SCANSOURCE INC
Form 4
August 22, 2013

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Lyons Gerald

(Last) (First) (Middle)

6 LOGUE COURT

(Street)

GREENVILLE, SC 29615

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SCANSOURCE INC [SCSC]

3. Date of Earliest Transaction (Month/Day/Year)
08/21/2013

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SVP & Principal Acctg Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	08/21/2013		F		228	D	$ 35.32 (1)	3,690	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Lyons Gerald 6 LOGUE COURT GREENVILLE, SC 29615			SVP & Principal Acctg Officer	

Signatures

/s/ Gerald Lyons	08/22/2013
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Reflects shares withheld in satisfaction of tax withholding obligation upon vesting of restricted stock. This is a non-market transaction.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. wrap valign="bottom" width="1%" style="BORDER-BOTTOM: darkgray 0.75pt solid; TEXT-ALIGN: left"> 313 415 17 720 407 1,872 1,800

Cash and cash equivalents	–	–	–	–	–	–	–	–	9,847	9,847	9,847
Total financial assets	2,534	557	1,154	2,234	1,104	5,358	17	884	13,695	21,058	20,608

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2012 Consolidated Financial Statements

December 31, 2011

	Fair value through profit or loss				Measurement hierarchy						
Millions of euros	Held for trading	Fair value option	Available-for-sale	Hedges	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Held-to-maturity investments	Rest of financial assets at amortized cost	Total carrying amount	Total fair value
Non-current financial assets	1,574	273	1,310	2,720	663	5,213	1	3	2,798	8,678	8,673
Investments	–	–	680	–	588	91	1	–	–	680	680
Long-term credits	–	273	630	–	36	867	–	3	1,322	2,228	2,223
Deposits and guarantees	–	–	–	–	–	–	–	–	1,875	1,875	1,476
Derivative instruments	1,574	–	–	2,720	39	4,255	–	–	–	4,294	4,294
Impairment losses	–	–	–	–	–	–	–	–	(399)	(399)	–
Current financial assets	165	171	518	225	498	537	44	657	5,024	6,760	6,760
Financial investments	165	171	518	225	498	537	44	657	889	2,625	2,625
Cash and cash equivalents	–	–	–	–	–	–	–	–	4,135	4,135	4,135
Total financial assets	1,739	444	1,828	2,945	1,161	5,750	45	660	7,822	15,438	15,433

The calculation of the fair values of the Telefónica Group’s debt instruments required an estimate, for each currency and counterparty, of a credit spread curve using the prices of the Group’s bonds and credit derivatives.

Derivatives are measured using the valuation techniques and models normally used in the market, based on money-market curves and volatility prices available in the market.

Explanation of Responses:

a) Non-current financial assets

The movement in items composing “Non-current financial assets” and the related impairment allowances at December 31, 2012 and 2011 are as follows:

Millions of euros	Investments	Long-term credits	Deposits and guarantees	Derivative financial assets	Impairment losses	Total
Balance at 12/31/10	597	2,938	1,680	2,566	(375)	7,406
Acquisitions	–	936	425	224	(11)	1,574
Disposals	(12)	(873)	(207)	–	1	(1,091)
Translation differences	(1)	(45)	(53)	34	1	(64)
Fair value adjustments	(160)	18	2	1,721	–	1,581
Transfers	256	(746)	28	(251)	(15)	(728)
Balance at 12/31/11	680	2,228	1,875	4,294	(399)	8,678
Acquisitions	91	982	454	395	12	1,934
Disposals	(139)	(667)	(185)	(24)	–	(1,015)
Exclusions of companies	–	70	(38)	–	4	36
Translation differences	2	(33)	(173)	39	(4)	(169)
Fair value adjustments	(48)	6	17	(172)	1	(196)
Transfers	–	354	36	(319)	–	71
Balance at 12/31/12	586	2,940	1,986	4,213	(386)	9,339

“Investments” includes the fair value of investments in companies where Telefónica does not exercise significant control and for which there is no specific disposal plan for the short term (see Note 3.i).

Among these is the Telefónica Group’s shareholding in Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) since 2000 of 317 million euros (326 million euros at December 31, 2011), representing 0.81% of its share capital. In 2011, the Telefónica Group wrote down the value of its investment in BBVA by 80 million euros.

Acquisitions in 2012 primarily relate to the investment in Amerigó (the Group’s venture capital fund for investment in innovation projects), for 40 million euros.

In 2011, the direct stake in Portugal Telecom and the shares assigned to equity swaps contracts arranged in 2010 were transferred to “Equity investments.” The amount transferred was 256 million euros.

In 2012, economic exposure to Portugal Telecom was reduced via partial disposals, which generated a loss of 5 million euros. In 2011, gains on sales amounted to 184 million euros (see Note 19).

Disposals in 2012 also include the full divestment of the stakes in Zon Multimedia and in Amper.

Given the poor situation of financial markets, at year-end the Group assessed the securities in its portfolio of listed available-for-sale assets individually for impairment. The analysis did not uncover the need to recognize any significant additional impairment losses.

Explanation of Responses:

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"Long-term credits" includes mainly the investment of the net level premium reserves of the Group's insurance companies, primarily in fixed-income securities, amounting to 1,055 million euros and 894 million euros at December 31, 2012 and 2011, respectively, and long-term prepayments of 154 million euros and 149 million euros at December 31, 2012 and 2011, respectively.

Additions to "Long-term credits" reflect the 208 million euros increase in the loan extended to Telco in 2011, for 600 million euros. At December 31, 2012, the total loan amount was 808 million euros (see Note 9). The amount drawn down is recognized as non-current pursuant to expectations of recovery at the reporting date.

"Deposits and guarantees" consists mainly of balances to cover guarantees and stood at 1,986 million euros at December 31, 2012 (1,875 million euros at December 31, 2011). These deposits will decrease as the respective obligations they guarantee are reduced.

"Derivative financial assets" includes the fair value of economic hedges whose maturity is 12 months or greater of assets or liabilities in the consolidated statement of financial position, as part of the Group's financial risk-hedging strategy (see Note 16).

b) Current financial assets

This heading in the accompanying consolidated statement of financial position at December 31, 2012 and 2011 primarily includes the following items:

- Investments in financial instruments recognized at fair value to cover commitments undertaken by the Group's insurance companies, amounting to 391 million euros at December 31, 2012 (171 million euros at December 31, 2011). The maturity schedule for these financial assets is established on the basis of payment projections for the commitments.

- Derivative financial assets with a short-term maturity or not used to hedge non-current items in the consolidated statement of financial position, which amounted to 316 million euros in 2012 (385 million euros in 2011). The variation in the balance between the two years was due to exchange- and interest-rate fluctuations (see Note 16).

- Short-term deposits and guarantees amounting to 95 million euros at December 31, 2012 (87 million euros at December 31, 2011).

- Financing extended to Telco, S.p.A. in 2011, for 600 million euros, which was refinanced in 2012 and transferred to the non-current (see Note 9).

- Current investments of cash surpluses which, given their characteristics, have not been classified as "Cash and cash equivalents."

Current financial assets that are highly liquid and have maturity periods of three months or less from the date contracted , and present an insignificant risk of value changes, are recorded under "Cash and cash equivalents" on the accompanying consolidated statement of financial position.

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2.- Financial liabilities

The breakdown of financial liabilities at December 31, 2012 and the corresponding maturities schedule is as follows:

Millions of euros

	Current		Non-current							
Maturity	2013	(*)	2014	2015	(*)	2016	2017	Subsequent years	Non-current total	Total
Debentures and bonds	6,357		4,831	4,312		6,596	4,876	17,170	37,785	44,142
Promissory notes & commercial paper	1,128		–	–		–	–	–	–	1,128
Other marketable debt securities	–		–	–		–	–	59	59	59
Total Issues	7,485		4,831	4,312		6,596	4,876	17,229	37,844	45,329
Loans and other payables	2,569		2,824	6,750		2,925	1,050	2,017	15,566	18,135
Other financial liabilities (Note 16)	191		195	357		253	367	2,026	3,198	3,389
TOTAL	10,245		7,850	11,419		9,774	6,293	21,272	56,608	66,853

(*) The figures of 2013 and 2015 include 500 million euros of expected early redemptions for each of the years, based on potential improvement of financial market conditions.

- The estimate of future interest that would accrue on these financial liabilities held by the Group at December 31, 2012 is as follows: 2,531 million euros in 2013, 2,381 million euros in 2014, 2,122 million euros in 2015, 1,842 million euros in 2016, 1,537 million euros in 2017 and 8,088 million euros in years after 2017. For floating rate financing, the Group mainly estimates future interest using the forward curve of the various currencies at December 31, 2012.

- The amounts shown in this table take into account the fair value of derivatives classified as financial liabilities (i.e., those with a negative mark-to-market) and exclude the fair value of derivatives classified as current financial assets, for 316 million euros, and those classified as non-current, for 4,213 million euros (i.e., those with a positive mark-to-market).

The composition of these financial liabilities, by category, at December 31, 2012 and 2011 is as follows:

December 31, 2012

Millions of euros	Fair value through profit or loss: Held for trading	Fair value through profit or loss: Fair value option	Hedges	Measurement hierarchy: Level 1 (Quoted prices)	Measurement hierarchy: Level 2 (Other directly observable market inputs)	Measurement hierarchy: Level 3 (Inputs not based on observable market data)	Liabilities at amortized cost	Total carrying amount	Total fair value
Issues	–	–	–	–	–	–	45,329	45,329	49,956
Loans and other payables	1,774	–	1,615	113	3,276	–	18,135	21,524	21,874
Total financial liabilities	1,774	–	1,615	113	3,276	–	63,464	66,853	71,830

December 31, 2011

Millions of euros	Fair value through profit or loss: Held for trading	Fair value through profit or loss: Fair value option	Hedges	Measurement hierarchy: Level 1 (Quoted prices)	Measurement hierarchy: Level 2 (Other directly observable market inputs)	Measurement hierarchy: Level 3 (Inputs not based on observable market data)	Liabilities at amortized cost	Total carrying amount	Total fair value
Issues	–	–	–	–	–	–	42,239	42,239	42,203
Loans and other payables	1,246	–	1,203	78	2,371	–	21,623	24,072	21,961
Total financial liabilities	1,246	–	1,203	78	2,371	–	63,862	66,311	64,164

The calculation of the fair values of the Telefónica Group’s debt instruments required an estimate, for each currency and subsidiary, of the credit spread curve using the prices of the Group’s bonds and credit derivatives.

At December 31, 2012, some of the financing arranged by Telefónica Group companies in Latin America (Brazil, Colombia and Chile) was subject to compliance with certain financial covenants, which amount to approximately 4% of the Telefónica Group’s gross debt. To date, these covenants are being met. Due to the absence of cross-defaults, breach of the covenants would not affect the debt at the holding company level.

Part of the amount owed by Telefónica Group includes restatements to amortized cost at December 31, 2012 and 2011 as a result of fair value interest rate and exchange rate hedges.

a) Issues

The movement in issues of debentures, bonds and other marketable debt securities in 2012 and 2011 is as follows:

Millions of euros	Debenture issues	Short-term promissory notes and commercial paper	Other non-Current Marketable debt securities	Total
Balance at 12/31/10	35,993	1,728	1,971	39,692
New issues	4,583	166	–	4,749
Redemptions, conversions and exchanges	(3,235)	(66)	–	(3,301)
Changes in consolidation scope	–	–	–	–
Revaluation and other movements	1,080	5	14	1,099
Balance at 12/31/11	38,421	1,833	1,985	42,239
New issues	8,090	284	–	8,374
Redemptions, conversions and exchanges	(2,376)	(996)	(1,941)	(5,313)
Changes in consolidation scope	–	–	–	–
Revaluation and other movements	7	7	15	29
Balance at 12/31/12	44,142	1,128	59	45,329

Bonds and other marketable debt securities

At December 31, 2012, the nominal amount of outstanding debentures and bonds issues was 42,411 million euros (35,958 million euros at December, 31, 2011). Appendix II presents the characteristics of all outstanding debentures and bond issues at year-end 2012 and 2011, as well as the significant issues made in each year.

During 2012, Telefónica, S.A. has repurchased bonds issued by Telefónica Emisiones S.A.U. and Telefonica Europe, B.V. up to 606 million euros (159 million euros accumulated at the end of 2011).

Telefónica, S.A. has a full and unconditional guarantee on issues made by Telefónica Emisiones, S.A.U., Telefónica Finanzas México, S.A. de C.V. and Telefonica Europe, B.V., all of which are, directly or indirectly, wholly-owned subsidiaries of Telefónica, S.A.

Short-term promissory notes and commercial paper

At December 31, 2012, Telefonica Europe, B.V., had a program for issuance of commercial paper, guaranteed by Telefónica, S.A., for up to 2,000 million euros. The outstanding balance of commercial paper issued under this program at December 31, 2012 was 768 million euros, issued at an average interest rate of 0.78% for 2012 (1,596 million issued in 2011 at an average rate of 1.50%).

At December 31, 2012, Telefónica, S.A. had a corporate promissory note program for 500 million euros, which can be increased to 2,000 million euros, with an outstanding balance at that date of 331 million euros (87 million euros at December 31, 2011).

On December 13, 2010, Telefónica Móviles, S.A. (Peru) registered a commercial paper program for up to 150 million US dollars (approximately 114 million euros). The outstanding balance of commercial paper issued under this program at December 31, 2012 was 32 million US dollars, equivalent to approximately 24 million euros (13 million

US dollars at December 31, 2011).

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On December 20, 2010, Telefónica de Perú, S.A.A. registered a commercial paper program for an equivalent of up to 150 million US dollars (approximately 114 million euros). At December 31, 2012, no amount had been drawn under this program.

Other long-term marketable debt securities

On October 31, 2012, an offer to purchase the preferred securities of Telefónica Finance USA, LLC. was launched. Holders accepting such offer will receive, concurrently and in connection with, Telefónica's ordinary shares and they will subscribe new debt securities of Telefónica. As a result of this offer, on November 29, 2012, the Group purchased 1,941,235 preferred securities (representing 97.06% of total). The remaining 58,765 preferred securities are reflected in this caption (at December 31, 2012 the outstanding balance was 59 million euros). The securities accrue interest at Euribor at 3 months, plus a 4% spread (effective annual rate) payable quarterly.

b) Interest-bearing debt

The average interest rate on outstanding loans and other payables at December 31, 2012 was 4.04% (4.04% in 2011). This percentage does not include the impact of hedges arranged by the Group.

The main financing transactions included under "Interest-bearing debt" outstanding at December 31, 2012 and 2011 and their nominal amounts are provided in Appendix IV.

Interest-bearing debt arranged or repaid in 2012 and 2011 mainly includes the following:

- In accordance with the agreed maturity schedule, on December 14, 2012 tranche D of Telefonica Europe, B.V.'s syndicated loan arranged on October 31, 2005 fell due. The outstanding balance upon maturity was 2,658 million euros.

- On December 12, 2012, the syndicated arranged between Atento Inversiones y Teleservicios, S.A.U. and its subsidiaries Atento, N.V. and Atento Teleservicios España, S.A.U. on March 29, 2011 was repaid in advance and fully cancelled. The outstanding balance upon maturity was 207 million euros.

- In September 2012, Colombia Telecomunicaciones, S.A. ESP refinanced part of its debt, repaying, inter alia, the loan arranged in 2009 for 310,000 million Colombian pesos (equivalent to 123 million euros) and entering into new bilateral arrangements, including a 600,000 million pesos loan (257 million euros) and a 318,475 million pesos loan (137 million euros), both maturing in 2019. These arrangements have improved the company's average debt maturity.

    - On September 13, 2012, Vivo, S.A. drew down 798 million reais (approximately 319 million euros) of the 3,031 million reais loan arranged with BNDES on September 20, 2011. At December 31, 2012 the principal on this loan stood at 1,802 million reais (approximately 668 million euros).

- On August 28, 2012, Telefonica Europe, B.V. signed a financing agreement with China Development Bank (CDB) and Industrial and Commercial Bank of China (IDBC) amounting to 1,200 million US dollars (approximately 910 million euros), maturing in 2023. No amounts had been drawn down on this loan at December 31, 2012.

- On July 30, 2012, Telefónica Czech Republic, a.s.'s 115 million euros loan, arranged in 1997, fell due. On the same date, the company secured a bridge loan of 2,100 million Czech crowns (approximately 83 million euros), maturing in October 2012. Subsequently, on September 27, 2012, the company signed a syndicated loan of 3,000 million crowns (119 million euros), maturing on September 27, 2016. Funds from this loan were partially used to repay the bridge loan upon its maturity.

- On May 15, 2012, Telefónica Móviles Colombia, S.A. repaid, in advance, the financing received from the International Development Bank (IDB) on December 20, 2007. The outstanding balance at that date amounted to 273 million US dollars (equivalent to 210 million euros).

- In April 2012, the Colombian government and Colombia Telecomunicaciones, S.A. ESP (a company 52% owned by the Telefónica Group and 48% by the Colombian government) signed a definitive agreement to restructure their wireline and wireless businesses in Colombia. These agreements include, inter alia, the assumption by the Colombian government of the 48% of the payment obligations not yet due of Colombia

Telecomunicaciones, S.A. ESP to PARAPAT (the consortium which owns the telecommunications assets and manages the pension funds for the entities that comprise the National Telecommunications Operator). Pursuant to these agreements, the net financial debt which is fully consolidated in the Telefónica Group's financial statements decreased by approximately 1,499 million euros (Note 2).

- On March 2, 2012, a deal was signed to refinance the two tranches maturing on December 14, 2012 (Tranche D) and December 13, 2013 (Tranche E) of the syndicated loan with Telefonica Europe, B.V., totaling up to 18,500 million pounds sterling entered into on October 31, 2005. As a result: As a result: (a) Telefonica Europe, B.V. entered into a syndicated loan for 633 million pounds sterling (tranche D1), available as from December 14, 2012 and maturing on December 14, 2015 (this loan was converted to euros on December 14, 2012 and had an outstanding balance of 801 million euros at year-end 2012); (b) Telefónica, S.A. arranged a syndicated loan for 729 million pounds sterling (tranche D2) available as from December 14, 2012 and maturing on December 14, 2015 (this loan was converted to euros on December 14, 2012 and had an outstanding balance of 923 million euros at year-end 2012); (c) Telefonica Europe, B.V. arranged a syndicated loan for 756 million euros (tranche E1) available as from March 2, 2012 and maturing on March 2, 2017, of which no amounts were drawn down in 2012; and a syndicated loan to Telefonica Europe, B.V. of 1,469 million pounds sterling (tranche E2), available as from December 13, 2013 and maturing on March 2, 2017.

- On February 27, 2012, Telefónica, S.A. signed a bilateral loan agreement totaling 200 million euros and maturing on February 27, 2015. At December 31, 2012 this loan was drawn down in full.

  - On January 5, 2012, Telefonica Europe, B.V. signed a financing agreement with China Development Bank (CDB) for 375 million US dollars (approximately 284 million euros) maturing in 2022. This loan was fully drawn down at December 31, 2012.

- On December 12, 2011, the 300 million euros loan facility arranged between Telefónica Finanzas, S.A.U. and the European Investment Bank (EIB) matured as scheduled. This loan was guaranteed by Telefónica, S.A.

- On October 31, 2011, Telefónica Brasil, S.A. took out a loan with Banco do Brasil (BNB) for 150 million US dollars (equivalent to approximately 114 million euros).

- On June 28, 2011, the 6,000 million euros syndicated loan facility arranged by Telefónica, S.A. on June 28, 2005 matured as scheduled. The outstanding balance upon maturity was 300 million euros.

- On June 21, 2011, the syndicated loan facility arranged by Telefónica Móviles Chile, S.A. on October 28, 2005 for 150 million US dollars (equivalent to 116 million euros) matured as scheduled.

- On May 12, 2011 Telefónica, S.A. signed an amendment to the syndicated loan agreement entered into on July 28, 2010 whereby it was agreed that, in exchange for the additional payment of certain fees and an upward adjustment to applicable interest rates, of the 5,000 million euros that were initially set to mature in July 2013, 2,000 million euros would be extended for another year, i.e. until July 2014, and another 2,000 million euros for a further three years, i.e. until July 2016. At December 31, 2012, this syndicated loan had been drawn down by 8,000 million euros (8,000 million euros at December 31, 2011).

- On May 3, 2011, Telefónica, S.A. entered into a long-term credit facility for an aggregate amount of 376 million US dollars at a fixed rate with the guarantee of the Finnish Export Credits Guarantee Board (Finnvera). This credit facility is structured into four tranches: a tranche of 94 million US dollars maturing on January 30, 2020, another of 90 million US dollars maturing on July 30, 2020, a third of 94 million US dollars maturing on January 30, 2021, and a fourth of 98 million US dollars maturing on July 30, 2021. During 2012 the credit facility had been drawn down by 184 million US dollars from first and second tranche and a prepayment of 6 million US dollars was made. At December 31, 2012, the outstanding balance of this credit facility amounted to 178 million US dollars (equivalent to 135 million euros).

- On January 5, 2011, the syndicated loan facility arranged by Telefónica Móviles Chile, S.A. on December 29, 2005 for 180 million dollars (equivalent to 138 million euros) matured as scheduled.

During 2012, Vivo, S.A. paid the installments foreseen in the repayment schedule for the financing arranged with BNDES on August 9, 2007, for an aggregate amount of 307 million Brazilian reais (equivalent to approximately 123 million euros) and the repayment schedule for the financing arranged by Telefónica Brasil, S.A. with BNDES on October 29, 2007, for an aggregate amount of 407 million Brazilian reais (equivalent to approximately 162 million euros). At December 31, 2012, the outstanding nominal principal on those loans were 562 and 983 million reais (equivalent to approximately 208 and 365 million euros, respectively).

At December 31, 2012, the Telefónica Group had total unused credit facilities from various sources amounting to approximately 11,597 million euros (approximately 10,119 million euros at December 31, 2011).

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Loans by currency

The breakdown of loans by currency at December 31, 2012 and 2011, along with the equivalent value of foreign-currency loans in euros, is as follows:

	Outstanding balance (in millions)			
	Currency		Euros	
Currency	12/31/12	12/31/11	12/31/12	12/31/11
Euros	11,681	13,099	11,681	13,099
US dollars	2,432	2,520	1,843	1,947
Brazilian reais	3,524	4,014	1,307	1,545
Argentine pesos	510	764	79	137
Colombian pesos	1,809,200	9,035,173	2,459	3,594
Yen	14,925	14,916	131	149
Chilean peso	76,742	106,284	121	158
New soles	335	853	100	245
Pounds sterling	172	552	211	661
Czech crown	3,019	49	120	2
Other currencies	–	–	83	86
Total Group	N/A	N/A	18,135	21,623

Note 14. Trade and other payables

The composition of “Trade and other payables” is as follows:

Millions of euros	12/31/2012		12/31/2011	
	Non-current	Current	Non-current	Current
Trade payables	–	8,719	–	8,888
Advances received on orders	–	72	–	77
Other payables	1,749	6,247	1,620	6,684
Deferred income	392	1,540	472	1,766
Payable to associates (Note 9)	–	511	–	440
Total	2,141	17,089	2,092	17,855

“Deferred income” principally includes the amount of connection fees not yet recognized in the income statement, customer loyalty programs, and advance payments received on pre-pay contracts.

