12,322	16,465	USD	16,465	USD
Floating to fixed	3,064	-		-	
GBP/GBP	1,098	945	GBP	945	GBP
USD/USD	1,966	2,628	USD	2,628	USD
Exchange rate swaps	**11,122**				
Fixed to fixed	621				
EUR/BRL	129	107	EUR	288	BRL
EUR/CLP	140	112	EUR	87,800	CLP
EUR/CZK	352	352	EUR	8,818	CZK
Fixed to floating	183				
JPY/EUR	95	15,000	JPY	95	EUR
MAD/EUR	88	1,000	MAD	88	EUR
Floating to fixed	143				
EUR/MAD	89	90	EUR	1,000	MAD
USD/ARS	54	90	USD	285	ARS
Floating to floating	10,175				
EUR/CZK	328	322	EUR	8,228	CZK
EUR/GBP	1,098	1,373	EUR	945	GBP
JPY/EUR	178	30,000	JPY	178	EUR
USD/EUR	8,571	11,395	USD	8,570	EUR
Forwards	**7,375**				
EUR/BRL	12	11	EUR	27	BRL
EUR/CZK	697	705	EUR	17,457	CZK
EUR/GBP	961	984	EUR	828	GBP
EUR/MXN	2	2	EUR	36	MXN
EUR/USD	1,576	1,571	EUR	2,106	USD
GBP/EUR	2,247	1,927	GBP	2,246	EUR
GBP/USD	26	23	GBP	35	USD
USD/BRL	144	185	USD	320	BRL
USD/CLP	-	1	USD	274	CLP
USD/COP	-	-	USD	246	COP
USD/EUR	818	1,094	USD	818	EUR
USD/GBP	70	94	USD	60	GBP
USD/MXN	548	727	USD	9,039	MXN
MXN/USD	274	4,519	MXN	366	USD
Spot	**1**				
MXN/EUR	1	23	MXN	1	EUR
Subtotal	**92,247**				

Millions of euros Notional amounts of structured products with options	Value in Euros	Notional	Currency
Interest rate options Caps & Floors	**7,721**		
USD	62	83	USD
EUR	5,800	5,800	EUR
GBP	1,859	1,600	GBP
Currency options	**2,040**		
USD/EUR	2,040	2,725	USD
Subtotal	**9,761**		
TOTAL	**102,008**		

The breakdown by average maturity is as follows:

Millions of euros Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
With underlying instrument					
Promissory notes	**587**	**51**	**56**	**280**	**200**
Loans	**26,170**	**11,469**	**6,350**	**2,586**	**5,765**
In national currency	23,485	11,394	5,177	2,400	4,514
In foreign currencies	2,685	75	1,173	186	1,251
Debentures and bonds MtM	**55,231**	**10,662**	**5,423**	**11,195**	**27,951**
In national currency	22,080	4,666	2,092	6,791	8,531
In foreign currencies	33,151	5,996	3,331	4,404	19,420
Without underlying*	**20,020**	**8,795**	**3,212**	**3,685**	**4,328**
Swaps	10,615	1,297	3,024	3,524	2,770
Spots	1	1	-	-	-
Currency options	2,040	183	138	161	1,558
Forwards	7,364	7,314	50	-	-
Total	**102,008**	**30,977**	**15,041**	**17,746**	**38,244**

(*) Most of these transactions are related to economic hedges of investments, assets and liabilities of subsidiaries, and provisions for restructuring plans.

The debentures and bonds hedged relate to both those issued by Telefónica, S.A. and intragroup loans on the same terms as the issues of Telefónica Europe, B.V. and Telefónica Emisiones, S.A.U.

The fair value of Telefónica, S.A.'s derivatives portfolio with external counterparties at December 31, 2011 was equivalent to a net asset of 2,229 million euros (net asset of 1,626 million euros in 2010).

b) Risk management policy

Telefónica, S.A. is exposed to various financial market risks as a result of: (i) its ordinary business activity, (ii) debt incurred to finance its business, (iii) its investments in companies, and (iv) other financial instruments related to the above commitments.

The main market risks affecting Telefónica are as follows:

1. Exchange rate risk

Foreign currency risk primarily arises in connection with: (i) Telefónica's international presence, through its investments and businesses in countries that use currencies other than the euro (primarily in Latin America, but also in the United Kingdom and the Czech Republic), and (ii) debt denominated in currencies other than that of the country where the business is conducted or the home country of the company incurring such debt.