At December 31, 2012, non-current “Other payables” mainly comprises the deferred portion of the payment for acquiring, in 2010, the spectrum use license in Mexico, for an equivalent of 995 million euros (878 million euros at December 31, 2011).

The detail of current “Other payables” at December 31, 2012 and 2011 is as follows:

Millions of euros	Balance at 12/31/2012	Balance at 12/31/2011
Dividends payable by Group companies	183	241
Payables to suppliers of property, plant and equipment	3,994	4,393
Accrued employee benefits	719	728
Other non-financial non-trade payables	1,351	1,322
Total	6,247	6,684

Information on deferred payments to suppliers of Spanish companies (Third additional provision, "Information requirement" of Law 15/2010 of July 5)

The Telefónica Group’s Spanish companies have adapted their internal processes and payment schedules to the provisions of Law 15/2010, establishing measures against late payment in commercial transactions. Engagement conditions with commercial suppliers in 2012 included payment periods of up to 75 days (85 days in 2011), as laid down in said law.

For reasons of efficiency and in line with general business practice, the Telefónica Group’s companies in Spain have defined payment schedules with suppliers, whereby payments are made on set days. For the main companies, payments are made three times a month. Invoices falling due between two payment days are settled on the following payment date in the schedule.

Payments to Spanish suppliers in 2012 and 2011 surpassing the established legal limit were the result of circumstances or incidents beyond the payment policies, mainly the closing of agreements with suppliers over the delivery of goods or the rendering of services, or occasional processing issues.

Information on contracts entered into after Law 15/2010 took effect that exceed the maximum period established in this law is as follows:

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	2012		2011	
Millions of euros	Amount	%	Amount	%
Payments within allowable period	7,633	95.1	8,361	95.2
Other	395	4.9	425	4.8
Total payments to commercial suppliers	8,028	100.0	8,786	100.0
Weighted average days past due	35		38	
Deferrals at year-end that exceed the limit (*)	28		27	

(*) At the date of authorization for issue of these consolidated financial statements, the Group had processed the outstanding payments, except in cases where an agreement with suppliers was being negotiated.

Note 15. Provisions

The amounts of provisions in 2012 and 2011 are as follows:

	12/31/2012			12/31/2011		
Millions of euros	Current	Non-current	Total	Current	Non-current	Total
Employee benefits:	913	4,410	5,323	807	4,999	5,806
- Termination plans	861	3,290	4,151	790	3,908	4,698
- Post-employment defined benefit plans	–	894	894	–	799	799
- Other benefits	52	226	278	17	292	309
Other provisions	738	2,654	3,392	696	2,173	2,869
Total	1,651	7,064	8,715	1,503	7,172	8,675

Employee benefits

a) Termination plans

In the last few years, the Telefónica Group has carried out early retirement plans in order to adapt its cost structure to the prevailing environment in the markets where it operates, making certain strategic decisions relating to its size and organization.

On July 29, 2003, the Ministry of Labor and Social Affairs approved a labor force reduction plan for Telefónica de España, S.A.U. through various voluntary, universal and non-discriminatory programs, which were announced on July 30, 2003. The plan concluded on December 31, 2007, with 13,870 employees taking part for a total cost of 3,916 million euros. Provisions recorded for this plan at December 31, 2012 and 2011 amounted to 1,037 and 1,404 million euros, respectively.

On July 14, 2011, the Ministry of Labor and Social Affairs approved a new labor force reduction plan for Telefónica de España, S.A.U. that included up to 6,500 net job losses in the period from 2011 to 2013, through various voluntary, universal and non-discriminatory programs.

In 2011, the Group recognized the estimated cost of payments for the program using updated and actuarial criteria based on a high quality market interest rate curve, in the amount of 2,671 million euros. This amount was included under "Personnel expenses" in the consolidated income statement (see Note 2).

In 2012, the period for adhering to the plan was closed, with a total of 6,830 requests being received (2,359 requests in 2011). At December 31, 2012, the provision for this plan amounted to 2,614 million euros (2,727 million euros at December 31, 2011).

Furthermore, the Group had recorded provisions totalling 500 million euros (567 million euros at December 31, 2011) for other planned adjustments to the workforce and plans prior to 2003.

The companies bound by these commitments calculated provisions required at 2012 and 2011 year-end using actuarial assumptions pursuant to current legislation, including the PERM/F- 2000 C mortality tables and a variable interest rate based on high quality market yield curves.

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The movement in provisions for post-employment plans in 2012 and 2011 is as follows:

Millions of euros	Total
Provisions for post employment plans at 12/31/10	2,756
Additions	2,787
Retirements/amount applied	(936)
Transfers	(29)
Translation differences and accretion	120
Provisions for post employment plans at 12/31/11	4,698
Additions	36
Retirements/amount applied	(841)
Transfers	31
Exclusion of companies	(1)
Translation differences and accretion	228
Provisions for post employment plans at 12/31/12	4,151

The discount rate used for these provisions at December 31, 2012, was 0.85%, with average length of the plans of 3.87 years.

b) Post-employment defined benefit plans

The Group has a number of defined-benefit plans in the countries where it operates. The following tables present the main data of these plans:

12/31/2012

	Spain		Rest of Europe		Latin America		
Millions of euros	ITP	Survival	UK	Germany	Brazil	Other	Total
Obligation	395	259	1,139	81	298	85	2,257
Assets	–	–	(1,191)	(76)	(225)	(6)	(1,498)
Net provision before asset ceiling	395	259	(52)	5	73	79	759
Asset ceiling	–	–	–	–	54	–	54
Net provision	395	259	9	7	145	79	894
Net assets	–	–	61	2	18	–	81

12/31/2011

	Spain		Rest of Europe		Latin America		
Millions of euros	ITP	Survival	UK	Germany	Brazil	Other	Total
Obligation	412	242	976	55	298	18	2,001
Assets	–	–	(971)	(79)	(235)	(7)	(1,292)
Net provision before asset ceiling	412	242	5	(24)	63	11	709
Asset ceiling	–	–	–	17	51	–	68
Net provision	412	242	5	2	127	11	799
Net assets	–	–	–	9	13	–	22

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The movement in the present value of obligations in 2012 and 2011 is as follows:

	Spain		Rest of Europe		Latin America		
Millions of euros	ITP	Survival	UK	Germany	Brazil	Other	Total
Present value of obligation at 12/31/10	424	208	918	57	272	13	1,892
Translation differences	–	–	29	–	(26)	1	4
Current service cost	–	9	25	3	4	1	42
Past service cost	–	–	–	–	–	–	–
Interest cost	13	7	51	2	26	2	101
Actuarial losses and gains	23	26	(27)	(7)	38	2	55
Benefits paid	(48)	(8)	(20)	–	(16)	–	(92)
Plan curtailments	–	–	–	–	–	(1)	(1)
Present value of obligation at 12/31/11	412	242	976	55	298	18	2,001
Translation differences	–	–	23	–	(31)	(1)	(9)
Current service cost	–	3	25	3	4	53	88
Past service cost	–	–	3	–	–	29	32
Interest cost	9	6	49	3	25	3	95
Actuarial losses and gains	19	18	174	21	15	2	249
Benefits paid	(45)	(10)	(18)	(1)	(13)	(15)	(102)
Plan curtailments	–	–	(93)	–	–	(4)	(97)
Present value of obligation at 12/31/12	395	259	1,139	81	298	85	2,257

Movements in the fair value of plan assets in 2012 and 2011 are as follows:

	Rest of Europe		Latin America		
Millions of euros	UK	Germany	Brazil	Other	Total
Fair value of plan assets at 12/31/10	838	63	250	5	1,156
Translation differences	29	–	(21)	1	9
Expected return on plan assets	48	3	23	–	74
Actuarial losses and gains	(13)	(3)	(5)	–	(21)
Company contributions	89	16	3	1	109
Employee contributions	–	–	–	–	–
Benefits paid	(20)	–	(15)	–	(35)
Fair value of plan assets at 12/31/11	971	79	235	7	1,292
Translation differences	23	–	(22)	–	1
Expected return on plan assets	53	4	25	–	82
Actuarial losses and gains	81	(6)	(4)	–	71
Company contributions	81	–	2	–	83
Employee contributions	–	–	–	–	–
Benefits paid	(18)	(1)	(11)	(1)	(31)
Fair value of plan assets at 12/31/12	1,191	76	225	6	1,498

The amounts of actuarial gains and losses of these plans recognized directly in equity in accordance with the asset ceilings of these plans in 2012, 2011 and 2010, before non-controlling interests and before the related tax effect, are as follows:

Millions of euros	2012	2011	2010
Spain	(38)	(48)	(17)
Rest of Europe	(97)	14	(6)
Latin America	(19)	(51)	(71)
Total	(154)	(85)	(94)

The Group's principal defined-benefit plans are:

Plans in Spain:

a. ITP: Telefónica Spain reached an agreement with its employees whereby it recognized supplementary pension payments for employees who had retired as of June 30, 1992, equal to the difference between the pension payable by the social security system and that which would be paid to them by ITP (Institución Telefónica de Previsión). Once the aforementioned supplementary pension payments had been quantified, they became fixed, lifelong and non-updateable and sixty percent (60%) of the payments are transferable to the surviving spouse, recognized as such as of June 30, 1992, and to underage children.

The amount for this provision totaled 395 million euros at December 31, 2012 (412 million euros at December 31, 2011).

b. Survival: serving employees who did not join the defined pension plan are still entitled to receive survivorship benefits at the age of 65.

The amount for this provision totaled 259 million euros at December 31, 2012 (242 million euros at December 31, 2011).

These plans do not have associated assets that qualify as "plan assets" under IAS 19.

The main actuarial assumptions used in valuing these plans are as follows:

	Survival		ITP	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Discount rate	0.091%-2.297%	0.787%-2.521%	0.091%-2.297%	0.787%-2.521%
Expected rate of salary increase	2.50%	2.50%	–	–
Mortality tables	PERM/F-2000C Combined with OM77	PERM/F-2000C Combined with OM77	90% PERM 2000C/98% PERF 2000 C	92% PERM 2000C/100% PERF 2000 C

The table below shows the sensitivity of the value of termination and post-employment obligations of Telefónica Group companies in Spain to changes in the discount rate:

+100 bp	-100 bp

Impact on value	Impact on income statement	Impact on value	Impact on income statement
-211	154	177	-122

Variations of less than -100bp are considered for terms of less than five years to prevent negative rates.

A 100bp increase in the discount rate would reduce the value of the liabilities by 211 million euros and have a positive impact on income statement of 154 million euros before tax. However, a 100bp decrease in the discount rate would increase the value of the liabilities by 177 million euros and have a negative impact on income statement of 122 million euros before tax.

The Telefónica Group actively manages this position and has arranged a derivatives portfolio to minimize the impact of changes in the discount rate (see Note 16).

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Plans in the rest of Europe:

The various O2 Group companies consolidated within the Telefónica Group have defined-benefit post-employment plans, covered by qualifying assets.

The number of beneficiaries of these plans at December 31, 2012 and 2011 is as follows:

Employees	2012	2011
UK	4,575	4,590
Germany	6,418	5,979

The main actuarial assumptions used in valuing these plans are as follows:

	12/31/2012		12/31/2011	
	UK	Germany	UK	Germany
Nominal rate of salary increase	4.2 %	2.6 %	4.0 %	3.5 %
Nominal rate of pension payment increase	3.1 %	2 %	2.9 %	1.0%-4.0 %
Discount rate	4.6 %	4.2 %	4.9 %	5.3 %
Expected inflation	3.2 %	2 %	3.0 %	2 %
Expected return on plan assets				
- Shares	7.0 %	N/A	7.0 %	N/A
- UK government bonds	-	N/A	-	N/A
- Other bonds	4.6 %	N/A	4.9 %	N/A
- Rest of assets	3.2 %	4.2 %	3.0 %	4%-4.25 %
Mortality tables	Pna00mc0.5 underpin	Prf. Klaus Heubeck (RT 2005 G)	Pna00mc0.5 underpin	Prf. Klaus Heubeck (RT 2005 G)

The estimation of average length for plans in UK and Germany is 20 and 25 years, respectively.

Plans in Latin America:

Subsidiary Telefónica Brazil (formerly Telecomunicações de São Paulo, S.A.) and its subsidiaries had various pension plan, medical insurance and life insurance obligations with employees.

The main actuarial assumptions used in valuing these plans are as follows:

	12/31/2012	12/31/2011
Discount rate	8.90 %	9.73 %
Nominal rate of salary increase	6.18 %	6.54%-7.20 %
Expected inflation	4.50 %	4.50 %
Cost of health insurance	7.64 %	7.64 %
Expected return on plan assets	8.70 %	11.07%-12.08 %
Mortality tables	AT 2000 M/F	AT 2000 M/F

In addition, Telefónica Brazil, along with other companies resulting from the privatization of Telebrás (Telecomunicações Brasileiras, S.A.) in 1998, adhered to PBS-A, a non-contribution defined benefit plan managed by Fundação Sistel de Seguridade Social, whose beneficiaries are employees that retired prior to January 31, 2000. At December 31, 2012 net plan assets amounted to 760 million Brazilian reais, equivalent to 282 million euros (668 million Brazilian reais at December 31, 2011, equivalent to 275 million euros). This plan does not have an impact on the consolidated statement of financial position, given that recovery of the assets is not foreseeable.

The valuations used to determine the value of obligations and plan assets, where appropriate, were performed as of December 31, 2012 by external and internal actuaries. The projected unit credit method was used in all cases.

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c) Other benefits

This heading mainly includes the amount recorded by Telefónica Spain related to the accrued portion of long-service bonuses to be awarded to employees after 25 years' service, amounting to 201 million euros at December 31, 2012 (210 million euros at December 31, 2011).

Other provisions

The movement in "Other provisions" in 2012 and 2011 is as follows:

	Millions of euros
Other provisions at December 31, 2010	2,650
Additions	707
Retirements/amount applied	(480)
Transfers	88
Translation differences	(96)
Other provisions at December 31, 2011	2,869
Additions	1,098
Retirements/amount applied	(451)
Transfers	62
Translation differences	(186)
Other provisions at December 31, 2012	3,392

"Other provisions" includes the amount recorded in 2007 in relation to the fine imposed on Telefónica de España, S.A.U. by the EC anti-trust authorities. Taking into account accrued interest, a total provision of 196 million euros was made in this regard (188 million euros at December 31, 2011).

Also included are the provisions for dismantling of assets recognized by Group companies in the amount of 460 million euros (401 million euros at the 2011 year end).

"Other Provisions" also includes the provisions recorded (or used) by the Group companies to cover the risks inherent in the realization of certain assets, the contingencies arising from their respective business activities and the risks arising from commitments and litigation acquired in other transactions, recognized as indicated in Note 3.1.

Given the nature of the risks covered by these provisions, it is not possible to determine a reliable schedule of potential payments, if any.

Note 16. Derivative financial instruments and risk management policies

The Telefónica Group 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 Group companies are as follows:

Exchange rate risk

Exchange rate risk arises primarily from: (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.

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 long-term liabilities at fixed interest rates.

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.

Other risks

The Telefónica Group is also exposed to liquidity risk if a mismatch arises between its financing needs (including operating and financial expense, investment, debt redemptions and dividend commitments) and its sources of finance (including revenues, divestments, credit lines from financial institutions and capital market transactions). The cost of finance could also be affected by movements in the credit spreads (over benchmark rates) demanded by lenders.

Finally, the Telefónica Group 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 the Telefónica Group operates, especially in Latin America.

Risk management

The Telefónica Group 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, it attempts to protect the Telefónica Group's solvency, facilitate financial planning and take advantage of investment opportunities.

The Telefónica Group manages its exchange rate risk and interest rate risk in terms of net debt and net financial debt as calculated by them. The Telefónica Group 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 the Telefónica Group should be considered an alternative to gross financial debt (the sum of current and non-current interest-bearing debt) as a measure of liquidity.

For a more detailed description on reconciliation of net debt and net financial debt to gross financial debt, see Note 2.

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, 2012, net debt in Latin American currencies was equivalent to approximately 4,988 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 the 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. At December 31, 2012, the Telefónica Group's net debt denominated in dollars was equivalent to 1,279 million euros.

At December 31, 2012, pound sterling-denominated net debt was approximately 1.8 times the value of the 2012 operating income before depreciation and amortization (OIBDA) from the Telefónica Europe business unit in the United Kingdom. The Telefónica Group's aim is to maintain a similar proportion of pound sterling-denominated net debt to OIBDA as the Telefónica Group's net debt to OIBDA ratio, on a consolidated basis, to reduce its sensitivity to changes in the pound sterling to euro exchange rate. Pound sterling-denominated net debt at December 31, 2012, was equivalent to 2,629 million euros, less than the 3,540 million euros at December 31, 2011.

The risk-management objective to protect the investment in the Czech Republic is similar to that described for the investment in the UK, where the amount of Czech crown-denominated debt is proportional to the OIBDA of the "Telefónica Europe" business unit in the Czech Republic. Czech crown-denominated net debt at December 31, 2012 was 2.1 times OIBDA in Czech crown (1.7 times in 2011) on a consolidated basis and 2.97 times (2.55 times in 2011) on a proportional basis.

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.

In 2012, exchange rate management resulted in negative exchange rate differences totalling 534 million euros (excluding the impact of hyperinflationary adjustments), primarily due to the impact on the Group's estimates of the 32% fall in the asset value of the Venezuelan bolivar against the US dollar in 2013, compared to 176 million euros in negative differences in 2011.

The following table illustrates the sensitivity of foreign currency gains and losses and of equity to changes in exchange rates, where: (i) in calculating the impact on the income statement, the exchange rate position affecting the income statement at the end of 2012 was considered constant during 2013; (ii) in calculating the impact on equity, only monetary items have been considered, namely debt and derivatives such as hedges of net investment and loans to associates in investment, whose breakdown is considered constant in 2013 and identical to that existing at the end of 2012. In both cases, Latin American currencies are assumed to depreciate against the dollar and the rest of the currencies against the euro by 10%.

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Millions of euros

Currency	Change	Impact on the consolidated income statement	Impact on consolidated equity
All currencies vs EUR	10 %	112	(271)
USD vs EUR	10 %	10	73
European currencies vs EUR	10 %	–	(498)
Latin American currencies vs USD	10 %	102	154
All currencies vs EUR	(10)%	(112)	271
USD vs EUR	(10)%	(10)	(73)
European currencies vs EUR	(10)%	–	498
Latin American currencies vs USD	(10)%	(102)	(154)

Following the decision of the Government of Venezuela on February 8, 2013 to devaluate the bolivar from 4.3 bolivars per dollar to 6.3 bolivars per dollar, the Group considers that, pursuant to IFRS, the devaluation is an event after the 2012 balance sheet date that does not require a modification of the exchange rate used to convert financial information of Venezuelan companies based on 4.3 bolivars per dollar.

The new exchange rate of 6.3 bolivars per US dollar will be used from 2013 in the conversion of financial information on Venezuelan subsidiaries. The main aspects to be considered in 2013 are detailed in Note 24.

The exchange-rate situation of the Bolivar fuerte affects the estimates made by the Group of the liquidation value of the net foreign currency position related to investments in Venezuela, the negative impact of which on the 2012 financial statements amounts to 438 million euros.

The Group’s monetary position in Venezuela at December 31, 2012 is a net debtor position of 2,974 million Venezuelan bolivars (equivalent to approximately 524 million euros). It had an average creditor debt position in 2012, leading to a higher financial expense in the amount of 64 million euros for the effect of inflation.

Interest rate risk

The Telefónica Group’s financial expenses are exposed to changes in interest rates. In 2012, 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 US dollar and pound sterling Libor, and the Colombian UVR. In nominal terms, at December 31, 2012, 74% of Telefónica's net debt (or 73% of long-term net debt) was pegged to fixed interest rates for a period greater than one year, compared to 66% of net debt (70% of long-term net debt) in 2011. Of the remaining 26% (net debt at floating rates or at fixed rates maturing in under one year), 10 percentage points had interest rates collared in a period over one year (or 3% of long-term debt), while at December 31, 2011 this was the case for 15 percentage points of net debt at floating rates or with fixed rates maturing within one year (5% of long-term net debt). This decrease in 2012 from 2011 is due to our decision to cancel or not renew an amount equivalent to 1,428 million euros of caps and floors in euros, US dollars and pounds sterling, following the policy implemented in 2009 in anticipation of a fall in interest rates.

In addition, early retirement liabilities were discounted to present value over the year, based on the curve for instruments with very high credit quality. The decrease in interest rates has increased the market value of these liabilities. However, this increase was nearly completely offset by the increase in the value of the hedges on these positions.

Net financial expense rose 24.4% to 3,658 million in 2012 from 2,941 million euros in 2011. This increase is due to two effects with similar impacts: first, an increase in interest rate costs primarily due to the increase in average debt (up 3.3% to a total of 58,187 million euros), the rise in credit spreads and the need to enhance liquidity (with very low returns compared to the cost of the debt) as a result of the market crises; and, secondly, to the impact on estimates of the 32% devaluation in the Venezuelan bolivar, as explained above. In spite of the increase in credit costs, the Group's weighted average cost of gross debt (excluding cash) was held steady at 4.7%. Stripping out exchange rate differences, such expenses implied an average cost of debt of 5.37% in the last 12 months.

To illustrate the sensitivity of financial expenses to variability in short-term interest rates, a 100 basis points increase in interest rates in all currencies in which Telefónica has financial positions at December 31, 2012 has been assumed, and a

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100 basis points decrease in interest rates in all currencies except those currencies with low interest rates, in order to avoid negative rates (euro, pound sterling and the US dollar) and a constant position equivalent to that prevailing at the end of 2012.

To illustrate the sensitivity of equity to variability in interest rates, a 100 basis point increase in interest rates in all currencies and terms of the curve, in which Telefónica holds financial positions at December 31, 2012 was assumed, as well as a 100 basis point decrease in all currencies and terms (except those below 1% in order to avoid negative rates). Cash flow hedge positions were also considered as they are fundamentally the only positions where changes in market value due to interest-rate fluctuations are recognized in equity.

Millions of euros

Change in basis points (bp)	Impact on consolidated income statement	Impact on consolidated equity
+100bp	(96)	747
-100bp	36	(685)

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 20) 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 instruments that replicate the risk profile of some of these plans as explained in Note 20.

In 2012, the second Global Employee Share Plan was launched, in accordance with approval given at the 2011 Ordinary General Shareholders' Meeting (see details of the plan in Note 20).

In addition, the Group may use part of the treasury shares of Telefónica, S.A. held at December 31, 2012 to cover shares deliverable under the PSP or the Global Employee Share Plan. 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. Throughout 2012, due to the financial market crisis, the Group decided to apply a substantially greater hedging policy for these commitments.

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At December 31, 2012, the average maturity of net financial debt (51,259 million euros) was 6.4 years.