2. Interest rate risk

Interest rate risk arises primarily in connection with changes in interest rates affecting (i) financial expenses on floating rate debt (or short-term debt likely to be renewed), due to changes in interest rates and (ii) the value of liabilities at fixed interest rates.

3. Share price risk

Share price risk arises primarily from changes in the value of the equity investments (that may be bought, sold or otherwise involved in transactions), from changes in the value of derivatives associated with such investments, from changes in the value of treasury shares and from equity derivatives.

Telefónica, S.A. is also exposed to liquidity risk if a mismatch arises between its financing needs (operating and financial expense, investment, debt redemptions and dividend commitments) and its sources of finance (revenues, divestments, credit lines from financial institutions and capital market operations). The cost of finance could also be affected by movements in the credit spreads (over benchmark rates) demanded by lenders.

Finally, Telefónica is exposed to country risk (which overlaps with market and liquidity risks). This refers to the possible decline in the value of assets, cash flows generated or cash flows returned to the parent company as a result of political, economic or social instability in the countries where Telefónica, S.A. operates, especially in Latin America.

Telefónica, S.A. actively manages these risks through the use of derivatives (primarily on exchange rates, interest rates and share prices) and by incurring debt in local currencies, where appropriate, with a view to stabilizing cash flows, the income statement and investments. In this way, Telefónica attempts to protect its solvency, facilitate financial planning and take advantage of investment opportunities.

Telefónica manages its exchange rate risk and interest rate risk in terms of net debt and net financial debt as calculated by them. Telefónica believes that these parameters are more appropriate to understanding its debt position. Net debt and net financial debt take into account the impact of the Group's cash balance and cash equivalents including derivatives positions with a positive value linked to liabilities. Neither net debt nor net financial debt as calculated by Telefónica should be considered an alternative to gross financial debt (the sum of current and non-current interest-bearing debt) as a measure of liquidity.

Exchange rate risk

The fundamental objective of the exchange rate risk management policy is that, in event of depreciation in foreign currencies relative to the euro, any potential losses in the value of the cash flows generated by the businesses in such currencies, caused by depreciation in exchange rates of a foreign currency relative to the euro, are offset (to some extent) by savings from the reduction in the euro value of debt denominated in such currencies. The degree of exchange rate hedging employed varies depending on the type of investment.

At December 31, 2011, net debt in Latin American currencies was equivalent to approximately 7,953 million euros. However, the Latin American currencies in which this debt is denominated is not distributed in proportion to the cash flows generated in each currency. The future effectiveness of the strategy described above as a hedge of exchange rate risks therefore depends on which currencies depreciate relative to euro.

The Telefónica Group aims to protect itself against declines in Latin American currencies relative to the euro affecting asset values through the use of dollar-denominated debt, incurred either in Spain (where such debt is associated with an investment as long as it is considered to be an effective hedge) or in the country itself, where the market for local currency financing or hedges may be inadequate or non-existent.

Telefónica's target is to preserve the same ratio of sterling-denominated net debt to OIBDA as the ratio of net debt to OIBDA for Telefónica as a whole so as to limit sensitivity to the sterling to euro and sterling to Czech crown exchange rates. This objective is similar to that described for the investment in the UK: the amount of Czech crown-denominated debt is proportional to the OIBDA of the "Telefónica Europa" business unit in the Czech Republic. Czech crown-denominated net debt at December 31, 2011 was 1.7 times OIBDA in Czech crown (1.6 times in 2010) on a consolidated basis and 2.55 times (2.3 times in 2010) on a proportional basis. Both were below the Telefónica Group's net debt to OIBDA ratio in 2011.

The Telefónica Group also manages exchange rate risk by seeking to minimize the negative impact of any remaining exchange rate exposure on the income statement, regardless of whether there are open positions. Such open position exposure can arise for any of three reasons: (i) a thin market for local derivatives or difficulty in sourcing local currency finance which makes it impossible to arrange a low-cost hedge (as in Argentina and Venezuela), (ii) financing through intra-group loans, where the accounting treatment of exchange rate risk is different from that for financing through capital contributions, and (iii) as the result of a deliberate policy decision, to avoid the high cost of hedges that are not warranted by expectations or high risk of depreciation.

As Telefónica's direct exposure is counterbalanced by the positions held in subsidiaries, the Company analyses its foreign currency risk exposure at the Group level. To illustrate the sensitivity of exchange gains or losses to variability in exchange rates, assuming the exchange rate position affecting the income statement at the end of 2011 were constant during 2012 and Latin American currencies depreciated against the dollar and the rest of the currencies against the euro by 10%, Telefónica estimates that consolidated exchange losses recorded for 2012 would be 111 million euros. For Telefónica, S.A., assuming only financing arranged with external counterparties, the same change would lead to a decrease in finance costs of 89 million euros. Nonetheless, Telefónica manages its exposure on a dynamic basis to mitigate their impact.

Interest rate risk

The Telefónica Group's financial expenses are exposed to changes in interest rates. In 2011, the rates applied to the largest amount of short-term debt were mainly based on the Euribor, the Czech crown Pribor, the Brazilian SELIC, the dollar Libor and the Colombian UVR. Telefónica manages its interest rate risk by entering into derivative financial instruments, primarily swaps and interest-rate options.

Telefónica analyzes its exposure to changes in interest rates at the Telefónica Group level. The table illustrates the sensitivity of finance costs and the balance sheet to variability in interest rates at Group and Telefónica, S.A. level.

To calculate the sensitivity of the income statement, a 100 basis point rise in interest rates in all currencies in which there are financial positions at December 31, 2011 has been assumed, as well as a 100 basis point decrease in all currencies except the US dollar and pound sterling, in order to avoid negative rates. The constant position equivalent to that prevailing at the end of 2011 has also been assumed.

To calculate the sensitivity of equity to variability in interest rates, a 100 basis point increase in interest rates in all currencies and terms in which there are financial positions at December 31, 2011 was assumed, as well as a 100 basis point decrease in all currencies and terms. Cash flow hedge positions were also considered as they are, in the main, the only positions where changes in market value due to interest-rate fluctuations are recognized in equity.

Share price risk

The Telefónica Group is exposed to changes in the value of equity investments that may be bought, sold or otherwise involved in transactions, from changes in the value of derivatives associated with such investments, from treasury shares and from equity derivatives.

According to the Telefónica, S.A. share option plan, Performance Share Plan (PSP) and the Performance & Investment Plan (PIP) (see Note 19), the shares to be delivered to employees under such plan may be either the parent company treasury shares, acquired by them or any of its Group companies; or newly issued shares. The possibility of delivering shares to beneficiaries of the plan in the future, in accordance with relative total shareholders' return, implies a risk since there could be an obligation to hand over a maximum number of shares at the end of each phase, whose acquisition (in the event of acquisition in the market) in the future could imply a higher cash outflow than required on the start date of each phase if the share price is above the corresponding price on the phase start date. In the event that new shares are issued for delivery to the beneficiaries of the plan, there would be a dilutive effect for ordinary shareholders as a result of the higher number of shares delivered under such plan outstanding.

To reduce the risk associated with variations in share price under these plans, Telefónica has acquired financial instruments that replicate the risk profile of some of the shares deliverable under the plan as explained in Note 19.

	Impact on consolidated result (*)	Impact on Telefónica SA individual income statement (*)	Impact on consolidated equity	Impact on Telefónica SA individual equity
+100bp	(141)	(32)	779	779
-100bp	147	39	(849)	(849)

(*) Impact on results of 100 bp change in all currencies, except the pound sterling and the dollar.

During 2010, an incentive plan for Group employees to purchase Telefónica shares, approved at the Ordinary General Shareholders' Meeting of 2009, was initiated. The cost of this plan will not exceed 50 million euros, as agreed in the aforementioned Ordinary General Shareholders' Meeting (see Note 19 for further details).

In addition, the Group may use part of the treasury shares of Telefónica, S.A. held at December 31, 2011 to cover shares deliverable under the PSP or the PIP. The net asset value of the treasury shares could increase or decrease depending on variations in Telefónica, S.A.'s share price.

Liquidity risk

The Telefónica Group seeks to match the schedule for its debt maturity payments to its capacity to generate cash flows to meet these maturities, while allowing for some flexibility. In practice, this has been translated into two key principles:

1. The Telefónica Group's average maturity of net financial debt is intended to stay above 6 years, or be restored above that threshold in a reasonable period of time if it eventually falls below it. This principle is considered as a guideline when managing debt and access to credit markets, but not a rigid requirement. When calculating the average maturity for the net financial debt and part of the undrawn credit lines can be considered as offsetting the shorter debt maturities, and extension options on some financing facilities may be considered as exercised, for calculation purposes.

2. The Telefónica Group must be able to pay all commitments over the next 12 months without accessing new borrowing or tapping the capital markets (although drawing upon firm credit lines arranged with banks), assuming budget projections are met.