At December 31, 2012, gross financial debt scheduled to maturity in 2013 amounted to approximately 10,074 million euros (including the net position of derivative financial instruments and certain current payables), or 9,574 million euros if Telefónica decides not to exercise early redemption options, which is lower than the amount of funds available, calculated as the sum of: a) current financial assets and cash at December 31, 2012 (11,404 million euros excluding derivative financial instruments), b) annual cash generation projected for 2013; and c) undrawn credit facilities arranged with banks whose original maturity is over one year (an aggregate of more than 9,470 million euros at December 31, 2012), providing flexibility to the Telefónica Group with regard to accessing capital or credit markets in the next 12 months. For a further description of the Telefónica Group's liquidity and capital resources in 2013, see Note 13.2 Financial Liabilities and Appendix III.

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.

Regarding the first point, at December 31, 2012, the Telefónica Group's Latin American companies had net financial debt not guaranteed by the parent company of 3,169 million euros, which represents 6.2% of consolidated net financial debt.

Regarding the repatriation of funds to Spain, it has received 1,817 million euros from Latin America companies in 2012, of which 1,314 million euros was from dividends, 34 million euros was from intra-group loans (payments of interest and repayments of principal), 247 million euros for capital reductions and 221 million euros was for other items.

In this regard, it is worth noting that since February 2003, Venezuela has had an exchange control mechanism in place, managed as indicated above by the Currency Administration Commission (CADIVI). The body has issued a number of regulations ("providencias") governing the modalities of currency sales in Venezuela at official exchange rates. Foreign companies which are duly registered as foreign investors are entitled to request approval to acquire currencies at the official exchange rate by the CADIVI, in line with regulation number 029, article 2, section c) "Remittance of earnings, profits, income, interest and dividends from international investment." Telefónica Venezolana, C.A. (formerly Telcel, C.A.), a Telefónica Group subsidiary in Venezuela, obtained the aforementioned requested approval on 295 million Venezuelan bolivars in 2006, 473 million Venezuelan bolivars in 2007 and 785 million Venezuelan Bolivars in 2008. At December 31, 2012, payment of two dividends agreed by the company in the amount of 5,882 million Venezuelan bolivars is pending approval by the CADIVI.

Credit risk

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, assuming a stable sovereign rating provides a ceiling which 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 and/or products with a financial component that could cause a material impact on the Group's financial statements for which, depending on the segment and type of relation, a variety of measures are adopted 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.

The Telefónica Group’s maximum exposure to credit risk is initially represented by the carrying amounts of the financial assets (Notes 10, 11 and 13) and the guarantees given by the Telefónica Group.

Several Telefónica Group companies provide operating guarantees granted by external counterparties, which are offered during their normal commercial activity, in bids for licenses, permits and concessions, and spectrum acquisitions. At December 31, 2012, these guarantees amounted to approximately 3,312 million euros (see Note 21.e).

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

At December 31, 2012, the nominal value of outstanding derivatives with external counterparties amounted to 147,724 million equivalent, a 17% decrease from December 31, 2011 (178,641 million euros equivalent). This figure is inflated by the use in some cases of several levels of derivatives applied to the nominal value of a single underlying liability. For example, a foreign currency loan can be hedged into floating rate, and then each interest rate period can be fixed using a fixed rate hedge, or FRA (forward rate agreement). Even using such techniques to reduce the position, it is still necessary to take extreme care in the use of derivatives to avoid potential problems arising through error or a failure to understand the real position and its associated risks.

Telefónica’s derivatives policy emphasizes the following points:

1) Derivatives based on a clearly identified underlying.

Acceptable underlyings include assets and liabilities, profits, revenues and cash flows in either a company’s functional currency or another currency. These flows can be contractual (debt and interest payments, settlement of foreign currency payables, etc.), reasonably certain or foreseeable (PP&E purchases, future debt issues, commercial paper programs, etc.). The acceptability of an underlying asset in the above cases does not depend on whether it complies with accounting rules requirements for hedge accounting, as is required in the case of certain intragroup transactions, for instance. Parent company investments in subsidiaries with functional currencies other than the euro also qualify as acceptable underlying assets.

Economic hedges, which are hedges with a designated underlying asset and which in certain circumstances offset fluctuations in the underlying asset value, do not always meet the requirements and effectiveness tests laid down by accounting standards for treatment as hedges. The decision to maintain positions that cease to qualify as effective or fail to meet other requirements will depend on the marginal impact on the income statement and how far this might compromise the goal of a stable income statement. In any event, the variations are recognized in the income statement.

2) Matching of the underlying to one side of the derivative.

This matching basically applies to foreign currency debt and derivatives hedging foreign currency payments by Telefónica Group subsidiaries. The aim is to eliminate the risk arising from changes in foreign currency interest rates. Nonetheless, even when the aim is to achieve perfect hedging for all cash flows, the lack of liquidity in certain markets, especially in Latin American currencies, has meant that historically there have been mismatches between the terms of the hedges and those of the debts they are meant to hedge. The Telefónica Group intends to reduce these mismatches, provided that doing so does not involve disproportionate costs. In this regard, if adjustment does prove too costly, the financial timing of the underlying asset in foreign currency will be modified in order to minimize interest rate risk in foreign currency.

In certain cases, the timing of the underlying as defined for derivative purposes may not be exactly the same as the timing of the contractual underlying.

3) Matching the company contracting the derivative and the company that owns the underlying.

Generally, the aim is to ensure that the hedging derivative and the hedged asset or liability belong to the same company. Sometimes, however, the holding companies (Telefónica, S.A. and Telefónica Internacional, S.A.) have arranged hedges on behalf of a subsidiary that owns the underlying asset. The main reasons for separating the hedge and the underlying asset were possible differences in the legal validity of local and international hedges (as a result of unforeseen legal changes) and the different credit ratings of the counterparties (of the Telefónica Group companies as well as those of the banks).

4) Ability to measure the derivative’s fair value using the valuation systems available to the Telefónica Group.

The Telefónica Group uses a number of tools to measure and manage risks in derivatives and debt. The main ones are Kondor+, licensed by Reuters, which is widely used by financial institutions, and MBRM specialist financial calculator libraries.

5) Sale of options only when there is an underlying exposure.

Telefónica considers the sale of options when: i) there is an underlying exposure (on the consolidated statement of financial position or associated with a highly probable cash outflow) that would offset the potential loss for the year if the counterparty exercised the option, or ii) the option is part of a structure in which another derivative offsets any loss. The sale of options is also permitted in option structures where, at the moment they are taken out, the net premium is either positive or zero.

For instance, it would be possible to sell short-term options on interest rate swaps that entitle the counterparty to receive a certain fixed interest rate, below the level prevailing at the time the option was sold. This would mean that if rates fell and the counterparty exercised its option, the Group would swap part of its debt from floating rate to a lower fixed rate, having received a premium.

6) Hedge accounting

The main risks that may qualify for hedge accounting are as follows:

- Variations in market interest rates (either money-market rates, credit spreads or both) that affect the value of the underlying asset or the measurement of the cash flows;

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- Variations in exchange rates that change the value of the underlying asset in the company's functional currency and affect the measurement of the cash flow in the functional currency;

- Variations in the volatility of any financial variable, asset or liability that affect either the valuation or the measurement of cash flows on debt or investments with embedded options, whether or not these options are separable; and

- Variations in the valuation of any financial asset, particularly shares of companies included in the portfolio of "Available-for-sale financial assets".

Regarding the underlying:

- Hedges can cover all or part of the value of the underlying;

- The risk to be hedged can be for the whole period of the transaction or for only part of the period; and

- The underlying may be a highly probable future transaction, or a contractual underlying (loan, foreign currency payment, investment, financial asset, etc.) or a combination of both that defines an underlying with a longer term.

This may on occasion mean that the hedging instruments have longer terms than the related contractual underlying. This happens when the Group enters into long-term swaps, caps or collars to protect ourselves against interest rate rises that may raise the financial expense of its promissory notes, commercial paper and some floating rate loans which mature earlier than their hedges. These floating rate financing programs are highly likely to be renewed and Telefónica commits to this by defining the underlying asset in a more general way as a floating rate financing program whose term coincides with the maturity of the hedge.

Hedges can be of three types:

- Fair value hedges.

- Cash flow hedges. Such hedges can be set at any value of the risk to be hedged (interest rates, exchange rates, etc.) or for a defined range (interest rates between 2% and 4%, above 4%, etc.). In this last case, the hedging instrument used is options and only the intrinsic value of the option is recognized as an effective hedge.

- Hedges of net investment in consolidated foreign subsidiaries. Generally such hedges are arranged by the parent company and the other Telefónica holding companies. Wherever possible, these hedges are implemented through real debt in foreign currency. Often, however, this is not always possible as many Latin American currencies are non-convertible, making it impossible for non-resident companies to issue local currency debt. It may also be that the debt market in the currency concerned is too thin to accommodate the required hedge (for example, the Czech crown and pounds sterling), or that an acquisition is made in cash with no need for market financing. In these circumstances derivatives, either forwards or cross-currency swaps are used to hedge the net investment.

Hedges can comprise a combination of different derivatives.

Management of accounting hedges is not static, and the hedging relationship may change before maturity. Hedging relationships may change to allow appropriate management that serves the Group's stated principles of stabilizing cash flows, stabilizing net financial income/expense and protecting 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, the Group analyzes 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 both prospectively and retrospectively.

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The main guiding principles for risk management are laid down by Telefónica's Finance Department and implemented by company financial officers (who are responsible for balancing the interests of each company and those of the Telefónica Group). The Corporate Finance 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. New companies joining the Telefónica Group as a result of mergers or acquisitions may also need time to adapt.

The breakdown of the financial results recognized in 2012, 2011 and 2010 is as follows:

Millions of euros	2012	2011	2010
Interest income	557	586	454
Dividends received	28	42	40
Other financial income	276	181	266
Interest expenses	(3,094)	(2,671)	(2,514)
Ineffective portion of cash flow hedges	1	1	(16)
Accretion of provisions and other liabilities	(469)	(106)	(145)
Changes in fair value of financial assets at fair value through profit or loss	648	573	25
Changes in fair value of financial liabilities at fair value through profit or loss	(550)	(808)	(39)
Transfer from equity to profit and loss from cash flow hedges	(173)	(210)	(73)
Transfer from equity to profit and loss from available-for-sale assets and others	(50)	(3)	(202)
Gain/(loss) on fair value hedges	198	908	168
(Loss)/gain on adjustment to items hedged by fair value hedges	(145)	(747)	(211)
Other expenses	(289)	(528)	(290)
Net finance costs excluding foreign exchange differences and hyperinflationary adjustments	(3,062)	(2,782)	(2,537)

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The breakdown of Telefónica's derivatives at December 31, 2012, their fair value at year-end and the expected maturity schedule is as set forth in the table below:

2012

Millions of euros	Fair value (**)	Notional amount MATURITIES (*)				
Derivatives		2013	2014	2015	Subsequent years	Total
Interest rate hedges	367	(1,241)	(844)	2,552	3,306	3,773
Cash flow hedges	1,405	(1,048)	(353)	2,547	8,222	9,368
Fair value hedges	(1,038)	(193)	(491)	5	(4,916)	(5,595)
Exchange rate hedges	(443)	792	(158)	1,558	6,344	8,536
Cash flow hedges	(441)	1,057	(158)	1,558	6,344	8,801
Fair value hedges	(2)	(265)	–	–	–	(265)
Interest and exchange rate hedges	(389)	(8)	38	27	2,468	2,525
Cash flow hedges	(248)	(53)	89	90	2,478	2,604
Fair value hedges	(141)	45	(51)	(63)	(10)	(79)
Hedge of net investment	(140)	(1,330)	(280)	(162)	(1,211)	(2,983)
Derivatives not designated as hedges	(534)	11,366	(13)	(467)	(1,406)	9,480
Interest rate	(384)	8,796	(13)	(545)	(2,133)	6,105
Exchange rate	(150)	2,570	–	78	727	3,375
Interest and exchange rate	–	–	–	–	–	–

(*) 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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The breakdown of Telefónica’s derivatives at December 31, 2011, their fair value at year-end and the expected maturity schedule are as set forth in the table below:

2011

Millions of euros	Fair value (**)	Notional amount MATURITIES (*)				
Derivatives		2012	2013	2014	Subsequent years	Total
Interest rate hedges	(80)	(1,785)	668	(825)	8,217	6,275
Cash flow hedges	867	(1,118)	1,086	(350)	11,380	10,998
Fair value hedges	(947)	(667)	(418)	(475)	(3,163)	(4,723)
Exchange rate hedges	(962)	328	339	77	6,702	7,446
Cash flow hedges	(932)	340	230	1	6,519	7,090
Fair value hedges	(30)	(12)	109	76	183	356
Interest and exchange rate hedges	(613)	(76)	1,110	(45)	2,547	3,536
Cash flow hedges	(592)	(31)	1,158	66	2,098	3,291
Fair value hedges	(21)	(45)	(48)	(111)	449	245
Hedge of net investment	(81)	(1,427)	(160)	(280)	(1,313)	3,180
Derivatives not designated as hedges	(493)	9,375	(480)	(144)	(1,516)	7,235
Interest rate	(235)	8,038	(579)	(144)	(2,404)	4,911
Exchange rate	(255)	1,338	99	–	888	2,325
Interest and exchange rate	(3)	(1)	–	–	–	(1)

(*) 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.

A list of derivative products entered into at December 31, 2012 and 2011 is provided in Appendix III.

Note 17. Income tax matters

Consolidated tax group

Pursuant to a Ministerial Order dated December 27, 1989, since 1990 Telefónica, S.A. has filed consolidated tax returns for certain Group companies. The consolidated tax group comprised 52 companies in 2012 (48 companies in 2011).

Deferred taxes

The movements in deferred taxes in 2012 and 2011 are as follows:

Millions of euros	Deferred tax assets	Deferred tax liabilities
Balance at December 31, 2011	6,417	4,739
Additions	2,147	807
Disposals	(1,051)	(388)
Transfers	(48)	(268)
Translation differences and hyperinflation adjustments	(131)	(94)
Company movements and others	(26)	(8)
Balance at December 31, 2012	7,308	4,788

Millions of euros	Deferred tax assets	Deferred tax liabilities
Balance at December 31, 2010	5,693	6,074
Additions	2,162	779
Disposals	(1,326)	(1,688)
Transfers	48	(145)
Translation differences and hyperinflation adjustments	(163)	(302)
Company movements and others	3	21
Balance at December 31, 2011	6,417	4,739

“Additions” of deferred tax assets in 2012 mainly include the positive impact of the tax inspection in Spain, of 458 million euros, the recognition of tax credits and temporary differences at several Group companies in Germany, of 246 million euros, the tax effect of the adjustment of the value of the investment in Telco, S.p.A. of 383 million euros (see Note 2), and changes in deferred tax assets due to different tax legislation across countries.

“Additions” in 2011 include the impact of the labor force reduction plan at Telefónica in Spain (see Note 15).

Meanwhile, “Disposals” of deferred tax assets mainly include the impact of the Group’s labor force reduction plans carried out and which were recorded in prior years.

The movement in “Deferred tax liabilities” in 2011 includes mainly the cancellation of the deferred tax arising on the merger between Brazilian companies Telesp and Vivo Participações, S.A. in October for 1,288 million euros (see

Note 2).

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Expected realization of deferred tax assets and liabilities

In the majority of cases, realization of the Group’s deferred tax assets and liabilities depends on the future activities carried out by the different companies, on tax regulations in the different countries in which these companies operate, and on the strategic decisions affecting the companies. As such, the expected realization is based on a series of assumptions that may change as the corresponding situations continue to develop. Under the assumptions made, the estimated realization of deferred tax assets and liabilities recognized in the consolidated statement of financial position at December 31, 2012 is as follows:

12/31/2012	Total	Less than 1 year	More than 1 year
Deferred tax assets	7,308	1,666	5,642
Deferred tax liabilities	4,788	1,123	3,665

Deferred tax assets

Deferred tax assets in the accompanying consolidated statements of financial position include the tax loss carryforwards, unused tax credits recognized and deductible temporary differences recognized at the end of the reporting period.

Tax credits for loss carryforwards

The tax group had unused tax loss carryforwards at December 31, 2012 amounting to 11,504 million euros. These losses must be applied within 18 years, according to the following estimated schedule.

12/31/12	Total	Less than 1 year	More than 1 year
Tax loss carryforwards	11,504	263	11,241

Subsequent to the inspection by the tax authorities, the tax group in Spain reevaluated its tax credits based on the business plans of the companies in the tax group and the best estimate of taxable income, over a period of time that is in line with the state of the various markets in which it operates. As a result of the outcome of the inspection, and the review of the Group’s deferred tax assets, reduction of 458 million euros in “Corporate income tax" was recognized in 2012.

Accordingly, total tax loss carryforwards in Spain in the statement of financial position at December 31, 2012 amounted to 1,175 million euros.

The various Group companies in the rest of Europe have recognized 295 million euros of unrecognized tax credits, mainly from the tax loss carryforwards of the Telefónica Group in Germany. Total unrecognized tax credits amount to 6,800 million euros. These tax credits do not expire.

Recognized tax credits in the consolidated statement of financial position pending application at the Latin American subsidiaries at December 31, 2012 amounted to 130 million euros. Total unrecognized tax credits in Latin America amount to 626 million euros.

Deductions

The Group has recognized 503 million euros of unused tax deductions in the consolidated statement of financial position at December 31, 2012, generated primarily from export activity, double taxation and donations to non-profit organizations.

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Temporary differences

Temporary differences are generated as a result of the difference between tax bases of assets and liabilities and their respective carrying amounts. Deductible temporary differences, tax deductions and credits and tax loss carryforwards give rise to deferred tax assets on the statement of financial position, whereas taxable temporary differences give rise to deferred tax liabilities on the consolidated statement of financial position. The sources of deferred tax assets and liabilities from temporary differences recognized at December 31, 2012 and 2011 are as follows:

	2012		2011	
Millions of euros	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	302	792	283	753
Intangible assets	261	1,895	268	2,211
Personnel commitments	1,412	–	1,546	–
Provisions	1,138	398	1,267	158
Investments in subsidiaries, associates and joint ventures	536	1,085	614	975
Other	1,556	618	757	642
Total	5,205	4,788	4,735	4,739

The net movements in the deferred tax assets and liabilities resulting from temporary differences, recognized directly in equity in 2012 and 2011, amount to 420 million euros and 239 million euros, respectively, as shown in the consolidated statement of comprehensive income.

The heading for "Other, mainly includes the difference between the accounting and tax values created by the value of financial derivatives at year end (see Note 16).

Tax payables and receivables

Current tax payables and receivables at December 31, 2012 and 2011 are as follows:

Millions of euros	Balance at 12/31/2012	Balance at 12/31/2011
Taxes payable:		
Tax withholdings	102	163
Indirect taxes	1,110	1,018
Social security	188	187
Current income taxes payable	698	611
Other	424	589
Total	2,522	2,568

Millions of euros	Balance at 12/31/2012	Balance at 12/31/2011
Tax receivables:		
Indirect tax	848	772
Current income taxes receivable	811	569

Other	169	226
Total	1,828	1,567

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Reconciliation of book profit before taxes to taxable income

The reconciliation between book profit before tax and the income tax expense for 2012, 2011 and 2010 is as follows:

Millions of euros	2012	2011	2010
Accounting profit before tax	5,864	6,488	13,901
Tax expense at prevailing statutory rate (30%)	1,759	1,946	4,170
Effect of statutory rate in other countries	144	(19)	(52)
Variation in tax expense from new taxes	3	11	10
Permanent differences	307	(22)	(69)
Changes in deferred tax charge due to changes in tax rate	(27)	(26)	(21)
Capitalization of tax deduction and tax relief	(81)	(97)	(112)
Use/ Capitalization of loss carryforwards	(404)	(200)	(134)
Increase / (Decrease) in tax expense arising from temporary differences	(297)	(1,344)	(42)
Other	57	52	79
Income tax expense	1,461	301	3,829
Breakdown of current/deferred tax expense			
Current tax expense	1,726	1,557	2,455
Deferred tax benefit	(265)	(1,256)	1,374
Total income tax expense	1,461	301	3,829

The income tax expense in 2012 includes the impact of the completion of the tax inspection in Spain, for 458 million euros, and the recognition of tax credits and temporary differences of German companies, for 246 million euros.

The income tax expense for 2011 included the reversal of the deferred tax arising on the merger between Brazilian companies Telesp and Vivo Participações, S.A. in October for 1,288 million euros (see Note 2), included in the preceding table under “Increase/(Decrease) in tax expense arising from temporary differences.”

The permanent differences arise mainly from events that produce taxable income not recognized in the consolidated income statement, as well as impacts recognized in profit before tax that do not generate taxable profit.

Tax inspections and tax-related lawsuits

In 2012, the lawsuit filed against the Company in the Supreme Court in relation to the income tax inspections of the tax group in Spain for the years 1998 to 2000 came to an end. The Group’s allegations were partially upheld by the Supreme Court. The amount finally deposited was 110 million euros, although part of this amount will be recoverable in the future as it relates to temporary differences which will be reversed in coming years.

On December 12, 2012, the National Court of Justice issued a ruling on the tax inspection for the years 2001 to 2004, accepting the tax losses incurred by the Group in relation to the transfer of certain interests in TeleSudeste, Telefónica Móviles México and Lycos as tax deductible and rejecting the other allegations. The Company filed an appeal with the Supreme Court on December 28, 2012.

Lastly, in 2012, the tax inspections for all taxes for the years 2005 to 2007 were completed, with the Company signing consent forms for a payment of 135 million euros, without having received the final proposal for the non-consent form for the items which the Company contests, as an appeal has been filed with the Large Taxpayers Central Office of the Spanish State Tax Agency.

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Meanwhile, Telefónica Brasil has a number of appeals underway regarding the ICMS –similar to VAT- levied on telecommunications services. There is a dispute with the Brazilian tax authority over which services should be subject to settlement of this tax. In most cases, the authorities is reiterating its demands of the collection of the ICMS on complementary or auxiliary services to base telecommunications service, such as value added services of the lease of modems. To date, all the related procedures are being contested in all instances (administrative and judicial). The aggregate amount of these assessments, updated to take into account interests, fines and other items, is approximately 1,133 million euros.

Regarding the Group's main tax litigation in Peru, at year-end 2012, no ruling had been issued on the administrative appeal filed in 2010. Despite the assessments originally raised by the tax authorities, of 141 million euros plus interest and penalties, only 38 million euros has been deposited to date as the rest is suspended until the courts issue their ruling. The Group and its legal advisors believe they have legal grounds to expect the ruling on the appeal to be favorable for the Group.

At the 2012 year end, based on the final outcome of these assessments, and on the lawsuits, and inspections in progress it has not been deemed necessary to recognize additional liabilities in the Telefónica Group's consolidated financial statements.

Years open for inspection

The years open for review by the tax inspection authorities for the main applicable taxes vary from one consolidated company to another, based on each country's tax legislation, taking into account their respective statute-of-limitations periods. In Spain, as a result of the tax audit completed in 2012, the main companies of the tax group are open to inspection of corporation tax from 2008 and all other applicable taxes from 2009.

In the other countries in which the Telefónica Group has a significant presence, the years open for inspection by the relevant authorities are generally as follows:

- The last seven years in Argentina
- The last five years in Brazil, Mexico, Colombia and the Netherlands
- The last four years in Venezuela, Nicaragua and Peru
- The last three years in Chile, Ecuador, El Salvador, the US and Panama
- The last five years in Uruguay
- In Europe, the main companies have open to inspection the last six years in the United Kingdom, the last nine years in Germany, and the last four years in the Czech Republic.

The tax audit of the open years is not expected to give rise to additional material liabilities for the Group.

Note 18. Discontinued operations

None of the Group’s principal operations were discontinued in 2012, 2011 or 2010.

Note 19. Revenue and expenses

Revenues

The breakdown of “Revenues” is as follows:

Millions of euros	2012	2011	2010
Rendering of services	57,810	58,415	56,434
Net sales	4,546	4,422	4,303
Total	62,356	62,837	60,737

Other income

The breakdown of “Other income” is as follows:

Millions of euros	2012	2011	2010
Ancillary income	526	445	882
Own work capitalized	822	739	737
Government grants	51	62	66
Gain on disposal of assets	924	861	4,184
Total	2,323	2,107	5,869

The gain on disposal of assets in 2012 relates mainly to the disposal of non-strategic items of the Group’s property, plant and equipment, mostly in Latin America, for 620 million euros (with 418 million euros by Telefónica Brazil and 65 million euros by Telefónica Móviles México). In 2011, the gain on disposal of assets totalled 564 million euros (with 200 million euros by Telefónica Brazil and 240 million euros by Telefónica Móviles Mexico). In 2010, the gain on the sale of non-strategic items of plant, property and equipment totalled 260 million.

The gain on disposal of assets in 2012 also includes the gains on the sale of Atento (61 million euros) (see Note 2), the gains on the sale of 50% of Red Universal de Marketing y Bookings Online, S.A. (RUMBO) for 27 million euros, and the transfer to Abertis Telecom, S.A. of 23,343 shares in Hispasat, S.A., for 26 million euros (see Appendix I). The 2011 figure also includes the gain on the partial settlement of the equity swap contracts on the investment in Portugal Telecom, for 184 million euros (see Note 13).

The gain on disposal of assets in 2010 included the capital gain recognized in accordance with IFRS 3 on remeasurement of the previously-held interest in Brasilcel, in the amount of 3,797 million euros (see Note 5). The figure also included gains on the sale of Manx, for 61 million euros.

Other expenses

The breakdown of “Other expenses” in 2012, 2011 and 2010 is as follows:

Millions of euros	2012	2011	2010
Leases	1,159	1,033	1,083
Advertising	1,528	1,457	1,419
Other external services	10,800	10,529	9,726
Taxes other than income tax	1,436	1,328	1,279
Other operating expenses	399	190	453
Change in trade provisions	777	818	853
Losses on disposal of fixed assets and changes in provisions for fixed assets	706	43	1
Total	16,805	15,398	14,814

“Losses on disposal of fixed assets and changes in provisions for fixed assets” includes mainly the proceed from the sale of 4.56% of China Unicom, of 97 million euros (see Note 2), the impact of the write-offs of the customer portfolio allocated to the business in Ireland for 113 million euros (Note 6) and the related goodwill allocated to the Group’s operations in that country for 414 million euros (Note 7).

In 2010, the Group approved firm commitments in connection with the Telefónica Foundation’s social welfare projects, in order to provide it with adequate financing to enable it to carry out its forecast short and medium-term plans, in the amount of 400 million euros. These commitments were partially met with the contribution of certain properties to the foundation, generating a gain of 40 million euros.

Estimated payment schedule

The estimated payment schedule in millions of euros for the next few years on operating leases and purchase and other contractual commitments is as follows:

12/31/2012	Total	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years
Operating lease obligations	10,128	1,521	2,565	2,035	4,007
Purchase and other contractual obligations	2,318	997	1,055	235	31

The main finance lease transactions are described in Note 22.

Headcount and employee benefits

a) Number of employees

The table below presents the breakdown of the Telefónica Group's average number of employees in 2012, 2011 and 2010, together with total headcount at December 31 each year. The employees shown for each subgroup include the Telefónica Group companies with similar activities in accordance with the segment reporting.

	2012		2011		2010	
	Average	Year-end	Average	Year-end	Average	Year-end
Telefónica Europe	56,681	55,321	60,796	58,927	61,754	61,271
Telefónica Latin America	58,681	58,282	59,024	59,962	53,071	58,816
Subsidiaries and other companies	157,236	19,583	166,325	172,138	154,222	165,019
Total	272,598	133,186	286,145	291,027	269,047	285,106

Employees corresponding to the Atento business are included in the average headcount until the date it left the Group (see Note 2). The average number of employees in Atento Group companies in the preceding table were 141,130, 152,197 and 141,036 in 2012, 2011 and 2010, respectively.

Of the final headcount at December 31, 2012, approximately 37.9% are women (53.5% and 51.5% at December 31, 2011 and December 31, 2010, respectively). Of the average headcount at December 31, 2012, approximately 53.9% are women (52.4% and 51.5% at December 31, 2011 and December 31, 2010, respectively).

b) Employee benefits

The Telefónica Group has arranged a defined-contribution pension plan for its employees in Spain. Under this plan, the company makes contributions of 4.51% of the regular base salary (6.87% for employees of Telefónica de España, S.A.U. whose hiring date was prior to June 30, 1992). This is in addition to a 2.21% compulsory contribution by each participant. This plan is entirely externalized in outside funds.

At December 31, 2012, a total of 47,642 Group employees were covered by the pension plans managed by the subsidiary Fonditel Entidad Gestora de Fondos de Pensiones, S.A. (49,580 and 51,572 at December 31, 2011 and 2010, respectively). The contributions made by the various Group companies amounted to 94 million euros in 2012 (104 million euros and 99 million euros in 2011 and 2010, respectively).

Furthermore, in 2006, the Group approved a Pension Plan for Senior Executives, wholly funded by the company, which complements the previous plan. This plan envisages annual defined contributions equivalent to specific percentages of the executives' fixed remuneration, in accordance with their professional category, and extraordinary contributions in accordance with the circumstances of each executive, payable in line with the conditions of said Plan. No provision was made for this plan as it has been fully externalized.

Depreciation and amortization

The breakdown of "Depreciation and amortization" on the consolidated income statement is as follows:

Millions of euros	2012	2011	2010
Depreciation of property, plant and equipment	6,931	6,670	6,159

Amortization of intangible assets	3,502	3,476	3,144
Total	10,433	10,146	9,303

Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent (adjusted for any dilutive effects inherent in converting potential ordinary shares issued) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

Both basic and diluted earnings per share attributable to equity holders of the parent are calculated based on the following data:

Millions of euros	2012	2011	2010
Profit attributable to ordinary equity holders of the parent from continuing operations	3,928	5,403	10,167
Profit attributable to ordinary equity holders of the parent from discontinued operations	–	–	–
Total profit attributable to equity holders of the parent for basic earnings	3,928	5,403	10,167
Adjustment for dilutive effects of the conversion of potential ordinary shares	–	–	–
Total profit attributable to equity holders of the parent for diluted earnings	3,928	5,403	10,167

Thousands Number of shares	2012	2011	2010
Weighted average number of ordinary shares (excluding treasury shares) for basic earnings per share	4,495,914	4,583,974	4,595,215
Telefónica, S.A. share option plan.	1,998	1,702	6,115
Weighted average number of ordinary shares (excluding treasury shares) outstanding for diluted earnings per share	4,497,912	4,585,676	4,601,330

The denominators used in the calculation of both basic and diluted earnings per share have been adjusted to reflect any transactions that changed the number of shares outstanding without a corresponding change in equity as if they had taken place at the start of the first period under consideration. This is the case of the bonus share issue held to pay the scrip dividend (see Note 12).

There have been no transactions involving existing or potential ordinary shares between the end of the year and the date of preparation of the consolidated financial statements.

Basic and diluted earnings per share attributable to equity holders of the parent broken down by continuing and discontinued operations are as follows:

	Continuing operations			Discontinued operations			Total		
Figures in euros	2012	2011 (*)	2010 (*)	2012	2011 (*)	2010 (*)	2012	2011 (*)	2010 (*)
	0.87	1.18	2.21	–	–	–	0.87	1.18	2.21

Basic earnings per share									
Diluted earnings per share	0.87	1.18	2.21	–	–	–	0.87	1.18	2.21

(*) revised data

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Note 20. Share-based payment plans

At year-end 2012, 2011 and 2010, the Telefónica Group had the following shared-based payment plans linked to the share price of Telefónica, S.A. The main plans in force at the end of 2012 are as follows:

a) Telefónica, S.A. share plan: “Performance Share Plan” (PSP)

At the General Shareholders’ Meeting of Telefónica, S.A. on June 21, 2006, its shareholders approved the introduction of a long-term incentive plan for managers and senior executives of Telefónica, S.A. and other Telefónica Group companies. Under this plan, selected participants who met the qualifying requirements were given a certain number of Telefónica, S.A. shares as a form of variable compensation.

The term of the plan is seven years It is divided into five phases, each three years long, beginning on July 1 (the “Start Date”) and ending on June 30 three years later (the “End Date”). At the start of each phase the number of shares to be awarded to plan beneficiaries is determined on the basis of their success in meeting targets set. The shares are delivered, assuming targets are met, at the End Date of each phase. Each phase is independent from the others. The first started on July 1, 2006 (with shares delivered on July 1, 2009) and the fifth phase on July 1, 2010 (with any shares to be delivered from July 1, 2013).

Award of the shares is subject to a number of conditions:

- The beneficiary must continue to work for the company throughout the three-year duration of each phase, subject to certain special conditions related to departures.

- The actual number of shares awarded at the end of each phase will depend on success in meeting targets and the maximum number of shares assigned to each executive. Success is measured by comparing the Total Shareholder Return (“TSR”), which includes both share price and dividends offered by Telefónica shares, with the TSRs offered by a basket of listed telecoms companies that comprise the comparison group. Each employee who is a member of the plan is assigned at the start of each phase a maximum number of shares. The actual number of shares awarded at the end of the phase is calculated by multiplying this maximum number by a percentage reflecting their success at the date in question. This will be 100% if the TSR of Telefónica is equal to or better than that of the third quartile of the Comparison Group and 30% if Telefónica's TSR is in line with the average. The percentage rises linearly for all points between these two benchmarks. If the TSR is below average no shares are awarded.

June 30, 2010 marked the end of the second phase of this plan, which entailed the following maximum number of shares allocated:

	No. of shares	Unit fair value	End date
2nd phase July 1, 2007	5,556,234	7.70	June 30, 2010

With the maturity of the second phase of the plan on June 30, 2010 a total of 2,964,437 shares (corresponding to a total of 4,091,071 gross shares less a withholding of 1,132,804 shares at the choice of employees to meet their tax commitments) were delivered to Telefónica Group directors included in the second phase. The shares delivered were deducted from the Company’s treasury shares in 2010.

June 30, 2011 marked the end of the third phase of this plan, which entailed the following maximum number of shares allocated:

	No. of shares	Unit fair value	End date
3rd phase July 1, 2008	5,286,980	8.39	June 30, 2011

With the maturity of the third phase of the plan on June 30, 2011 a total of 2,900,189 shares (corresponding to a total of 4,166,304 gross shares less a withholding of 1,266,115 shares at the choice of employees to meet their tax commitments) were delivered to Telefónica Group directors included in the third phase. The shares delivered were deducted from the Company’s treasury shares in 2011.

The third phase of the plan was partially covered through two financial instruments relating to 2,446,104 shares at a cost of 10.18 euros per share.

The fourth phase expired on June 30, 2012, with no shares being awarded. The maximum number of shares assigned to this phase of the plan was as follows:

	No. of shares	Unit fair value	End date
4th phase July 1, 2009	6,356,597	8.41	June 30, 2012

For the same phase of the plan, Telefónica, S.A. acquired an instrument from a financial institution with the same features of the plan, whereby at the end of the phase, Telefónica will obtain part of the shares necessary to settle the phase (4 million shares). The cost of the financial instrument is 36 million euros, equivalent to 8.41 euros per option The instrument was cancelled with a charge to distributable reserves when this phase of the plan expired.

The maximum number of the shares assigned and of outstanding shares in the last outstanding phases at December 31, 2012 is as follows:

	No. of shares assigned	Outstanding shares at 12/31/12	Unit fair value	End date
5th phase July 1, 2010	5,025,657	4,294,158	9.08	June 30, 2013

This plan is equity-settled via the delivery of shares to the participants. Accordingly, a balancing entry for the 24 million euros, 41 million euros and 42 million euros of employee benefits expenses recorded in 2012, 2011 and 2010, respectively, was made in equity.

b) Telefónica, S.A. share option plan targeted at Telefónica Europe employees: "Performance Cash Plan"

Telefónica Europe offers the Performance Cash Plan, operating under the same conditions as the Performance Share Plan. This plan entails delivery to this segment’s executives of a specific number of theoretical options in Telefónica, S.A. which, in the event, would be cash-settled at the end of each phase via a payment equivalent to the market value of the shares on settlement date up to a maximum of three times the notional value of the shares at the delivery date.

The value of the theoretical options is established as the average share price in the 30 days immediately prior to the start of each phase. The duration of this plan is also 7 years, with 5 phases, each of 3 years, commencing on July 1 of each year, starting in 2006.

The performance rate for setting payments is measured based on the TSR on Telefónica shares with respect to the comparison group’s TSRs, in line with the criteria set out for Telefónica, S.A.'s Performance Share Plan.

The number of options assigned for the 2010-2013 cycle at December 31, 2012 was 267,515, while 291,610 rights had been assigned in the PCP 2011-2014. No rights were assigned for the 2012-2015 cycle.

The fair value at December 31, 2012 of the options delivered in each phase in force at that time was 10.19 euros per option. This value is calculated by taking the Telefónica share price and including the estimated TSR and is updated at each year-end.

c) Telefónica, S.A. global share plan: "Global Employee Share Plan" (GESP)

At the June 23, 2009 General Shareholders' Meeting of Telefónica, S.A. , the shareholders approved the introduction of a Telefónica, S.A. share incentive plan for all employees of the Telefónica Group worldwide, with certain exceptions. Under this plan, participants who meet certain requirements are offered the possibility of acquiring shares in Telefónica, S.A., which takes up the obligation to give them a certain number of free shares.

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The total term of the plan is two years. Employees joining the plan could acquire Telefónica, S.A. shares through maximum monthly installments of 100 euros (or the local currency equivalent), up to a maximum of 1,200 euros over a period of 12 months (acquisition period). Shares were delivered upon vesting of the plan, as from September 1, 2012, subject to a number of conditions:

- The beneficiary must continue to work for the company throughout the two-year duration of the plan (consolidation period), subject to certain special conditions related to departures.

- The actual number of shares to be delivered at the end of the consolidation period depended on the number of shares acquired and retained by each employee. Each employee who is a member of the plan and remained a Group employee, and retained the shares acquired for an additional twelve-month period after the acquisition date, would be entitled to receive one free share per share acquired and retained at the end of the consolidation period.

At the consolidation date of the Plan, 2,071,606 shares were awarded (corresponding to a total of 2,302,349 of gross shares of which 230,743 shares were retained at the request of the employees to meet their tax commitments) to the 35,110 employees participating in the plan who were with the company on that date.

The employee benefits expense accrued, totalling 15 million euros, 21 million euros and 11 million euros in 2012, 2011 and 2010, respectively, was recorded with a balancing entry in equity.

d) Second edition of the Telefónica, S.A. global share plan: “Global Employee Share Plan – second edition” (GESP II)

At the May 18, 2011 General Shareholders’ Meeting of Telefónica, S.A. , the shareholders approved the introduction of a Telefónica, S.A. share incentive plan for all employees of the Telefónica Group worldwide, with certain exceptions. The characteristics and conditions of this plan are similar to those of the first edition of the Global Employee Share Plan. Where applicable, shares will be delivered after vesting of the plan, as of December 1, 2014.

The acquisition period began in December 2012. At December 31, 2012, 23,590 employees had adhered to the plan. This plan will be equity-settled via the delivery of shares to the employees. Accordingly, a balancing entry for the employee benefits expense will be made in equity in 2013 and 2014.

e) Long-term incentive plan based on Telefónica, S.A. shares: "Performance and Investment Plan" (PIP)

At the General Shareholders’ Meeting held on May 18, 2011, a new long-term share-based incentive plan called “Performance and Investment Plan” was approved for Telefónica Group directors and executive officers. This plan will take effect following completion of the Performance Share Plan.

Under this plan, a certain number of shares of Telefónica, S.A. will be delivered to plan participants selected by the Company who decide to participate on compliance with stated requirements and conditions.

The plan lasts five years and is divided into three independent three-year phases (i.e. delivery of the shares for each three-year phase three years after the start date). The first phase began on July 1, 2011 (with the delivery of the related shares from July 1, 2014). The second phase began on July 1, 2012 (with delivery of the related shares from July 1, 2015). The third phase will begin on July 1, 2013 (with delivery of the related shares from July 1, 2016).

The specific number of Telefónica, S.A. shares deliverable within the maximum amount established to each member at the end of each phase will be contingent and based on the Total Shareholder Return (“TSR”) of Telefónica, S.A.

shares (from the reference value) throughout the duration of each phase compared to the TSRs of the companies included in the Dow Jones Global Sector Titans Telecommunications Index. For the purposes of this Plan, these companies make up the comparison group ("Comparison Group").

The TSR is the indicator used to determine the Telefónica Group's medium- and long-term value generation, measuring the return on investment for each shareholder. For the purposes of this Plan, the return on investment of each phase is defined as the sum of the increase or decrease in the Telefónica, S.A. share price and dividends or other similar items received by the shareholder during the phase in question.

At the beginning of each phase, each participant is allocated a notional number of shares. According to the plan, the number of shares to be delivered will range from:

- 30% of the number of notional shares if Telefónica, S.A.'s TSR is at least equal to the median of the Comparison Group, and

- 100% if Telefónica, S.A.'s TSR is within the third quartile or higher than that of the Comparison Group. The percentage is calculated using linear interpolation when it falls between the median and third quartile.

- No shares will be delivered if Telefónica, S.A.'s TSR is below the Comparison Group's median.

The plan includes an additional condition regarding compliance by all or part of the participants with a target investment and holding period of Telefónica, S.A. shares through each phase ("Co-Investment"), to be determined for each participant, as appropriate, by the Board of Directors based on a report by the Nominating, Compensation and Corporate Governance Committee. Participants meeting the co-investment requirement will receive an additional number of shares, provided the rest of the requirements established in the plan are met.

In addition, and independently of any other conditions or requirements that may be established, in order to be entitled to receive the corresponding shares, each participant must be a Telefónica Group employee at the delivery date for each phase, except in special cases as deemed appropriate.

Shares will be delivered at the end of each phase (in 2014, 2015, and 2016, respectively). The specific delivery date will be determined by the Board of Directors or the committee or individual entrusted by the Board to do so.

The shares to be delivered to participants, subject to compliance with the pertinent legal requirements in this connection, may be either (a) treasury shares in Telefónica, S.A. acquired by Telefónica, S.A. itself or by any of the Telefónica Group companies; or (b) newly-issued shares.

The first and second allocations of shares under this plan were made on July 1, 2011 and July 1, 2012. The maximum number of shares assigned (including the amount of co-investment) under the plan and the number of shares outstanding at December 31, 2012 is as follows:

Phase	No. of shares assigned	Outstanding shares at 12/31/12	Unit fair value	End date
1st phase July 1, 2011	5,545,628	4,984,670	8.28	June 30, 2014
2nd phase July 1, 2012	7,347,282	6,868,684	5.87	June 30, 2015

With respect to the first phase of this plan, Telefónica, S.A. acquired an instrument from a financial institution with the same features of the plan, whereby at the end of the phase, Telefónica will obtain part of the shares necessary to settle the phase (4 million shares). The cost of the financial instrument is 37 million euros, equivalent to 9.22 euros per option

This plan is equity-settled via the delivery of shares to the participants. Accordingly, a balancing entry for the 22 million euros and 8 million euros of employee benefits expenses recorded in 2012 and 2011, respectively, was made in equity.

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Note 21. Other information

a) Litigation and arbitration

Telefónica and its group companies are party to several legal proceedings which are currently in progress in the courts of law and the arbitration bodies of the various countries in which we are present.

Based on the advice of our legal counsel it is reasonable to assume that these legal proceedings will not materially affect our financial condition or solvency, regardless unfavorable outcome in any of them.

We highlight the following unresolved legal proceedings or those underway in 2012 (see Note 17 for details of tax-related cases):

Contentious proceedings in connection with the merger between Terra Networks, S.A. and Telefónica, S.A.

On September 26, 2006, Telefónica was notified of the claim filed by former shareholders of Terra Networks, S.A. (Campoaguas, S.L., Panabeni, S.L. and others) alleging breach of contract in respect of the terms and conditions set forth in the Prospectus of the Initial Public Offering of shares of Terra Networks, S.A. dated October 29, 1999. The court rejected this claim and ordered the plaintiffs to pay court costs by a ruling issued on September 21, 2009. The plaintiffs appealed this ruling on December 4, 2009 and Telefónica was notified of such appeal on June 16, 2010. Telefónica answered the appeal on January 5, 2011 by opposing to it. On November 7, 2011, the Commercial and Chancery Court issued case management directions acknowledging receipt of the case file, appointing a presiding judge and set February 14, 2013 as the date for reviewing and ruling on the appeal. Since such ruling there has been no new update of the case, the Company is yet to receive a notification on the case, but it believes the ruling to be in favor of Telefónica's interests.

Cancellation of the UMTS license granted to Quam GMBH in Germany

In December 2004, the German Telecommunications Market Regulator revoked the UMTS license granted in 2000 to Quam GmbH, in which Telefónica has a stake. After obtaining a suspension of the revocation order, on January 16, 2006, Quam GmbH filed a suit against the order with the German courts. This claim sought two objectives: 1) to overturn the revocation order issued by the German Telecommunications Market Regulator, and 2) if this failed, to be reimbursed for the total or partial payment of the original amount paid for the license; i.e. 8,400 million euros.

This claim was rejected by the Cologne Administrative Court. Quam GmbH appealed the decision before the Supreme Administrative Court of North Rhine-Westphalia, which also rejected its appeal.

Finally, Quam GmbH filed a new claim in third instance before the Federal Supreme Court for Administrative Cases, which was not admitted for processing.

Quam GmbH appealed this decision on August 14, 2009. On August 17, 2011, after the oral hearing, the Federal Administrative Court rejected Quam GMBH's appeal at third instance.

In October 2011, Quam GmbH filed a constitutional complaint before the German Federal Constitutional Court (Karlsruhe).