Country risk

The Telefónica Group managed or mitigated country risk by pursuing two lines of action (in addition to its normal business practices):

1. Partly matching assets to liabilities (those not guaranteed by the parent company) in the Telefónica Group's Latin American companies such that any potential asset impairment would be accompanied by a reduction in liabilities; and.

2. Repatriating funds generated in Latin America that are not required for the pursuit of new, profitable business development opportunities in the region.

Credit risk

As a general rule, the Telefónica Group trades in derivatives with creditworthy counterparties. Therefore, Telefónica, S.A. generally trades with credit entities whose "senior debt" ratings are of at least "A". In Spain, where most of the Group's derivatives portfolio is held, there are netting agreements with financial institutions, with debtor or creditor positions offset in case of bankruptcy, limiting the risk to the net position. In addition, since Lehman went bankrupt, the credit ratings of rating agencies has proved to be less effective as a credit risk management tool. Therefore, the 5-year CDS (Credit Default Swap) of credit institutions has been added. This way, the CDS of all the counterparties with which Telefónica S.A. operates is monitored at all times in order to assess the maximum allowable CDS for operating at any given time. Transactions are generally only carried out with counterparties whose CDS is below the threshold.

For other subsidiaries, particularly those in Latin America, given the stable sovereign rating provides a ceiling and is below A, trades are with local financial entities whose rating by local standards is considered to be of high creditworthiness.

Meanwhile, with credit risk arising from cash and cash equivalents, the Telefónica Group places its cash surpluses in high quality and highly liquid money-market assets. These placements are regulated by a general framework, revised annually. Counterparties are chosen according to criteria of liquidity, solvency and diversification based on the conditions of the market and countries where the Group operates. The general framework sets: (i) the maximum amounts to be invested by counterparty based on its rating (long-term debt rating); (ii) the maximum tenor of the investment, set at 180 days; and (iii) the instruments in which the surpluses may be invested (money-market instruments).

The Telefónica Group considers managing commercial credit risk as crucial to meeting its sustainable business and customer base growth targets in a manner that is consistent with its risk-management policy.

This is based on continuous monitoring of the risk assumed and the resources necessary to optimize the risk-reward ratio in its operations. Particular attention is given to those clients that could cause a material impact on the Group's consolidated financial statements for which, depending on the segment and type of relation, hedging instruments or collateral may be required to mitigate exposure to credit risk.

All Group companies adopt policies, procedures, authorization guidelines, and homogeneous management practices, in consideration of the particularities of each market and best international practices, and incorporating this commercial credit risk management model into the Group's decision making processes, both from a strategic and day to day operating perspective, which risk assessment guides the commercial offering available for the various credit profiles.

Telefónica's maximum exposure to credit risk is initially represented by the carrying amounts of the assets (see Notes 8 and 9) and the guarantees given by Telefónica.

Telefónica, S.A. provides operating guarantees granted by external counterparties, which are offered during its normal commercial activity. At December 31, 2011, these guarantees amounted to approximately 239 million euros.

Capital management

Telefónica's corporate finance department, which is in charge of Telefónica's capital management, takes into consideration several factors when determining Telefónica's capital structure, with the aim of ensuring sustainability of the business and maximizing the value to shareholders.

Telefónica monitors its cost of capital with a goal of optimizing its capital structure. In order to do this, Telefónica monitors the financial markets and updates to standard industry approaches for calculating weighted average cost of capital, or WACC. Telefónica also uses a net financial debt ratio below 2.35x OIBDA in the medium term (excluding items of a non-recurring or exceptional nature), enabling to obtain and maintain the desired credit rating over the medium term, and with which the Telefónica Group can match the potential cash flow generation with the alternative uses that could arise at all times.

These general principles are refined by other considerations and the application of specific variables, such as country risk in the broadest sense, or the volatility in cash flow generation, when determining the Telefónica Group's financial structure.

Derivatives policy

Telefónica's derivatives policy emphasizes the following points:

- Derivatives based on a clearly identified underlying.
- Matching of the underlying to one side of the derivative.
- Matching the company contracting the derivative and the company that owns the underlying.
- Ability to measure the derivative's fair value using the valuation systems available to the Telefónica Group.
- Sale of options only when there is an underlying exposure.
- Hedge accounting.

Hedges can be of three types:

- Fair value hedges.
- Cash flow hedges, which can be set at any value of the risk to be hedged (primarily interest rate and foreign currency) or for a defined range through options.
- Hedges of net investment in a foreign operation.