Appeal against the European Commission ruling of July 4, 2007 against Telefónica Spain's broadband pricing policy

On July 9, 2007, Telefónica was notified of the decision issued by the European Commission (“EC”) imposing Telefónica and Telefónica de España, S.A.U. a fine of approximately 152 million euros for breach of the former article 82 of EC Treaty rules by charging not equitable prices to whole and retail broadband access services. The court ruled in favor of the EC accusing Telefónica of applying a margin squeeze between the prices it charged competitors to provide regional and national wholesale broadband services and its retail broadband prices using ADSL technology between September 2001 and December 2006.

On September 10, 2007, Telefónica and Telefónica de España filed an appeal to overturn the decision before the General Court of the European Union. The Kingdom of Spain, as an interested party, also lodged an appeal to overturn the decision. Meanwhile, France Telecom and the Spanish Association of Bank Users (AUSBANC) filed requests to intervene, which the General Court admitted.

A hearing was held on May 23, 2011, at which Telefónica presented its case. On March 29, 2012 the General Court ruled rejecting the appeal by Telefónica and Telefónica de España, confirming the sanction imposed by the Commission. On June 13, 2012 an appeal against this ruling was lodged before the European Union Court of Justice.

In October 2007, Telefónica, S.A. presented a guarantee for an indefinite period of time to secure the principal and interest.

Appeal against the decision by Agencia Nacional de Telecomunicações (ANATEL) regarding the inclusion of interconnection and network usage revenues in the Fundo de Universalização de Serviços de Telecomunicações (FUST)

Vivo Group operators, together with other cellular operators, appealed ANATEL's decision of December 16, 2005, to include interconnection and network usage revenues and expenses in the calculation of the amounts payable into the Fund for Universal Access to Telecommunications Services (Fundo de Universalização de Serviços de Telecomunicações or FUST for its initials in Portuguese) –a fund which pays for the obligations to provide universal service- with retroactive application from 2000. On March 13, 2006, Brasilia Regional Federal Court granted a precautionary measure which stopped the application of ANATEL's decision. On March 6, 2007, a ruling in favor of the wireless operators was issued, stating that it was not appropriate to include the revenues received by transfer from other operators in the taxable income for the FUST's calculation and rejecting the retroactive application of ANATEL's decision. ANATEL filed an appeal to overturn this decision with Brasilia Regional Federal Court no. 1. This appeal is pending resolution.

At the same time, Telefónica Brazil and Telefónica Empresas, S.A., together with other wireline operators through ABRAFIX (Associação Brasileira de Concessionárias de Serviço Telefonico Fixo Comutado) appealed ANATEL's decision of December 16, 2005, also obtaining the precautionary measures requested. On June 21, 2007, Federal Regional Court no. 1 ruled that it was not appropriate to include the interconnection and network usage revenues and expense in the FUST's taxable income and rejected the retroactive application of ANATEL's decision. ANATEL filed an appeal to overturn this ruling on April 29, 2008 before Brasilia Federal Regional Court no. 1.

No further action has been taken since then. The amount of the claim is quantified at 1% of the interconnection revenues.

Public civil procedure by the Sao Paulo government against Telefónica Brazil for alleged reiterated malfunctioning in services provided by Telefónica Brazil and request of compensation for damages to the customers affected

This proceeding was filed by the Public Ministry of the State of Sao Paulo for alleged reiterated malfunctioning in the services provided by Telefónica Brazil, seeking compensation for damages to the customers affected. A general claim is filed by the Public Ministry of the State of Sao Paulo, for 1,000 million Brazilian reais (approximately 370 million euros), calculated on the company's revenue base over the last five years.

In April 2010, a ruling in first instance convicting the Telefónica Group was issued, there will not be a precision of its effects until there is a final ruling, and the total amount of persons affected and party in the procedure is known. At that moment, the amount of the indemnity will be established, ranging between 1,000 and 60 million reais (approximately, between 370 and 22 million euros). On May 5, 2010, Telefónica Brazil filed an appeal before the Sao Paolo Court of Justice, suspending the effect of the ruling. No further action has been taken since then.

Case before the Directorate General for Competition of the European Commission – Telefónica / Portugal Telecom

On January 19, 2011, the European Commission initiated formal proceedings to investigate whether Telefónica, S.A. (Telefónica) and Portugal Telecom SGPS, S.A. (Portugal Telecom) had infringed on European Union anti-trust laws with respect to a clause contained in the sale and purchase agreement of Portugal Telecom's ownership interest in Brasilcel, N.V., a joint venture in which both were venturers and owner of Brazilian company Vivo.

On January 23, 2012, the European Commission passed a ruling on the formal proceedings. The ruling imposed a fine on Telefónica, S.A. of 67 million euros, as the European Commission ruled that Telefónica and Portugal Telecom committed an infraction as stipulated in Article 101 of the Treaty on the Functioning of the European Union (“TFEU”) for having entered into the agreement set forth in Clause Nine of the sale and purchase agreement of Portugal Telecom’s ownership interest of Brasilcel, N.V.

Telefónica intends to file an appeal for annulment of this ruling with the European Union General Court. April 9, 2013, will be the deadline for filing this appeal.

b) Commitments

Telefónica Internacional, S.A.U. as strategic partner of Colombia Telecomunicaciones, S.A. ESP.

Pursuant to amendment nº 1 of the Framework Investment Agreement executed on March 30, 2012, after the closing of the merger between Colombia Telecomunicaciones, S.A. ESP and Telefónica Móviles Colombia, S.A., the Colombian Government may, at any time, offer to Telefonica all or part of the shares it holds in the company, the latter being obliged to acquire them, directly or via one of its subsidiaries, provided that any of the following circumstances becomes applicable: (i) Colombia Telecomunicaciones, S.A. ESP fails to meet its payment obligations under the terms of the ”Contrato de Explotación”, of two accumulated bi-monthly installments of the consideration fees; (ii) the increase in EBITDA is less than 5.75% in the measurement periods, and provided that during the twelve (12) months following the ordinary shareholders’ meetings during which the measurement was made, at least one of the following occurs: 1) Colombia Telecomunicaciones S.A. ESP makes capital investments (CAPEX) exceeding 12.5% of its revenues for services; 2) Colombia Telecomunicaciones S.A. ESP has paid a brand fee or any other type of payment to the Strategic Partner for the use of its brands; or 3) orders and/or pays dividends with the favorable vote of the Strategic Partner.

From January 1, 2013, the Colombian Government could require Telefónica to vote in favor of the register of the shares of Colombia Telecomunicaciones, S.A. ESP in the National Securities and Issuer’s Registry and in the Colombia Stock Exchange.

In addition, if Telefónica decides to dispose of all or part of its shareholding in Colombia Telecomunicaciones, S.A. ESP (except for transfer or disposal in favor of any of its subsidiaries),Telefonica commits that (i) the acquirer or transferee will be obliged to adhere to the Framework Investment Agreement; and (ii) that the acquirer or transferee will be obliged to present an offer to purchase all of the shares in Colombia Telecomunicaciones, S.A. ESP held by the Colombian Government at the same price and under the same terms and conditions negotiated with Telefónica, through the legally-established procedure for disposal of shares held by public entities.

Lastly, the Colombian Government will be entitled to subscribe or acquire, at no cost or compensation, a number of shares necessary to bring its aggregate holding in Colombia Telecomunicaciones S.A. ESP up to 3%, depending on the compound growth in EBITDA between 2011 and 2014.

Atento

As a result of the sale agreement of Atento by Telefonica, announced on October 12, 2012 and ratified on December 12, 2012, both companies have signed a Master Service Agreement regulating Atento’s relationship with the Telefónica Group as a service provider for a period of nine years.

By virtue of this Agreement, Atento become Telefónica's preferred Contact Centre and Customer Relationship Management (CRM) service provider, stipulating annual commitments in terms of turnover which updates in line with inflation and deflation that vary from country to country, pursuant to the current volume of services Atento has been providing to the entire Group.

In the case of an eventual failure to meet the annual turnover commitments that could result in a compensation, which would be calculated based on the difference between the actual amount of turnover and the predetermined commitment, applying a percentage based on the Contract Centre's business margin to the final calculation.

Lastly, the Master Agreement sets forth a reciprocal arrangement, whereby Atento assumes similar commitments to subscribe its telecommunications services to Telefónica.

Network sharing in the UK

On June 6, 2012, Telefónica U.K. and Vodafone U.K. mutually committed to shoring up the current network sharing agreement between the companies, by pooling their network infrastructure into a single grid for transmitting the spectrum that each company holds individually. Telefónica U.K. and Vodafone U.K. will therefore have access to a national grid with 18,500 sites, an access improvement of 40% for each operator. Pursuant to this agreement, a joint venture was incorporated in 2012, called Cornerstone Telecommunications Infrastructure Limited, with a 50% interest held by each of these companies.

This project is especially beneficial for customers, given that by pooling their networks, Telefónica and Vodafone, two direct competitors in the UK market, could offer 2G and 3G coverage for 98% of the population by 2015. In addition, the agreement ensures that the necessary capacity to offer the forthcoming 4G services will be rolled out more quickly and with the most ample geographic coverage possible, helping to close the digital gap between rural and urban areas.

The contingencies arising from the litigation and commitments described above were evaluated (see Note 3.1) when the consolidated financial statements for the year ended December 31, 2012 were prepared. The provisions recorded in respect of the commitments taken as a whole are not material.

c) Environmental matters

The Group has launched various projects aimed at improving current systems to reduce the environmental impact of its existing installations, with project costs being added to the cost of the installation to which the project relates.

In addition, in line with its commitment to the environment, the Group announced the creation of a Climate Change Office to provide a framework for strategic and R&D and innovation projects in the quest for energy efficient solutions. This initiative entails the launch and implementation of solutions in each area that contribute to optimizing the Company's processes (operations, suppliers, employees, customers and society).

- In the area of operations, the main objective is to develop and implement projects that will allow for more efficient networks and systems by reducing and optimizing energy consumption.

- In the area of suppliers, active efforts are underway to include energy efficiency criteria in the purchasing process for all product lines in the Telefónica Group’s value chain.

- In the area of employees, the aim is to foster among the Company’s employees a culture of respect and awareness regarding the environment and energy saving.

- In the area of customers, work is being carried out to better leverage ICTs (information and communication technologies) and increase energy efficiency with the objective of reducing carbon emissions.

- And finally, in the area of society, the objective is to promote change in citizens’ behavior through actions by the Telefónica Group.

The Group has also rolled out internal control mechanisms sufficient to pre-empt any environmental liabilities that may arise in future, which are assessed at regular intervals either by Telefónica staff or renowned third-party institutions. No significant risks have been identified in these assessments.

In line with its environmental policy, in 2012 and 2011, the Telefónica Group has incurred expenses and made investments in respect of environmental protection. However, the amount of these investments is not significant with respect to the accompanying consolidated income statement and statement of financial position, taken as a whole.

d) Auditors' fees

The expenses accrued in respect of the fees for services rendered to the various member firms of the Ernst & Young international organization, of which Ernst & Young, S.L. (the auditors of the Telefónica Group) forms part, amounted to 25.84 million euros and 27.93 million euros in 2012 and 2011, respectively.

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The detail of these amounts is as follows:

Millions of euros	2012	2011
Audit services (1)	23.84	26.29
Audit-related services (2)	2.00	1.64
TOTAL	25.84	27.93

(1) Audit services: services included under this heading are mainly the audit of the annual and reviews of interim financial statements, work to comply with the requirements of the Sarbanes-Oxley Act (Section 404) and the review of the 20-F report to be filed with the US Securities and Exchange Commission (SEC).
(2) Audit-related services: This heading mainly includes services related to the review of the information required by regulatory authorities, agreed financial reporting procedures not requested by legal or regulatory bodies and the review of corporate responsibility reports.

Ernst&Young has not rendered tax services or any other service other than those mentioned above to Telefónica Group companies.

Ernst & Young's fees include amounts in respect of fully and proportionately consolidated Telefónica Group companies. A total of 0.01 million euros and 0.07 million euros, corresponding to 50% of the fees paid by proportionately consolidated companies, were included in 2012 and 2011, respectively.

The expenses accrued in respect of the fees for services rendered to other auditors in 2012 and 2011 amounted to 40.68 million euros and 32.41 million euros, respectively, as follows:

Millions of euros	2012	2011
Audit services	1.04	0.68
Audit-related services	1.73	0.76
Tax services	5.47	6.37
All other services (consulting, advisory, etc.)	32.44	24.60
TOTAL	40.68	32.41

Other auditors' fees include amounts in respect of fully and proportionately consolidated Telefónica Group companies. In 2012 and 2011, a total of 0.05 million euros and 0.02 million euros, respectively, corresponding to 50% of the fees by proportionately consolidated companies, were included.

e) Trade and other guarantees

The Company is required to issue trade guarantees and deposits for concession and spectrum tender bids (see Note 16) and in the ordinary course of its business. No significant additional liabilities in the accompanying consolidated financial statements are expected to arise from guarantees and deposits issued.

f) Directors' and Senior Executives' compensation and other benefits

Board of Directors' compensation

The compensation of Telefónica members of the Board of Directors is governed by Article 28 of the Bylaws, which states that the compensation amount that the Company may pay to all of its Directors as remuneration and attendance fees shall be fixed by the shareholders at the General Shareholders' Meeting. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the directors. This compensation, as laid down in said article of the Bylaws, is compatible with other professional or employment compensation accruing to the Directors by reason of any executive or advisory duties that they perform for the Company, other than the supervision and collective decision-making duties inherent in their capacity as Directors.

Accordingly, the shareholders, at the Annual General Shareholders Meeting held on April 11, 2003, set the maximum gross annual amount to be paid to the Board of Directors at 6 million euros, including a fixed payment and fees for attending meetings of the Board of Director's Advisory or Control Committees. Total compensation paid to Telefónica's Directors for discharging their duties in 2012 amounted to 4,001,151 euros in fixed compensation and attendance fees.

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The compensation of Telefónica, S.A. directors in their capacity as members of the Board of Directors, the Executive Commission and/or the Advisory and Control Committees consists of a fixed amount payable monthly, and fees for attending the meetings of the Board's Advisory or Control Committees. Executive Directors other than the Chairman do not receive any amounts for their directorships, but only the corresponding amounts for discharging their executive duties as stipulated in their respective contracts.

It is hereby stated that the Company's Board of Directors, at its meeting of July 25, 2012, agreed a 20% reduction of the amounts that the Board members receive for discharging their duties.

The tables below presents the fixed amounts established in 2012 for membership to Telefónica Board of Directors, Executive Commission and Advisory or Control Committees and the attendance fees of the Advisory or Control Committees.

Compensation of members of the Board of Directors and Board Committees

The amounts shown below are expressed in annual terms applicable up to the 20% reduction agreed by the Board of Directors on July 25, 2012.

Figures in euros

Post	Board of Directors	Executive Commission	Advisory or Control Committees (*)
Chairman	300,000	100,000	28,000
Vice Chairman	250,000	100,000	–
Board member:			
Executive	–	–	–
Proprietary	150,000	100,000	14,000
Independent	150,000	100,000	14,000
Other external	150,000	100,000	14,000

(*) In addition, the amounts paid for attendance at each of the Advisory or Control Committee's meetings was 1,250 euros.

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Current compensation of members of the Board of Directors and Board Committees

The amounts shown below are expressed in annual terms applicable from the 20% reduction agreed by the Board of Directors on July 25, 2012 and effective for payments for the period between July 1, and December 31, 2012.

Amounts in euros

Position	Board of Directors	Executive Committee	Advisory or Control Committees (*)
Chairman	240,000	80,000	22,400
Vice Chairman	200,000	80,000	–
Board member:			
Executive	–	–	–
Proprietary	120,000	80,000	11,200
Independent	120,000	80,000	11,200
Other external	120,000	80,000	11,200

(*) In addition, the amounts paid for attendance to each of the Advisory or Control Committee's meetings is 1,000 euros.

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Individual breakdown

The following table presents the individual breakdown by item of the compensation and benefits paid by Telefónica, S.A. to member of the Company's Board of Directors in 2012:

Euros

Director	Wage/ Compensation1	Fixed Payment Board Committees2	Attendance fees3	Short-term Variable Compensation4	Other items5	TOTAL2012
Executive						
Mr. César Alierta Izuel	2,500,800	90,000	--	3,493,433	264,899	6,349,132
Mr. José María Álvarez-Pallete López	1,474,284	--	--	1,042,088	93,338	2,609,710
Ms. Eva Castillo Sanz	461,670	29,400	19,000	--	7,684	517,754
Mr. Santiago Fernández Valbuena	--	--	--	--	--	--
Proprietary						
Mr. Isidro Fainé Casas	225,000	90,000	--	--	11,500	326,500
Mr. José María Abril Pérez	225,000	115,200	12,750	--	--	352,950
Mr. Antonio Massanell Lavilla	135,000	63,000	26,000	--	11,250	235,250
Mr. Ignacio Moreno Martínez	135,000	--	--	--	--	135,000
Mr. Chang Xiaobing	135,000	--	--	--	--	135,000
Independent						
Mr. David Arculus	105,000	19,600	4,500	--	--	129,100
Mr. Carlos Colomer Casellas	135,000	140,400	24,750	--	21,250	321,400
Mr. Peter Erskine	135,000	140,400	33,000	--	3,750	312,150
Mr. Alfonso Ferrari Herrero	135,000	190,800	50,750	--	21,500	398,050
Mr. Luiz Fernando Furlán	135,000	12,600	1,000	--	--	148,600
Mr. Gonzalo Hinojosa Fernández de Angulo	135,000	178,200	45,250	--	22,750	381,200
Mr. Pablo Isla Álvarez de Tejera	135,000	63,000	13,750	--	--	211,750
Mr. Francisco Javier de Paz Mancho	135,000	140,400	12,500	--	10,000	297,900
Other external						
Mr. Julio Linares López	1,688,216	--	--	5,966,275	25,159,663	32,814,154
Mr. Fernando de Almansa Moreno-Barreda	135,000	50,400	19,500	--	9,000	213,900

1 Wage: Cash compensation with a predefined payment frequency, accruable or not over time and payable by the Company contractually, irrespective of effective attendance by the Director of Telefónica, S.A. to Telefónica, S.A. Board Meetings. Includes non-variable remuneration accrued, as appropriate, by the Director for discharging any related executive duties.

2 Fixed Payment Board Committees: Amount of items other than attendance to meetings payable to Directors for membership to the Executive Committee or Advisory or Control Committees of Telefónica, S.A., irrespective of effective attendance to meetings of said Committees.
3 Attendance fees: Amounts payable for attendance to meetings of the Advisory or Control Committees of Telefónica, S.A.
4 Short-term variable compensation: Variable amount linked to the performance or achievement of individual or group objectives (quantitative or qualitative) and commensurate with other compensation or any other reference in euros for a period of up to a year. For Mr. Julio Linares López, includes the amount of two annual payments (2011-2012).
5 Other items: Includes, inter alia ,(i) 24,748,696 euros in compensation paid to Mr. Julio Linares López on stepping down from his executive duties; and (ii) other amounts paid for membership of the various Regional Advisory Committees in Spain, and the Telefónica Corporate University Advisory Council.

With respect to the information contained in the preceding table, the following is noted: (i) On December 31, 2012, five years after he stopped performing executive duties in the Telefónica Group (as an employee and director), Mr. Peter Erskine was reclassified from “Other external” to “Independent;” (ii) on September 17, 2012, Mr. Julio Linares López resigned from his post as the Company’s CCO of Telefónica, S.A. and his executive duties in the Telefónica Group and therefore being reclassified from “Executive” Director to “Other external””; (iii) on September 17, 2012, Ms. Eva Castillo Sanz was appointed as Chairwoman of Telefónica Europe, and therefore changed from being an “Independent” director

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to an "Executive" director, showing in the table the compensation as Chairwoman of Telefónica Europa from October 2012; (iv) on September 17, 2012, Mr. Santiago Fernández Valbuena was appointed Director of the Company as an "Executive" Director, with the compensation paid for his position Chairman of Telefónica Latinoamérica from October 2012 shown in the table "Other amounts received from other Group Companies". The compensation paid to him as an Executive Director for his position as Chairman of Telefónica Latinoamérica from January to October 2012 is included under "Senior executives' compensation;" and (v) on September 17, 2012, Mr. David Arculus stepped down as Director of the Company, with amount in the table showing the compensation paid to him until October 2012.

In addition, to detail the amounts included in the preceding table, the following table presents the specific compensation paid to Directors of Telefónica for membership of the various Advisory or Control Committees in 2012, including both fixed payments and attendance fees:

Amounts in euros

Directors	Audit and Control	Nomination, Compensation and Corporate Governance	Human Resources, Reputation and Corporate Responsibility	Regulation	Service Quality and Customer Service	International Affairs	Innovation	Strategy	TOTAL 2012
Mr. César Alierta Izuel	–	–	–	–	–	–	–	–	–
Mr. Isidro Fainé Casas	–	–	–	–	–	–	–	–	–
Mr. Julio Linares López	–	–	–	–	–	–	–	–	–
Mr. José María Abril Pérez	–	–	–	–	–	14,850	23,100	–	37,950
Mr. José María Álvarez-Pallete López	–	–	–	–	–	–	–	–	–
Mr. José Fernando de Almansa Moreno-Barreda	–	–	–	17,100	–	28,450	–	24,350	69,900
Mr. David Arculus	–	–	–	13,300	–	10,800	–	–	24,100
Ms. Eva Castillo Sanz	–	–	–	13,300	14,550	–	–	20,550	48,400
Mr. Carlos Colomer Casellas	–	19,850	–	–	17,350	–	37,950	–	75,150
Mr. Peter Erskine	–	23,100	–	–	–	–	23,350	36,950	83,400
Mr. Santiago Fernández Valbuena	–	–	–	–	–	–	–	–	–

Mr. Alfonso Ferrari Herrero	23,100	36,700	17,350	17,100	18,350	14,600	–	24,350	151,550
Mr. Luiz Fernando Furlán	–	–	–	–	–	13,600	–	–	13,600
Mr. Gonzalo Hinojosa Fernández de Angulo	35,700	24,100	17,350	–	17,100	14,850	–	24,350	133,450
Mr. Pablo Isla Álvarez de Tejera	–	21,850	12,600	29,700	12,600	–	–	–	76,750
Mr. Antonio Massanell Lavilla	19,850	–	14,850	–	30,950	–	23,350	–	89,000
Mr. Ignacio Moreno Martínez	–	–	–	–	–	–	–	–	–
Mr. Francisco Javier de Paz Mancho	–	–	29,950	17,100	–	15,850	–	–	62,900
Mr. Chang Xiaobing	–	–	–	–	–	–	–	–	–
TOTAL	78,650	125,600	92,100	107,600	110,900	113,000	107,750	130,550	866,150

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On the other hand, the following table presents a breakdown of the amounts received from other Telefónica Group companies other than Telefónica, S.A., by Company's Directors for discharging executive duties or for membership of the companies' governing bodies and/or Advisory Boards of such companies:

Euros

Director	Wage/compensation1	Attendance fees2	Short-term variable compensation3	Other items4	TOTAL
Executive					
Ms. Eva Castillo Sanz	48,034	--	--	136,500	184,534
Mr. Santiago Fernández Valbuena	361,143	--	--	48,605	409,748
Independent					
Mr. David Arculus	--	--	--	63,565	63,565
Mr. Peter Erskine	--	--	--	84,754	84,754
Mr. Alfonso Ferrari Herrero	100,950	--	--	175,500	276,450
Mr. Luiz Fernando Furlán	105,991	--	--	175,500	281,491
Mr. Gonzalo Hinojosa Fernández de Angulo	17,322	--	--	--	17,322
Mr. Francisco Javier de Paz Mancho	658,688	--	--	175,500	834,188
Other external					
Mr. Fernando de Almansa Moreno-Barreda	216,293	--	--	175,500	391,793

1 Wage: Cash compensation with a predefined payment frequency, whether or not consolidable over time, and payable by Group companies in consideration of the mere fact of employment by them, regardless of the Director's attendance to Board meetings or analogous of the Telefónica Group entity in question. Also includes non-variable remuneration accrued, as appropriate, by the Director for discharging executive duties.

2 Attendance fees: Amounts payable for attendance to meetings of the Board of Directors or similar bodies of any Telefónica Group company.

3 Short-term variable compensation: Variable amount linked to the performance or achievement of individual or group objectives (quantitative or qualitative) and commensurate with other compensation or any other reference in euros for a period of up to a year.

4 Other items: Includes, inter alia, amounts paid for membership of Regional Advisory Committees.

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With respect to employee benefits, the following table presents a breakdown of contributions made in 2012 to both long-term savings schemes (including retirement and any other survival benefit) financed fully or partially by the Company for Telefónica Directors, for discharging executive duties, along with any other compensation in kind received by the Director during the year:

Euros

Director (Executive)	Contributions to pension plans	Contribution to the Pension Plan for Senior Executives2	Compensation in kind3
Mr. César Alierta Izuel	8,402	1,014,791	45,917
Mr. Julio Linares López	9,468	474,895	39,141
Mr. José María Álvarez-Pallete López	7,574	414,716	12,765
Ms. Eva Castillo Sanz	8,402	98,443	1,617
Mr. Santiago Fernández Valbuena1	--	110,112	6,564

1 The contribution to the Pension Plan was made when Mr. Fernández Valbuena was not an Executive Director and is therefore shown under "Senior Executives Compensation." The amount was 8,402 euros.
2 Contributions to the Pension Plan for Executives set up in 2006, funded exclusively by the Company to complement the existing Company's general Pension Plan. It entails defined contributions equivalent to a certain percentage of the Directors' fixed remuneration in accordance with their professional category within the Telefónica Group's organization.
3 "Compensation in kind" includes life and other insurance premiums (e.g. general medical and dental insurance).

Regarding share-based payment plans (those exclusively for Executive Directors), there were two long-term variable compensation plans in place in 2012:

(i) The "Performance Share Plan" ("PSP") approved at the General Shareholders' Meeting of June 21, 2006, whose fifth and final phase began in 2010 and will conclude in July 2013. The shares assigned were as follows: 170,897 shares to Mr. César Alierta Izuel, 128,173 shares to Mr. Julio Linares López, 77,680 shares to Mr. José María Álvarez-Pallete López and 77,680 shares to Mr. Santiago Fernández Valbuena. Delivery of the shares assigned are subject in all cases to meeting the target "Total Shareholder Return" ("TSR") and the other requirements of the Plan.

Also, it is hereby stated that regarding the fourth phase of this Plan (2009-2012), the general terms for the delivery of shares were not met. Therefore, no shares were delivered to Executive Directors.

(ii) The so-called "Performance & Investment Plan" ("PIP") approved at the General Shareholders' Meeting of May 18, 2011 whose first phase began in 2011 and will end in July 2014, and the second phase began in 2012 and will end in July 2015. It is hereby stated that the number of shares assigned and the maximum possible number of shares to be received by the Directors of Telefónica for discharging executive duties in each phase, if the co-investment requirement established in the Plan and the maximum target TSR established for each phase are met, are as follows:

First phase / 2011-2014

Name	Theoretical shares	Maximum number of

	assigned	shares *
Mr. César Alierta Izuel	249,917	390,496
Mr. Julio Linares López	149,950	234,298
Mr. José María Álvarez-Pallete López	79,519	124,249
Mr. Santiago Fernández Valbuena	79,519	124,249

* Maximum possible number of shares to be received if the co-investment requirement and maximum target TSR are met.

Second phase / 2012-2015

Name	Theoretical shares assigned	Maximum number of shares *
Mr. César Alierta Izuel	324,417	506,901
Mr. Julio Linares López (1)	13,878	21,685
Mr. José María Álvarez-Pallete López	188,131	293,955
Ms. Eva Castillo Sanz	95,864	149,787
Mr. Santiago Fernández Valbuena	103,223	161,287

(1) The number of shares assigned to Mr. Linares was calculated in proportion to the time he discharged executive duties as Chief Operating Officer –COO- (from July 1, 2012 to September 17, 2012) during the second phase of the Plan.

* Maximum possible number of shares to be received if the “co-investment” requirement and maximum target TSR are met.

In addition, to reinforce Telefónica’s status as a global employer, with a common remuneration culture throughout the Company, to encourage all Group employees to take an equity interest, and to motivate employees and boost their loyalty, at the Company’s General Shareholders’ Meeting of June 23, 2009, shareholders approved the introduction of a Telefónica, S.A. share incentive plan, the "Global Employee Share Plan" ("GESP") for all employees of the Group worldwide (including executives and Executives Directors).

Under this plan, employees that meet the qualifying requirements are offered the possibility of acquiring Telefónica, S.A. shares, for a period of up to 12 months (the acquisition period), with this company assuming the obligation of giving participants a certain number of shares free of charge. The maximum sum each employee can assign to this plan is 1,200 euros, while the minimum is 300 euros. Employees who remain at the Telefónica Group and retain their shares for an additional year after the acquisition period (the consolidation period) will be entitled to receive one free share per share acquired and retained until the end of the consolidation period.

During the first phase of this Plan (2010-2011), Directors participating, as they discharged executive duties in the Group, acquired a total of 604 shares (including free shares received under the general terms and conditions of the Plan).

For the second phase of the Plan (2012-2013), approved at the General Shareholders’ Meeting of May 18, 2011, the Executive Directors that decides to take part contributing the maximum (i.e. 100 euros a month, over 12 months), at the date of finalization of these consolidated financial statements, had acquired, under this Plan, a total of 84 shares, entitling them to receive an equivalent number of free shares provided, inter alia, that they hold the share acquired throughout the consolidation period.

It should be noted that the external Directors do not receive and did not receive in 2012 any compensation in the form of pensions or life insurance, nor do they participate in the share-based payment plans linked to Telefónica’s share price.

In addition, the Company does not grant and did not grant in 2012 any advances, loans or credits to the Directors, or to its top executives, thus complying with the requirements of the U.S.A. Sarbanes-Oxley Act, which is applicable to Telefónica as a listed company in that market.

Senior executives' compensation

Meanwhile, the Executives considered as Senior Executives(1) of the Company in 2012, excluding those that are also members of the Board of Directors, received a total, in 2012, of 24,321,976 euros. It is hereby stated that this amount includes, inter alia, 10,893,244 euros corresponding to the amounts received by Mr. Luis Abril Pérez and Mr. Calixto Rios Pérez in termination benefits, as a result of termination of their employment relationship with the Telefónica Group.

In addition, the contributions by the Telefónica Group in 2012 with respect to the Pension Plan described in Note on "Revenue and Expenses" for these Executives amounted to 1,392,798 euros. Contribution to the Pension Plan amounted to 48,730 euros and compensation in kind including life and other insurance premiums (e.g. general medical and dental insurance) to 93,460 euros.

Meanwhile, a total of 297,141 shares corresponding to the fifth phase (2010-2013) of the above mentioned “Performance Share Plan” (“PSP”) were assigned to the Executives considered as Senior Executives of the Company. Also, it is hereby stated that regarding the fourth phase of this Plan (2009-2012), the general terms for the delivery of shares were not met. Therefore, no shares were delivered to the Executives.

Regarding the above mentioned “Performance and Investment Plan” (“PIP”) approved at the General Shareholders’ Meeting of May 18, 2011, a total of 422,344 shares were assigned to the Executives considered Senior Executives of the Company in the first phase (2011-2014) and 623,589 shares in the second phase (2012-2015).

Finally, regarding the first phase of the “Global Employee Share Plan” (“GESP”) (2010-2011), Executives participating acquired a total of 872 shares (including free shares received under the general terms and conditions of the Plan).

Regarding the second phase of the Plan (2012-2013), approved at the General Shareholders’ Meeting of May 18, 2011, the Executives taking part and contributing the maximum (i.e. 100 euros a month, over 12 months), at the date of finalization of these consolidated financial statements, had acquired, under this Plan, a total of 110 shares, entitling this Executive to receive an equivalent number of shares free provided, inter alia, that they hold the share acquired throughout the consolidation period established in the Plan.

(1) For these purposes, Senior Executives are understood to be individuals who perform senior management functions reporting directly to the management bodies, or their executive committees or CEOs, including the person in charge of the internal audit.

g) Equity investments and positions held and duties performed in companies engaging in an activity that is identical, similar or complementary to that of the Company

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

Name	Activity performed	Company	Position or functions	Stake (%) (*)
Mr. Isidro Fainé Casas	Telecommunications	Abertis Infraestructuras, S.A.	Vice Chairman	< 0.01%
Mr. Isidro Fainé Casas	Telecommunications	Telecom Italia, S.p.A.	--	< 0.01%

(*) Shareholding of less than 0.01% of share capital indicated by “<0.01%”.

Information on Board member Chang Xiaobing, Executive Chairman of China Unicom (Hong Kong) Limited, is not included in this section given that:

- In accordance with Article 26 bis of the Company’s Bylaws, whereby “(...) the following shall not be deemed to be in a situation of effective competition with the Company, even if they have the same or a similar or complementary corporate purpose: (...) companies with which Telefónica, S.A. maintains a strategic alliance", Mr. Xiaobing’s interests are not in conflict with those of Telefónica, S.A.
-

Mr. Xiaobing holds no stakes in the capital of the companies in which he is a Board member (Section 229 of the Corporate Enterprises Act).

In addition, for information purposes, details are provided below on the positions or duties performed by members of the Board of Directors of Telefónica, S.A. in those companies whose activity is identical, similar or complementary to the corporate purpose of the Company, of any Telefónica Group company, or of any company in which Telefónica, S.A. or any of its Group companies holds a significant interest whereby it is entitled to board representation in those companies or in Telefónica, S.A.

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Name	Company	Position or functions
Mr. César Alierta Izuel	Telecom Italia, S.p.A.	Director
	China Unicom (Hong Kong) Limited	Director
Mr. Julio Linares López	Telecom Italia, S.p.A.	Director
Mr. Alfonso Ferrari Herrero	Telefónica Chile, S.A.	Acting Director
	Telefónica del Perú, S.A.A.	Director
Mr. Francisco Javier de Paz Mancho	Telefónica Brasil, S.A.	Director
	Telefónica de Argentina, S.A.	Director
Mr. José Fernando de Almansa Moreno-Barreda	Telefónica Brasil, S.A.	Director
	Telefónica Móviles México, S.A. de C.V.	Director
Mr. Gonzalo Hinojosa Fernández de Angulo	Telefónica del Perú, S.A.A.	Director
Mr. Luiz Fernando Furlán	Telefónica Brasil, S.A.	Director
Ms. María Eva Castillo Sanz	Telefónica Czech Republic, a.s.	Chairwoman of Supervisory Board
	Telefónica Europe, Plc.	Chairman
	Telefónica Deutschland Holding, A.G.	Chairman of Supervisory Board
Mr. Santiago Fernández Valbuena	Telefónica Internacional, S.A.	Chairman
	Telefónica América, S.A.	Chairman
	Telefónica Brasil, S.A.	Vice Chairman
	Telefónica Móviles México, S.A. de C.V.	Vice Chairman
	Colombia Telecomunicaciones, S.A., E.S.P.	Director
	Telefónica Chile, S.A.	Acting Director
	Telefónica Capital, S.A.	Sole Director
Mr. Chang Xiaobing	China United Network Communications Group Company Limited	Chairman
	China United Network Communications Corporation Limited	Chairman
	China Unicom (Hong Kong) Limited	Executive Chairman
	China United Network Communication Limited	Chairman

Note 22. Finance leases

The principal finance leases at the Telefónica Group are as follows:

a) Future minimum lease payment commitments in relation to finance leases at Telefónica Europe companies.

Millions of euros	Present value	Revaluation	Pending payment
Within one year	23	–	23
From one to five years	65	5	70
Total	88	5	93

These commitments arise from plant and equipment lease agreements. Between March 30, 1991 and April 9, 2001, finance lease agreements were signed between Telefónica UK and a number of US leasing trusts. A part of the radio and switch equipment of its GSM network is subject to the terms of said agreements. The bonds have several maturity dates through 2014 due to the exercise of an early redemption option.

At December 31, 2012 and 2011, net assets under this lease amounting to 102 and 197 million euros, respectively, were recognized under property, plant and equipment.

b) Finance lease agreement at Colombia Telecomunicaciones, S.A., ESP.

Similarly, via its subsidiary Colombia Telecomunicaciones, S.A., ESP, the Group has a finance lease agreement with PARAPAT, the consortium which owns the telecommunications assets and manages the pension funds for the entities which were predecessors to Colombia Telecomunicaciones, S.A., E.S.P., and which regulate the operation of assets, goods and rights relating with the provision of telecommunications services by the company, in exchange for financial consideration.

This agreement includes the transfer of these assets and rights to Colombia Telecomunicaciones, S.A., ESP once the last installment of the consideration has been paid in line with the payment schedule:

Millions of euros	Present value	Revaluation	Future payments
2013	57	7	64
2014-2017	510	256	766
Subsequent years	903	2,138	3,041
Total	1,470	2,401	3,871

The net amount of property, plant and equipment recorded under the terms of this lease was 403 million euros at December 31, 2012 (421 million euros at December 31, 2011).

Note 23. Cash flow analysis

Net cash from operating activities

Net cash flow from operating activities decreased from 17,483 million euros in 2011 to 15,213 million euros in 2012, down 13.0%, after an increase of 4.86% from 2010 (16,672 million euros) to 2011.

In 2012, the Telefónica Group obtained operating cash flow (operating revenue less payments to suppliers for expenses and employee benefits expenses) totaling 20,104 million euros, 6.3% less than the 21,453 million euros generated in 2011.

Cash received from customers decreased by 1.63% to 75,962 million euros in 2012 (from 77,222 million euros in 2011). This decrease was primarily due to the adverse macroeconomic situation in Spain, as well as to the reduction in rates to respond to stiff market competition in the region. The downward trend in collections in Telefónica Spain was partially offset by strong collections in the rest of Europe and Latin America, as well as by the contribution to cash generation by Telefónica's global efficiency projects.

Cash payments to suppliers and employees at December 2012 amounted to 55,858 million euros, up 0.16% from the 55,769 million euros recorded in 2011. Payments to suppliers are in line with those of 2011, due to containment and management of current liabilities which offset the higher payments in order to comply with the Spanish Law on Arrears, as well as to the savings secured through the efficient sales policies.

Cash payments to employees in 2012 followed the trend resulting from costs associated with the change in average headcount, as occurred in 2011 and 2010.

In 2011, the Telefónica Group obtained operating cash flow (operating revenue less payments to suppliers for expenses and employee benefits expenses) totaling 21,453 million euros, 0.69% more than the 21,306 million euros generated in 2010.

Cash received from customers increased by 5.98% to 77,222 million euros in 2011 (from 72,867 million euros in 2010). This increase, which helped improve operating cash flow from the prior year, was driven by the larger contribution from Vivo to consolidated customer collections following the acquisition of an additional 50% of the company in 2010, efforts to manage current assets in the various regions and the contribution by Telefónica’s global efficiency projects.

Cash payments to suppliers and employees at December 2011 amounted to 55,769 million euros, up 8.16% from the 51,561 million euros recorded in 2010. This increase was due to Vivo’s larger share of consolidated payments to suppliers compared to 2010, the commercial efforts undertaken in the various regions and payments of one-off restructuring expenses, which were offset by efficient containment and management of current liabilities, thereby contributing positively to the generation of operating cash flow.

Cash payments to employees in 2011 followed the trend resulting from costs associated with the change in average headcount, as occurred in 2010 and 2009.

Cash flows arising from payments of interest and other finance costs and from dividends stood at 2,867 million euros in 2012, up 856 million on the 2011 figure. Of these, approximately 308 million euros relate to non-recurring items (interest payments as part of reorganization of Colombian companies, tax payments in Spain and Peru, and arrangement commissions on financing transactions). The remaining amount is primarily due to higher average debt in 2012 and the increase in costs due to the downward trends in financial markets.

Cash flows arising from payments of interest and other finance costs and from dividends were steady 2011 despite the increase in interest rates that year and the rise in financial debt, mostly due to payments of deferred interest. These cash flows stood at 2,011 million euros, down 0.4% on the 2010 figure.

Tax payments amounted to 2,024 million euros in 2012, up 3.3% compared to the 1,959 million euros recorded in 2011. This increase was primarily because of payments on account of income tax made in Spain in 2012, in the amount of 247 million euros, and payments derived from settlement of additional tax assessments raised on inspection and court decisions affecting the consolidated tax Group (246 million euros). Tax payments amounted to 1,959 million euros in 2011, down 25.1% compared to 2010 (2,616 million euros), primarily because no tax payments on account were made by the tax group in Spain in 2011.

Net cash used in investing activities

Net cash used in investing activities decreased by 37.0% in 2012 to 7,877 million euros from 12,497 million euros in 2011, primarily due to the decrease in payments on investments in companies, net of cash and cash equivalents, and the rise in proceeds on disposals of companies.

During the year, proceeds on disposals of companies, net of cash and cash equivalents, amounted to 1,823 million euros. The main divestments were the sale of 4.56% of China Unicom, which entailed a net collection of 1,132 million euros, the sale of Atento, which brought in net proceeds of 602 million euros, and the sale of Rumbo for 24 million euros.

Payments on financial investments not included under cash equivalents totaled 834 million euros for 2012, and mainly reflected the share capital increase in Telco for 277 million euros, as well as legal deposits, financial investments by Telefónica insurance companies and options on equity instruments.

Net cash used in investing activities decreased by 21.21% in 2011 to 12,497 million euros from 15,861 million euros in 2010, primarily due to the decrease in payments on investments in companies net of cash and cash equivalents.

In 2011, payments on investments in companies amounted to 2,948 million euros, with the principal investments being: the third payment on the acquisition in 2010 of 50% of Brasilcel, N.V., for which a total of 1,970 million euros was paid in the year; the payment to non-controlling interests of Vivo of 539 million euros; the acquisition of an additional 1.2% of the share capital of China Unicom for 358 million euros; and the acquisition of Acens for 52 million euros, net of cash and cash equivalents.

Payments on financial investments not included in cash equivalents amounted to 669 million euros in 2011 and mainly include legal deposits in Brazil, financial investments by Telefónica insurance companies, the repurchase of Telefónica S.A. bonds in secondary markets and options on equity instruments.

In 2010, payments on investments in companies amounted to 5,744 million euros, with the main investments being the acquisition of 50% of Brasilcel, for which a total of 5,047 million was paid in the year (net of cash and cash equivalents), the acquisition of 22% of the share capital of DTS, Distribuidora de Televisión Digital S.A. (230 million euros) and the acquisitions in Europe of JaJah Inc. and the German company HanseNet Telekommunikation GmbH (“HanseNet”) for 150 million euros and 207 million euros, respectively, net of cash and cash equivalents.

Payments on financial investments not included in cash equivalents amounted to 1,599 million euros in 2010. This included payments of 638 million euros for the refinancing entailed in the acquisition of 100% of shares of HanseNet and the financing provided to Telco, S.p.A., for 600 million euros at December 31, 2010.

Proceeds on disposals of companies in 2010 (552 million euros) primarily related to divestments in Meditelcom for 380 million euros and in Manx Telecom Limited for 157 million euros (in the latter case, net of cash and cash equivalents).

Payments on investments in property, plant and equipment and intangible assets totaled 9,481 million euros at December 2012, 4.4% higher than the 2011 year end figure (9,085 million euros). This increase was due to the rise in acquisitions of property, plant and equipment and intangible assets during the period, especially the purchases of spectrum licenses in Spain and Ireland (396 million euros and 126 million euros, respectively) and higher payments in Telefónica UK.

Payments on investments in property, plant and equipment and intangible assets totaled 9,085 million euros in 2011, 1.57% higher than the prior year (8,944 million euros). This increase was due to the rise in acquisitions of property, plant and equipment and intangible assets during the period, particularly the purchases of spectrum licenses in Brazil and Spain (349 million euros and 441 million euros, respectively).

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Proceeds on disposals of property, plant and equipment and intangible assets amounted to 939 million euros in 2012, an increase of 15.8% from the 811 million euros recorded in 2011. These proceeds primarily relate to the disposal of non-strategic assets (841 million euros). In 2011, this item amounted to 693 million euros.

In 2012, net cash flows in respect of cash surpluses not included under cash equivalents amounted to 318 million euros, 51% lower than the 646 million euros recorded in 2011. Net investments in 2010 amounted to 621 million euros.

Net cash used in financing activities

In 2012, net cash used in financing activities decreased by 74.69% to 1,243 million euros (4,912 million euros in 2011), primarily due to the lower outflow of cash for dividend payments following the change in shareholder remuneration policy, whereby bonus shares were made available and the dividend scheduled for November 2012 was cancelled.

Transactions with shareholders amounted to 656 million euros in 2012, up from payments of 399 million euros in 2011. This difference mainly reflects the public share offer of Telefónica Germany that brought in net proceeds of 1,429 million euros. In addition, shares acquired from non-controlling interests mainly by Telefónica Czech Republic, entailed a total payment of 99 million euros. Net payments for transactions with Telefónica, S.A. treasury shares stood at 590 million euros.

In 2012, proceeds from new issues on bonds totaled 8,090 million euros, 76.6% higher than the 2011 proceeds (4,582 million euros), primarily reflecting new issues made under the London Stock Exchange's EMTN program. This impact was offset by repayment of loans, credit facilities and promissory notes in 2012, entailing payments of 8,401 million euros. This was three times higher than the payments made in 2011 (2,680 million euros), and chiefly reflected refinancing of tranche D of Telefónica Europe's syndicated loan, as well as the increase in the loan granted to Telco, for 208 million euros. Other transactions include payment of 1,942 million euros for the partial redemption of Telefónica Finance USA, LLC preference shares as part of the redemption of debentures and bonds, as well as proceeds of 1,165 million euros derived from Telefónica, S.A.'s bond issue as part of the same operation.