Hedges can comprise a combination of different derivatives. There is no reason to suppose management of accounting hedges will be static, with an unchanging hedging relationship lasting right through to maturity. Hedging relationships may change to allow appropriate management that serves our stated principles of stabilizing cash flows, stabilizing net financial income/expense and protecting our share capital. The designation of hedges may therefore be cancelled, before maturity, because of a change in the underlying, a change in perceived risk on the underlying or a change in market view. Derivatives included in these hedges may be reassigned to new hedges where they meet the effectiveness test and the new hedge is well documented. To gauge the efficiency of transactions defined as accounting hedges, we analyze the extent to which the changes in the fair value or in the cash flows attributable to the hedged item would offset the changes in fair value or cash flows attributable to the hedged risk using a linear regression model.

Risk management guidelines are issued by the Corporate Finance Department. This department may allow exceptions to this policy where these can be justified, normally when the market is too thin for the volume of transactions required or on clearly limited and small risks.

In 2011, the Company recognized a loss of 0.3 million euros for the ineffective part of cash flow hedges (3.8 million euros in 2010).

The breakdown of the Company's derivatives with counterparties not belonging to the Telefónica Group at December 31, 2011 and December 31, 2010 by type of hedge, their fair value at year end and the expected maturity schedule is as follows:

2011

Millions of euros Derivatives	Fair value (**)	Notional amount maturities (*) 2012	2013	2014	Subsequent years	Total
Interest rate hedges	**(58)**	**(1,536)**	**793**	**(824)**	**8,232**	**6,665**
Cash flow hedges	880	(1,040)	1,189	(350)	10,992	10,791
Fair value hedges	(938)	(496)	(396)	(474)	(2,760)	(4,126)
Exchange rate hedges	**(947)**	**194**	**239**	**-**	**6,482**	**6,915**
Cash flow hedges	(947)	194	239	-	6,482	6,915
Fair value hedges	-	-	-	-	-	-
Interest and exchange rate hedges	**(656)**	**(44)**	**1,154**	**72**	**2,099**	**3,281**
Cash flow hedges	(656)	(44)	1,154	72	2,099	3,281
Fair value hedges	-	-	-	-	-	-
Hedge of net investment	**(141)**	**(546)**	**(160)**	**(230)**	**(1,152)**	**(2,088)**
Derivatives not designated as hedges	**(427)**	**8,209**	**(441)**	**(194)**	**(1,576)**	**5,998**
Interest rate	(234)	7,855	(579)	(144)	(2,404)	4,728
Exchange rate	(208)	445	138	(50)	828	1,361
Interest and exchange rate	15	(91)	-	-	-	(91)

2010

Millions of euros Derivatives	Fair value (**)	Notional amount maturities (*) 2011	2012	2013	Subsequent years	Total
Interest rate hedges	**(353)**	**(5,998)**	**60**	**(2,084)**	**7,170**	**(852)**
Cash flow hedges	267	(3,652)	556	(438)	8,487	4,953
Fair value hedges	(620)	(2,346)	(496)	(1,646)	(1,317)	(5,805)
Exchange rate hedges	**(409)**	**854**	**112**	**577**	**4,323**	**5,866**
Cash flow hedges	(409)	854	112	577	4,323	5,866
Fair value hedges	-	-	-	-	-	-
Interest and exchange rate hedges	**(223)**	**27**	**130**	**926**	**2,004**	**3,087**
Cash flow hedges	(223)	27	130	926	2,004	3,087
Fair value hedges	-	-	-	-	-	-
Hedge of net investment	**(288)**	**(1,770)**	**-**	**(160)**	**(980)**	**(2,910)**
Derivatives not designated as hedges	**(367)**	**4,453**	**316**	**(289)**	**(478)**	**4,002**
Interest rate	(238)	4,415	426	(427)	(1,316)	3,098
Exchange rate	(115)	106	(109)	138	838	973
Interest and exchange rate	(14)	(68)	(1)	-	-	(69)

(*) For interest rate hedges, the positive amount is in terms of fixed "payment." For foreign currency hedges, a positive amount means payment in functional vs. foreign currency.
(**) Positive amounts indicate payables.

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This report is available on the Telefónica website at:
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Shareholders may also request copies of this report from the Shareholders' Office by using the free phone number 900 111 004 (in Spain) or by sending an e-mail to: accion.telefonica@telefonica.es

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