In 2011, net cash used in financing activities amounted to 4,912 million euros, 6.41% lower than in 2010 (5,248 million euros). The decrease was primarily due to lower cash outflow from the redemption of bonds and debentures (3,235 million euros compared to 5,482 million euros in 2010), which was not offset by the decline in proceeds from new issues of bonds and debentures (4,582 million euros in 2011 compared to 6,131 million euros in 2010), to higher proceeds from the sale of treasury shares (375 million euros) and declines in both proceeds and payments on loans, credit facilities and promissory notes, with a larger decrease in payments (2,680 million euros in 2011 compared to 7,954 million euros in 2010). The decrease in proceeds from and payments on loans was primarily due to the drawdown in 2010 of 6,000 million on the syndicated facility agreement signed on July 28, and to certain voluntary repayments amounting to 5,700 million euros under its 6,000 million euros credit facility of June 2005 (see Note 13). These decreases were partly offset by the increase in the dividend paid by Telefónica, S.A., which amounted to 6,852 million euros compared with 5,872 million euros in 2010.

Note 24. Events after the reporting period

The following events regarding the Telefónica Group took place between December 31, 2012 and the date of authorization for issue of the accompanying consolidated financial statements:

Financing

- On January 22, 2013, Telefónica Emisiones, S.A.U. issued 1,500 million euros of notes maturing on January 23, 2023, guaranteed by Telefónica, S.A., under its EMTN Program approved by FSA in London on June 12, 2012.

- During January 2013, Telefónica S.A. has reduced the principal amount outstanding under its syndicated credit facility dated July 28, 2010 by 1,830 million euros.

- On February 4, 2013, Telefónica Emisiones, S.A.U. redeemed 750 and 850 million dollars (equivalent to 1,213 million euros) of its notes, issued on July 2, 2007. The notes were guaranteed by Telefónica, S.A.

- On February 14, 2013, Telefónica Europe, B.V. redeemed 1,500 million euros of its notes, issued on October 31, 2004. The notes were guaranteed by Telefónica, S.A.

- On February 21, 2013, Telefónica, S.A. entered into a financing agreement of 206 million euros maturing on 2016. At the date of authorization for issue of the accompanying consolidated financial statements, this financing was not disposed.

- On February 22, 2013, Telefónica, S.A. entered into a financing agreement of 1,001 million dollars (equivalent to 759 million euros). At the date of authorization for issue of the accompanying consolidated financial statements, this financing was not disposed.

- On February 22, 2013, Telefónica, S.A. refinanced 1,400 million euros of the tranche A2 (originally amounted to 2,000 million euros and scheduled to mature on July 28, 2014) related to the 8,000 million euros syndicated credit facility, originally dated on July 28, 2010, as follows: i) a five-year term forward start facility of 700 million euros maturing on 2017 and ii) a six-year term forward start facility of 700 million euros maturing on 2018.

Devaluation of the Venezuelan bolívar

On February 8, 2013, the Venezuelan bolivar was devalued from 4.3 bolivars per US dollar to 6.3 bolivars per US dollar.

The new exchange rate of 6.3 bolivars per US dollar will be used from 2013 in the conversion of the financial information of Venezuelan subsidiaries. The principal matters to be considered in 2013 are as follows:

- The decrease of the Telefónica Group's net assets in Venezuela as a result of the conversion to euros at the new exchange rate with a balancing entry in Group equity of approximately 1,000 million euros, based on the net assets as at December 31, 2012.

- Increase in the net financial debt resulting from application of the new exchange rate to the net asset value in bolivars of approximately 873 million euros, as per the balance as at December 31, 2012.

The income and cash flows from Venezuela will be converted at the new devalued closing exchange rate as of January 1, 2013.

UK spectrum auction

On February 20, 2013, Telefónica UK Limited won two 10 MHz blocks in the 800 MHz spectrum band in the UK spectrum auction.

Total investment by Telefónica UK in new frequencies amounted to 550 million pounds sterling (approximately 645 million euros).

Appendix I: Changes in the consolidation scope

The following changes took place in the consolidation scope in 2012:

Telefónica Latin America

On April 23, 2012, the Panamanian company Telefónica Centroamérica, S.A. was incorporated with authorized capital of 50,000 US dollars. Telefónica Centroamérica, S.A. is equally owned by Telefónica Móviles El Salvador, S.A. de C.V., Telefónica Móviles Guatemala, S.A. Telefónica Móviles Panamá, S.A., Telefónica Celular de Nicaragua, S.A. and Telefónica de Costa Rica, S.A. (20% interest each), and is included in the Telefónica Group using the full consolidation method.

In June 2012, Telefónica Móviles Chile, S.A. and Inversiones Telefónica Móviles Holding, S.A., the shareholders of Telefónica Móviles Chile Inversiones, S.A., agreed to change the company's name to Wayra Chile Tecnología e Innovación Limitada. The Telefónica Group continues to consolidate this company using the full consolidation method.

The merger of Telefónica Móviles Colombia, S.A. and Colombia Telecomunicaciones, S.A. ESP was completed on June 29, 2012. Following the merger, the Telefónica Group holds (directly and indirectly) a 70% interest in Colombia Telecomunicaciones, S.A. ESP. This company continues to be fully consolidated within the Telefónica Group.

On July 18, 2012, the subsidiary TEM Puerto Rico Inc. was wound up, effective as of December 31, 2011. This company, which had been fully consolidated in the Telefónica Group, was removed from the consolidation scope.

In October and November, respectively, Telefónica América, S.A. and Telefónica Latinoamérica Holding, S.L. were incorporated in Spain. Both companies were owned by Telefónica Internacional, S.A. (50% interest) and Telefónica, S.A. (50% interest). On December 13, 2012, Telefónica, S.A. and Telefónica Internacional, S.A.U. carried out a capital increase in Telefónica Latinoamérica Holding, S.L. Telefónica, S.A. subscribed to this increase by contributing shares of Latin America Cellular Holdings, B.V., while Telefónica Internacional, S.A.U. subscribed through a monetary contribution. Following the capital increase, Telefónica, S.A. holds a 94.59% stake in Telefónica Latinoamérica Holding, S.L., and Telefónica Internacional, S.A.U. holds a 5.41% interest. Both Telefónica América, S.A. and Telefónica Latinoamérica Holding, S.L. are fully consolidated within the Telefónica Group.

In November 2012, Telefónica Chile Holdings, B.V. was incorporated in the Netherlands, by the sole shareholder Telefónica, S.A. The new company is fully consolidated within the Telefónica Group.

Telefónica Europe

In July 25, 2012, Acens Technologies, S.L. approved the merger by absorption of Interdomain, S.A., with the absorbed company being wound up but not liquidated and the en bloc transfer of all its assets and liabilities to Acens Technologies, S.L. Interdomain, which had been fully consolidated in the Telefónica Group, was removed from the scope of consolidation.

In July 2012, Telefónica Czech Republic, a.s. acquired 100% of Bonerix Czech Republic s.r.o. The company has been included in the Telefónica Group’s consolidation scope using the full consolidation method.

Also in July 2012, Telefónica O2 Business Solutions, spol. s r.o. was absorbed by Telefónica Czech Republic, a.s. This company, which had been fully consolidated in the Telefónica Group, was removed from the scope of consolidation.

Through a public offering carried out in October 2012, Telefónica, S.A. sold a 23.17% interest in Telefónica Deutschland Holding, A.G., for 1,449 million euros. Following the sale, the investee continues to be fully consolidated in the Telefónica Group.

Telefonica UK Ltd. and Vodafone UK Ltd. incorporated a joint venture in November 2012 called Cornerstone Telecommunications Infrastructure Limited, with a 50% interest held by each of these companies. Both Telefonica UK and Vodafone UK have contributed to the joint venture the basic network infrastructure they already shared. For practical purposes, the UK was divided up into two geographic halves. Telefónica will manage and maintain these elements in the East (including Northern Ireland and almost all of Scotland) and Vodafone in the West (including Wales). Both operators will continue to remain responsible for their own existing spectrum holdings and for fulfilling their own spectrum needs in the future.

Other companies

In March 2012, the company Wayra Brasil Aceleradora de Projetos Ltda. was incorporated in Brazil. This company has been included in the Telefónica Group's consolidation scope using the full consolidation method.

In March 2012, Media Networks Brasil Soluçoes Digitais Ltda. was incorporated. This company has been included in the Telefónica Group's consolidation scope using the full consolidation method.

Also in March, the Peruvian company Media Networks Latin America, S.A.C., a subsidiary of Telefónica Internacional, S.A.U., incorporated the Brazilian company Media Networks Brasil Soluçoes Digitais Ltda. This company has been included in the Telefónica Group's consolidation scope using the full consolidation method.

Telefónica Digital Venture Capital, S.L.U. was incorporated in March with initial share capital of 3,000 euros, subscribed and fully paid by Telefónica Digital Holdings, S.L.U. The company has been fully consolidated in the Telefónica Group.

On July 10, 2012, Telefónica, S.A. through its subsidiary Telefónica Internacional, S.A.U., and China United Network Communications Group Company Limited, through a wholly-owned subsidiary, signed the definitive agreement for the purchase by the latter of 1,073,777,121 shares in China Unicom (Hong Kong) Limited owned by Telefónica, equivalent to 4.56% of that company's total capital.

The sales transaction was completed once the requisite regulatory authorizations were secured, with Telefónica receiving 10,748 million Hong Kong dollars (approximately 1,142 million euros) on the sale.

The company, in which Telefónica holds a 5.01% interest after the sale, continues to be accounted for in the Telefónica Group using the equity method.

In June 2012, the company Telefónica Gestión Integral de Edificios y Servicios, S.L. was created through the partial spin-off of Telefónica Servicios Integrales de Distribución, S.A.U. and the spin-off of the activity branch of Telefónica Gestión de Servicios Compartidos España, S.A. The new company is fully consolidated in the Telefónica Group.

In October 2012, the Telefónica Group sold its 50% stake in Red Universal de Marketing y Bookings Online, S.A., generating a gain of approximately 27 million euros. This company, which had been proportionately consolidated in the Telefónica Group, was removed from the scope of consolidation.

On October 22, 2012, Jajah Inc. acquired 100% of Tokbox Inc. for 12 million dollars. This company has been included in the Telefónica Group's consolidation scope using the full consolidation method.

In December 2012, the Group completed the sale of the Atento business to a group of companies controlled by Bain Capital. The companies comprising this business, which were previously included in the Telefónica Group using the full consolidation method, were removed from the consolidation scope. Gains on the sale amounted to approximately 61 million euros.

The Atento companies sold, which were previously fully consolidated within the Telefónica Group, have been deconsolidated.

Following the exercise by the German company Eutelsat Services & Beteiligungen, GmbH of its preferential acquisition right, and once the requisite authorizations were obtained from the Council of Ministers, on December 28, 2012 Telefónica de Contenidos, S.A.U.:

- formalized the transfer to Abertis Telecom, S.A. of 23,343 shares in Hispasat, S.A. for a total cash price of 68 million euros, generating gains of 26 million euros; and

- entered into a contract to sell its remaining stake in Hispasat, S.A., namely 19,359 shares, to Eutelsat Services & Beteiligungen, for a total of 56 million euros, subject to foreign investment authorization in accordance with Royal Decree 664/1999 of April 23, governing foreign investments. The future gain on this transaction is estimated to be approximately 21 million euros.

In December 2012, Telefónica Digital España, S.L.U. acquired a 50.0002% interest in the Brazilian company Axismed – Gestao Preventiva da Saúde, S.A. for 10.9 million Brazilian reais. This company has been included in the Telefónica Group's consolidation scope using the full consolidation method.

The Peruvian company TGestiona Logística, S.A.C. was incorporated through the en bloc spin-off of assets and liabilities from the logistics business line of Telefónica Gestión de Servicios Compartidos Perú, S.A.C. In December 2012, this company was fully consolidated as part of the Telefónica Group.

Changes to the 2011 consolidation scope are described in the following sections

Telefónica Latin America

In February 2011, the Costa Rican company Telefónica Costa Rica, S.A. was included in the Telefónica Group's consolidation scope using the full consolidation method following payment by Telefónica, S.A. of 2.2 million US dollars corresponding to 100% of its initial share capital.

On March 25, 2011 the Boards of Directors of each of the subsidiaries controlled by Telefónica, Vivo Participações and Telecomunicações de São Paulo S.A. – Telesp approved the terms and conditions of a restructuring process whereby all shares of Vivo Participações that were not owned by Telesp were exchanged for Telesp shares, at a rate of 1.55 new Telesp shares for each Vivo Participações share. These shares then became the property of Telesp, whereby Vivo Participações then became a wholly owned subsidiary of Telesp.

On June 14, 2011, the Boards of Directors of Vivo Participações and Telesp approved a restructuring plan whose objective is to simplify the corporate structure of both companies and foster their integration, eliminating Vivo Participações from the corporate chain through the incorporation of its total equity into Telesp, and concentrating all mobile telephony activities in Vivo, S.A. (now a direct subsidiary of Telesp).

In October, the company arising from the merger changed its name to Telefónica Brasil, S.A.

At the end of 2011, the Telefónica Group owned of 73.9% of Telefónica Brasil which, in turn, has 100% ownership of the shares of Vivo, S.A. Both companies are still fully consolidated in the Telefónica Group's consolidation scope.

In April, the Spanish company Wayra Investigación y Desarrollo, S.L. was incorporated. Its corporate purpose is to identify talent in Spain and Latin America in the field of new Information and Communication Technologies (ICT) and promote its development through integral support and provide the entrepreneurs with the necessary tools and financing. This company has been included in the Telefónica Group's consolidation scope using the full consolidation method.

Also in 2011, Wayra incorporated companies in Peru, Venezuela, Mexico, Argentina and Colombia. All of these companies have been included in the Telefónica Group's consolidation scope using the full consolidation method.

As of January 1, 2011, Telefónica Brasil included GTR Participações e Emprendimentos, S.A., TVA Sul Paraná, S.A., Lemontree, S.A. and Comercial Cabo TV São Paulo, S.A. in its consolidated financial statements using the full consolidation method. Up until 2010, these companies had been included in the Telefónica Group's consolidated financial statements through the equity method of accounting.

Telefónica Europe

On June 7, 2011, the Telefónica Group formalized the acquisition of 100% of Acens Technologies, S.L., a leader in hosting/housing in Spain for small- and medium-sized enterprises. The consideration paid for the purchase was 55 million euros. This company has been included in the Telefónica Group's consolidation scope using the full consolidation method.

In August, Telefónica de España, S.A.U. increased its stake in Iberbanda, S.A. from 51% to 100%. The Telefónica Group still consolidates this company using the full consolidation method.

Telefónica Salud, S.A., a 51% subsidiary of the Group, was sold off from the Telefónica Group in the year. This company, which had been fully consolidated in the Telefónica Group, was removed from the consolidation scope.

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German company Telefónica Germany GmbH & Co. OHG, a wholly owned subsidiary of the Telefónica Group, set up a German company, Telefónica Global Online Services, GmbH, with initial capital of 25 thousand euros.

Other companies

In accordance with the strategic partnership agreement reached by Telefónica, S.A. and China Unicom on January 23, 2011, Telefónica, S.A. paid 358 million euros to increase its ownership interest in China Unicom by approximately 1.2% to 9.6%. The Telefónica Group continues to account for this investment using the equity method of accounting.

In December, Telefónica, S.A. incorporated Luxembourg company Telefónica Luxembourg Holding, S.à.r.l. with initial share capital of 12,500 euros. It is the company's sole shareholder. This company has been included in the Telefónica Group's consolidation scope using the full consolidation method.

In December, Telefónica Digital España, S.L., formerly Terra Networks Asociadas, S.L.U., a wholly owned subsidiary of Telefónica, S.A., incorporated Sonora Music Streaming España, S.L. Unipersonal, subscribing and paying out the entire initial share capital of 3 thousand euros.

Also in December, Telefónica, S.A. subscribed and paid out the entire share capital of Telefónica Digital Holdings, S.L.U., which amounted to 3 thousand euros.

Atento Italia, S.R.L. was wound up and liquidated in 2011. This company, which had been fully consolidated, was removed from the Telefónica Group's consolidation scope.

Solivella Investments, B.V. and 3G Mobile AG, both of which were fully consolidated, were wound up in 2011 and therefore removed from the Telefónica Group's consolidation scope.

Changes to the 2010 consolidation scope are described in the following sections.

Telefónica Latin America

On June 30, the Telefónica Chile group embarked on a corporate restructuring. The restructuring was executed through the acquisition by Inversiones Telefónica Móviles Holding Limitada of all assets of fixed line telephony in Chile through its acquisition of Telefónica Internacional Chile, Ltda.

On September 27, 2010, Telefónica acquired 50% of the shares of Brasilcel (a Dutch company that owns shares representing, approximately, 60% of the share capital stock of Brazilian company Vivo Participações, S.A.) owned by Portugal Telecom, having made a first payment, as agreed, of 4,500 million euros. The Brasilcel Group, which was previously proportionately consolidated in the Telefónica Group, has been fully consolidated since September 2010 (100% of all assets and liabilities of the Brazilian group are consolidated. Subsequently, in December 2010, a cross-border merger was completed whereby the Dutch company was taken over by Telefónica, S.A.

Telefónica Europe

In April 2010, Teleinformática y Comunicaciones, S.A. (Telyco) sold its subsidiary Telyco Marruecos, S.A. This company, which had been fully consolidated in the Telefónica Group, was removed from the consolidation scope.

In August, Telefónica Móviles España, S.A.U., a wholly owned subsidiary of Telefónica, S.A., acquired approximately 91.2% of the Spanish company Tuenti Technologies, S.L. Following a subsequent rights offering, the Telefónica Group increased its stake in the company's share capital to 91.38%. This company is included in the consolidated financial statements of the Telefónica Group using the full consolidation method.

In January 2010, the Telefónica Group, through its wholly owned subsidiary Telefónica Europe Plc, acquired 100% of the shares of Jajah Inc. for 145 million euros. This company has been included in the Telefónica Group's consolidation scope using the full consolidation method.

On December 3, 2009, the Telefónica Group's subsidiary in Germany, Telefónica Deutschland GmbH ("Telefónica Deutschland"), signed an agreement to acquire all of the shares of German company HanseNet Telekommunikation GmbH ("HanseNet"). The transaction was completed on February 16, 2010, the date on which the Telefónica Group completed the acquisition of 100% of the shares of HanseNet. The amount initially paid out was approximately 913 million euros, which included 638 million euros of refinanced debt, leaving an acquisition cost of 275 million euros, which was finally reduced by 40 million euros on completion of the transaction. This company has been included in the Telefónica Group's consolidation scope using the full consolidation method.

In June 2010, British company Manx Telecom Limited was sold for approximately 164 million euros. The sale generated a gain of 61 million euros. This company, which had been fully consolidated in the Telefónica Group, was removed from the consolidation scope.

Other companies

In April 2010, Chilean company Telefónica Factoring Chile, S.A., which is 50% owned by the Telefónica Group, was incorporated. This company is included in the consolidation scope using the equity method.

In February 2010, Irish company Telfin Ireland Limited was incorporated, with an initial share capital of approximately 919 million euros, fully subscribed by its sole shareholder Telefónica, S.A. This company has been included in the Telefónica Group's consolidation scope using the full consolidation method.

In June 2010, the Telefónica Group reduced its ownership interest in Portugal Telecom by 7.98%. In addition, Telefónica entered into three equity swap contracts for Portugal Telecom shares with a number of financial institutions, all subject to net settlement, which grant Telefónica the equivalent total return of the investment. The company, included in the consolidation scope using the equity method of accounting, was removed from the consolidation scope on June 30, 2010.

In December 2010, Telefónica, S.A., through subsidiary Telefónica de Contenidos, S.A.U., completed the acquisition of 22% of the capital stock of D.T.S., Distribuidora de Televisión Digital S.A. for approximately 488 million euros, 228 million euros of which was settled by cancelling the subordinated loan between Telefónica de Contenidos, S.A.U. (as creditor) and Sogecable, S.A. (currently Prisa Televisión, S.A.U., as debtor). This company was included in the consolidation scope using the equity method of accounting.

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Appendix II: Debentures and bonds

The list and main features of outstanding debentures and bonds at December 31, 2012 are as follows (in millions of euros):

Total Telefónica and its instrumental companies

			Maturity (nominal)						
Debentures and bonds	Currency	% Interest rate	2013	2014	2015	2016	2017	Subsequent years	Total
CAIXA 07/21/29 ZERO COUPON	EUR	6.386%	–	–	–	–	–	69	69
ABN 15Y BOND	EUR	1.0225 x GBSW10Y	–	–	50	–	–	–	50
CHANGEABLE BOND	EUR	4.184%	500	–	500	–	–	164	1,164
Telefónica, S.A.			500	–	550	–	–	233	1,283
T. EUROPE BV SEP_00 GLOBAL D	USD	8.250%	–	–	–	–	–	947	947
TEBV FEB_03 EMTN FIXED TRANCHE A	EUR	5.125%	1,500	–	–	–	–	–	1,500
TEBV FEB_03 EMTN FIXED TRANCHE B	EUR	5.875%	–	–	–	–	–	500	500
Telefónica Europe, B.V.			1,500	–	–	–	–	1,447	2,947
EMTN O2 EUR (I)	EUR	4.375%	–	–	–	1,750	–	–	1,750
EMTN O2 GBP (I)	GBP	5.375%	–	–	–	–	–	919	919
EMTN O2 GBP (II)	GBP	5.375%	–	–	–	–	–	613	613
TELEF EMISIONES JUN 06 TRANCHE C	USD	6.421%	–	–	–	947	–	–	947
TELEF EMISIONES JUN 06 TRANCHE D	USD	7.045%	–	–	–	–	1,516	–	1,516
TELEF EMISIONES DECEMBER 06	GBP	5.888%	–	613	–	–	–	–	613
TELEF EMISIONES JANUARY A 07	EUR	1 x EURIBOR6M + 0.83000%	–	–	–	–	–	55	55
TELEF EMISIONES JANUARY B 07	EUR	1 x EURIBOR3M + 0.70000%	–	–	–	–	–	24	24
TELEF EMISIONES FEBRUARY 07	EUR	4.674%	–	1,500	–	–	–	–	1,500
TELEF EMISIONES JUNE C 07	CZK	4.623%	–	103	–	–	–	–	103
TELEF EMISIONES JULY A 07	USD	5.855%	568	–	–	–	–	–	568
TELEF EMISIONES JULY B 07	USD	1 x USDL3M + 0.33000%	644	–	–	–	–	–	644
TELEF EMISIONES JULY C 07	USD	6.221%	–	–	–	–	530	–	531

TELEF EMISIONES JUNE 08	EUR	5.580%	1,250	–	–	–	–	–	1,250
TELEF EMISIONES FEBRUARY 09	EUR	5.431%	–	2,000	–	–	–	–	2,000
TELEF EMISIONES APRIL 2016	EUR	5.496%	–	–	–	1,000	–	–	1,000
TELEF EMISIONES JUNE 2015	EUR	1 x EURIBOR3M + 1.825%	–	–	400	–	–	–	400
TELEF EMISIONES APRIL 3, 2016	EUR	5.496%	–	–	–	500	–	–	500
TELEF EMISIONES JULY 6, 2015	USD	4.949%	–	–	948	–	–	–	948
TELEF EMISIONES JULY 15, 2019	USD	5.877%	–	–	–	–	–	758	758
TELEF EMISIONES NOVEMBER 11, 2019	EUR	4.693%	–	–	–	–	–	1,750	1,750
EMTN GBP 12/09/2022 650 GBP	GBP	5.289%	–	–	–	–	–	796	796
TELEF EMISIONES DECEMBER 09	EUR	1 x EURIBOR3M + 0.70000%	–	100	–	–	–	–	100
TELEF EMISIONES MARCH 10	EUR	3.406%	–	–	1,400	–	–	–	1,400
TELEF EMISIONES APRIL 1, 2010	USD	2.582%	910	–	–	–	–	–	910
TELEF EMISIONES APRIL 2, 2010	USD	3.729%	–	–	682	–	–	–	682
TELEF EMISIONES APRIL 3, 2010	USD	5.134%	–	–	–	–	–	1,061	1,061

Total Telefónica and its instrumental companies

			Maturity (nominal)						
Debentures and bonds	Currency	% Interest rate	2013	2014	2015	2016	2017	Subsequent years	Total
TELEF EMISIONES SEPTEMBER 10	EUR	3.661%	–	–	–	–	1,000	–	1,000
EMTN GBP 10/08/2029 400 GBP	GBP	5.445%	–	–	–	–	–	490	490
TELEF EMISIONES FEBRUARY 2011	EUR	4.750%	–	–	–	–	1,200	–	1,200
TELEF EMISIONES FEBRUARY 2011	USD	3.992%	–	–	–	947	–	–	947
TELEF EMISIONES FEBRUARY 2011	USD	5.462%	–	–	–	–	–	1,137	1,137
TELEF. EMISIONES MAR 2011	EUR	4.750%	–	–	–	–	100	–	100
TELEF. EMISIONES NOV 2011	EUR	4.967%	–	–	–	1,000	–	–	1,000
TELEF. EMISIONES NOV 2011	JPY	2.829%	–	–	–	62	–	–	62
TELEF. EMISIONES FEB 2012	EUR	4.750%	–	–	–	–	120	–	120
TELEF. EMISIONES FEB 2012	EUR	4.797%	–	–	–	–	–	1,500	1,500
TELEF. EMISIONES FEB 2012	GBP	5.597%	–	–	–	–	–	858	858
TELEF. EMISIONES MAR 2012	CZK	3.934%	–	–	–	–	50	–	50
TELEF. EMISIONES JUN 2012	JPY	4.250%	–	–	–	–	–	88	88
TELEF. EMISIONES SEP 2012	EUR	5.811%	–	–	–	–	1,000	–	1,000
TELEF. EMISIONES OCT 2012	EUR	4.710%	–	–	–	–	–	1,200	1,200
TELEF. EMISIONES DECEMBER 2012	CHF	2.718%	–	–	–	–	–	207	207
TELEF. EMISIONES DECEMBER 2012	CHF	3.450%	–	–	–	–	–	124	124
Telefónica Emisiones, S.A.U.			3,372	4,316	3,430	6,206	5,516	11,580	34,421
Total Telefónica, S.A. and its instrumental companies			5,372	4,316	3,980	6,206	5,516	13,260	38,651

Foreign operators

Maturity

Debentures and bonds	Currency	% Interest rate	2013	2014	2015	2016	2017	Subsequent years	Total
Series F	UF	6.000%	3	3	3	1	–	–	9
Series L	UF	3.500%	–	180	–	–	–	–	180
Series N	CLP	6.050%	–	32	–	–	–	–	32
USD Bond	USD	3.875%	–	–	–	–	378	–	378
Telefónica Chile, S.A.			3	215	3	1	378	–	600
Bond A	CLP	5.600%	–	51	–	–	–	–	51
Bond C	CLP	6.300%	–	–	–	104	–	–	104
Bond D	UF	3.600%	–	–	–	72	–	–	72
USD Bond	CLP	2.875%	–	–	227	–	–	–	227
Telefónica Móviles Chile, S.A.			–	51	227	176	–	–	454
Series C	USD	8.500%	2	–	–	–	–	–	2
Commercial paper	USD	4.750%	1	–	–	–	–	–	1
Commercial paper	USD	4.750%	1	–	–	–	–	–	1
Commercial paper	USD	4.750%	3	–	–	–	–	–	3

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Foreign operators

			Maturity						
Debentures and bonds	Currency	% Interest rate	2013	2014	2015	2016	2017	Subsequent years	Total
Commercial paper	USD	4.500%	1	–	–	–	–	–	1
Commercial paper	USD	4.500%	–	–	–	–	–	–	–
Commercial paper	USD	4.750%	1	–	–	–	–	–	1
Commercial paper	USD	4.500%	–	–	–	–	–	–	–
Commercial paper	USD	4.500%	–	–	–	–	–	–	–
Commercial paper	USD	4.750%	–	–	–	–	–	–	–
Commercial paper	USD	4.750%	1	–	–	–	–	–	1
Commercial paper	USD	4.750%	2	–	–	–	–	–	2
Otecel, S.A.			12	–	–	–	–	–	12
T FINANZAS MEX EMISION 0710 FIJ	MXN	8.070%	–	–	–	–	–	117	117
T. FINANZAS MEX EMISION 0710 VAR	MXN	TIIE28 + 55 bps	–	234	–	–	–	–	234
Telefónica Finanzas México, S.A.			–	234	–	–	–	117	351
T. Peru 4th Program (16th Series B)	PEN	6.250%	9	–	–	–	–	–	9
T. Peru 4th Program (42nd Series A)	PEN	7.375%	8	–	–	–	–	–	8
T. Peru 4th Program (42nd Series B)	PEN	5.313%	6	–	–	–	–	–	6
T. Peru 4th Program (42nd Series C)	PEN	6.063%	4	–	–	–	–	–	4
T. Peru 5th Program (5th Series A)	PEN	6.188%	6	–	–	–	–	–	6
T. Peru 5th Program (31st Series A)	PEN	7.500%	–	–	–	7	–	–	7
T. Peru 4th Program (45th Series A)	USD	6.688%	–	–	–	17	–	–	17
Senior Notes T. Perú	PEN	8.000%	37	75	75	37	–	–	224
T. Peru 5th Program (33rd Series A)	PEN	6.813%	–	–	–	–	18	–	18
T. Peru 5th Program (29th Series A)	PEN	6.188%	–	–	–	18	–	–	18
PROG1EM1D	PEN	8.075%	–	–	–	–	36	–	36
T. Peru 4th Program (19th Series A)	PEN	VAC + 3.6250%	–	–	–	–	–	22	22
T. Peru 4th Program (36th Series A)	PEN	VAC + 3.6875%	–	–	–	–	53	–	53
T. Peru 4th Program (12th Series A)	PEN	VAC + 3.6875%	–	–	–	–	–	21	21
T. Peru 4th Program (36th Series B)	PEN	VAC + 3.3750%	–	–	–	–	–	17	17

T. Peru 4th Program (19th Series B)	PEN	VAC + 2.8750%	–	–	–	–	–	17	17
T. Peru 4th Program 37th Series A)	PEN	VAC + 3.1250%	–	–	–	–	–	16	16
T. Peru 4th Program 19th Series C)	PEN	VAC + 3.1875%	–	–	–	–	–	7	7
T. Peru 5th Program (22nd Series Aa)	PEN	VAC + 3.5000%	–	–	–	–	8	–	8
T. Peru 5th Program (22nd Series Ab)	PEN	VAC + 3.5000%	–	–	–	–	–	4	4
T. Peru 5th Program (22nd Series Ac)	PEN	VAC + 3.5000%	–	–	–	–	–	7	8
Telefónica del Perú, S.A.A.			70	75	75	79	115	111	526
T. M. Perú 1st Program (3rd Series A)	PEN	7.438%	11	–	–	–	–	–	11
T. M. Perú 1st Program (3rd Series B)	PEN	7.688%	6	–	–	–	–	–	6
T. M. Perú 1st Program (16th Series A)	PEN	8.188%	7	–	–	–	–	–	7
T. M. Perú 1st Program (18th Series A)	PEN	6.313%	–	12	–	–	–	–	12
T. M. Perú 1st Program (18th Series B)	PEN	6.375%	–	19	–	–	–	–	19
T. M. Perú 2nd Program (3rd Series A)	PEN	5.750%	8	–	–	–	–	–	8
T. M. Perú 2nd Program (11th Series A)	PEN	7.750%	–	–	–	–	21	–	21
T. M. Perú 2nd Program (9th Series A)	PEN	6.813%	–	–	–	18	–	–	18
T. M. Perú 2nd Program (9th Series B)	PEN	6.375%	–	–	–	15	–	–	15
T. M. Perú 2nd Program (11th Series B)	PEN	7.375%	–	–	–	–	–	18	18
T. M. Perú 2nd Program (27th Series A)	PEN	5.531%	–	–	–	–	–	18	18
T. M. Perú 2nd CP Program (1st Series E)	PEN	4.250%	6	–	–	–	–	–	6
T. M. Perú 2nd CP Program (1st Series F)	PEN	4.000%	18	–	–	–	–	–	18

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Foreign operators

			Maturity						
Debentures and bonds	Currency	% Interest rate	2013	2014	2015	2016	2017	Subsequent years	Total
Telefónica Móviles Perú, S.A.			56	31	–	33	21	36	177
Nonconvertible bonds	BRL	1.06 x CDI	–	35	–	–	–	–	35
Nonconvertible bonds	BRL	1.08 x CDI	237	–	–	–	–	–	237
Nonconvertible bonds	BRL	1.0 x CDI+0.75	–	–	–	–	742	–	742
Nonconvertible bonds	BRL	IPCA + 7%	–	32	–	–	–	–	32
Convertible bonds (Telemig) I	BRL	IPCA + 0.5%	–	–	–	–	–	3	3
Convertible bonds (Telemig) II	BRL	IPCA + 0.5%	–	–	–	–	–	8	8
Convertible bonds (Telemig) III	BRL	IPCA + 0.5%	–	–	–	–	–	15	15
T. Brasil Group			237	67	–	–	742	26	1,072
BOND R144-A	USD	5.375%	–	–	–	–	–	568	568
Colombia Telecomunicación, S.A. ESP			–	–	–	–	–	568	568
Total issues other operators			378	673	305	289	1,256	858	3,760
TOTAL OUTSTANDING DEBENTURES AND BONDS			5,750	4,989	4,285	6,495	6,772	14,118	42,411

The list and main features of outstanding debentures and bonds at December 31, 2011 are as follows (in millions of euros):

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Total Telefónica and its instrumental companies

			Maturity (nominal)						
Debentures and bonds	Currency	% Interest rate	2012	2013	2014	2015	2016	Subsequent years	Total
CAIXA 07/21/29 ZERO COUPON	EUR	6.386%	–	–	–	–	–	64	64
ABN 15Y BOND	EUR	1.0225 x GBSW10Y	–	–	–	50	–	–	50
Telefónica, S.A.			–	–	–	50	–	64	114
T. EUROPE BV SEP_00 GLOBAL D	USD	8.250%	–	–	–	–	–	966	966
TEBV FEB_03 EMTN FIXED TRANCHE A	EUR	5.125%	–	1,500	–	–	–	–	1,500
TEBV FEB_03 EMTN FIXED TRANCHE B	EUR	5.875%	–	–	–	–	–	500	500
T.EUROPE BV JULY A 2007	JPY	2.110%	150	–	–	–	–	–	150
T.EUROPE BV JULY B 2007	JPY	1 x JPYL6M + 0.425000%	150	–	–	–	–	–	150
Telefónica Europe, B.V.			300	1,500	–	–	–	1,466	3,266
EMTN O2 EUR (I)	EUR	4.375%	–	–	–	–	1,750	–	1,750
EMTN O2 GBP (I)	GBP	5.375%	–	–	–	–	–	898	898
EMTN O2 GBP (II)	GBP	5.375%	–	–	–	–	–	599	599
TELEF EMISIONES JUN 06 TRANCHE C	USD	6.421%	–	–	–	–	966	–	966
TELEF EMISIONES JUN 06 TRANCHE D	USD	7.045%	–	–	–	–	–	1,546	1,546
TELEF EMISIONES SEPTEMBER 06	EUR	4.393%	500	–	–	–	–	–	500
TELEF EMISIONES DECEMBER 06	GBP	5.888%	–	–	598	–	–	–	598
TELEF EMISIONES FEBRUARY 07	EUR	4.674%	–	–	1,500	–	–	–	1,500
TELEF EMISIONES JUNE B 07	CZK	4.351%	116	–	–	–	–	–	116
TELEF EMISIONES JUNE C 07	CZK	4.623%	–	–	101	–	–	–	101
TELEF EMISIONES JULY A 07	USD	5.855%	–	580	–	–	–	–	580
TELEF EMISIONES JULY C 07	USD	6.221%	–	–	–	–	–	541	541
TELEF EMISIONES JUNE 08	EUR	5.580%	–	1,250	–	–	–	–	1,250
TELEF EMISIONES FEBRUARY 09	EUR	5.431%	–	–	2,000	–	–	–	2,000
	EUR	5.496%	–	–	–	–	1,000	–	1,000

TELEF EMISIONES APRIL 2016									
TELEF EMISIONES APRIL 3, 2016	EUR	5.496%	–	–	–	–	500	–	500
TELEF EMISIONES JULY 6, 2015	USD	4.949%	–	–	–	966	–	–	966
TELEF EMISIONES JULY 15, 2019	USD	5.877%	–	–	–	–	–	773	773
TELEF EMISIONES JUNE 2015	EUR	1 x EURIBOR3M + 1.825%	–	–	–	400	–	–	400
TELEF EMISIONES JULY B 07	USD	1 x USDL3M + 0.33000%	–	657	–	–	–	–	657
TELEF EMISIONES JANUARY 07 A	EUR	1 x EURIBOR6M + 0.83000%	–	–	–	–	–	55	55
TELEF EMISIONES JANUARY 07 B	EUR	1 x EURIBOR3M + 0.70000%	–	–	–	–	–	24	24
TELEF EMISIONES NOVEMBER 11, 2019	EUR	4.693%	–	–	–	–	–	1,750	1,750
EMTN GBP 12/09/2022 650 GBP	GBP	5.289%	–	–	–	–	–	778	778
TELEF EMISIONES DECEMBER 09	EUR	1 x EURIBOR3M + 0.70000%	–	–	100	–	–	–	100
TELE EMISIONES MARCH 10	EUR	3.406%	–	–	–	1,400	–	–	1,400
TELEF EMISIONES APRIL 1, 2010	USD	2.582%	–	927	–	–	–	–	927
TELEF EMISIONES APRIL 2, 2010	USD	3.729%	–	–	–	696	–	–	696
TELEF EMISIONES APRIL 3, 2010	USD	5.134%	–	–	–	–	–	1,082	1,082
TELEF EMISIONES SEPTEMBER 10	EUR	3.661%	–	–	–	–	–	1,000	1,000

Total Telefónica and its instrumental companies

			Maturity (nominal)						
Debentures and bonds	Currency	% Interest rate	2012	2013	2014	2015	2016	Subsequent years	Total
EMTN GBP 10/08/2029 400 GBP	GBP	5.445%	–	–	–	–	–	479	479
TELEF EMISIONES FEBRUARY 2011	EUR	4.750%	–	–	–	–	–	1,200	1,200
TELEF EMISIONES FEBRUARY 2011	USD	3.992%	–	–	–	–	966	–	966
TELEF EMISIONES FEBRUARY 2011	USD	5.462%	–	–	–	–	–	1,159	1,159
TELEF EMISIONES MARCH 2011	EUR	4.750%	–	–	–	–	–	100	100
TELEF EMISIONES NOVEMBER 2011	EUR	4.967%	–	–	–	–	1,000	–	1,000
TELEF EMISIONES NOVEMBER 2011	JPY	2.825%	–	–	–	–	70	–	70
Telefónica Emisiones, S.A.U.			616	3,414	4,299	3,462	6,252	11,984	30,027
Total Telefónica, S.A. and its instrumental companies			916	4,914	4,299	3,512	6,252	13,514	33,407

Foreign operators

			Maturity (nominal)						
Debentures and bonds	Currency	% Interest rate	2012	2013	2014	2015	2016	Subsequent years	Total
Series F	UF	6.000%	2	2	2	2	1	–	9
Series L	UF	3.750%	100	–	–	–	–	–	100
Series N	UF	3.500%	–	–	166	–	–	–	166
Series M	CLP	6.050%	–	–	31	–	–	–	31
Telefónica Chile, S.A.			102	2	199	2	1	–	306
Bond A	CLP	5.600%	–	–	48	–	–	–	48
Bond C	CLP	6.300%	–	–	–	–	98	–	98
Bond D	UF	3.600%	–	–	–	–	66	–	66
USD bond	CLP	2.875%	–	–	–	232	–	–	232
Telefónica Móviles Chile, S.A.			–	–	48	232	164	–	444
Series B	USD	8.000%	4	2	–	–	–	–	6
Series C	USD	8.500%	1	–	–	–	–	–	1
Commercial paper	USD	4.000%	4	–	–	–	–	–	4
Commercial paper	USD	4.000%	12	–	–	–	–	–	12
Otecel, S.A.			21	2	–	–	–	–	23
CB TELEFONICA FINANZAS MEXICO B	MXN	9.250%	194	–	–	–	–	–	194

T FINANZAS MEX EMISION 0710 FIJ	MXN	8.070%	–	–	–	–	–	110	110
T. FINANZAS MEX EMISION 0710 VAR	MXN	TIIE28 + 55 bps	–	–	222	–	–	–	222
Telefónica Finanzas México, S.A.			194	–	222	–	–	110	526
T. Peru 4th Program (10th Series A)	PEN	7.875%	9	–	–	–	–	–	9
T. Peru 4th Program (10th Series B)	PEN	6.438%	15	–	–	–	–	–	15
T. Peru 4th Program (16th Series A)	PEN	6.000%	29	–	–	–	–	–	29
T. Peru 4th Program (4th Series A)	PEN	6.625%	23	–	–	–	–	–	23
T. Peru 4th Program (16th Series B)	PEN	6.250%	–	9	–	–	–	–	9
T. Peru 4th Program (41st Series A)	PEN	7.938%	5	–	–	–	–	–	5
T. Peru 4th Program (42nd Series A)	PEN	7.375%	–	7	–	–	–	–	7
T. Peru 4th Program (42nd Series B)	PEN	5.313%	–	6	–	–	–	–	6
T. Peru 4th Program (42nd Series C)	PEN	6.063%	–	4	–	–	–	–	4
T. Peru 5th Program (5th Series A)	PEN	6.188%	–	6	–	–	–	–	6
T. Peru 5th Program (3rd Series A)	PEN	4.375%	9	–	–	–	–	–	9
T. Peru 5th Program (25th Series A)	PEN	4.313%	6	–	–	–	–	–	6

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Foreign operators

Debentures and bonds	Currency	% Interest rate	Maturity (nominal) 2012	2013	2014	2015	2016	Subsequent years	Total
T. Peru 5th Program (25th Series B)	PEN	4.313%	3	–	–	–	–	–	3
T. Peru 5th Program (31st Series A)	PEN	7.500%	–	–	–	–	7	–	7
T. Peru 4th Program (45th Series A)	USD	6.688%	–	–	–	–	17	–	17
T. Perú Senior Notes	PEN	8.000%	–	36	72	72	36	–	216
T. Peru 5th Program (33rd Series A)	PEN	6.813%	–	–	–	–	–	18	18
T. Peru 5th Program (29th Series A)	PEN	6.188%	–	–	–	–	17	–	17
PROG1EM1B	PEN	7.900%	12	–	–	–	–	–	12
PROG1EM1D	PEN	8.075%	–	–	–	–	–	35	35
T. Peru 4th Program (19th Series A)	PEN	VAC + 3.6250%	–	–	–	–	–	20	20
T. Peru 4th Program (36th Series A)	PEN	VAC + 3.6875%	–	–	–	–	–	50	50
T. Peru 4th Program (12th Series A)	PEN	VAC + 3.6875%	–	–	–	–	–	20	20
T. Peru 4th Program (36th Series B)	PEN	VAC + 3.3750%	–	–	–	–	–	16	16
T. Peru 4th Program (19th Series B)	PEN	VAC + 2.8750%	–	–	–	–	–	16	16
T. Peru 4th Program (37th Series A)	PEN	VAC + 3.1250%	–	–	–	–	–	15	15
T. Perú 4th Program (19th Series C)	PEN	VAC + 3.1875%	–	–	–	–	–	6	6
T. Peru 5th Program (22nd Series Aa)	PEN	VAC + 3.5000%	–	–	–	–	–	7	7
T. Peru 5th Program (22nd Series Ab)	PEN	VAC + 3.5000%	–	–	–	–	–	4	4
T. Peru 5th Program (22nd Series Ac)	PEN	VAC + 3.5000%	–	–	–	–	–	8	8
Telefónica del Perú, S.A.A.			111	68	72	72	77	215	615
T. M. Peru 1st Program (3rd Series A)	PEN	7.438%	–	10	–	–	–	–	10
T. M. Peru 1st Program (3rd Series B)	PEN	7.688%	–	6	–	–	–	–	6
T. M. Peru 1st Program (16th Series A)	PEN	8.188%	–	7	–	–	–	–	7
T. M. Peru 1st Program (18th Series A)	PEN	6.313%	–	–	11	–	–	–	11

T. M. Peru 1st Program (18th Series B)	PEN	6.375%	–	–	18	–	–	–	18
T. M. Peru 2nd Program (3rd Series A)	PEN	5.750%	–	7	–	–	–	–	7
T. M. Peru 2nd Program (11th Series A)	PEN	7.750%	–	–	–	–	–	20	20
T. M. Peru 2nd Program (9th Series A)	PEN	6.813%	–	–	–	–	18	–	18
T. M. Peru 2nd Program (9th Series B)	PEN	6.375%	–	–	–	–	15	–	15
T. M. Peru 2nd Program (11th Series B)	PEN	7.375%	–	–	–	–	–	18	18
T. M. Peru 2nd Program (1st Series C)	PEN	4.750%	10	–	–	–	–	–	10
Telefónica Móviles Perú, S.A.			10	30	29	–	33	38	140
Nonconvertible bonds	BRL	1.06 x CDI	140	–	–	–	–	–	140
Nonconvertible bonds	BRL	1.08 x CDI	40	–	–	–	–	–	40
Nonconvertible bonds	BRL	1.12 x CDI	–	264	–	–	–	–	264
Nonconvertible bonds	BRL	IPCA + 7%	–	–	30	–	–	–	30
Convertible bonds (Telemig) I	BRL	IPCA + 0.5%	–	–	–	–	–	3	3
Convertible bonds (Telemig) II	BRL	IPCA + 0.5%	–	–	–	–	–	7	7
Convertible bonds (Telemig) III	BRL	IPCA + 0.5%	–	–	–	–	–	13	13
Brasilcel Group			180	264	30	–	–	23	497
Total issues other operators			618	366	600	306	275	386	2,551
TOTAL OUTSTANDING DEBENTURES AND BONDS			1,534	5,280	4,899	3,818	6,527	13,900	35,958

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The main debentures and bonds issued by the Group in 2012 are as follows:

			Nominal (millions)			
Item	Date	Maturity Date	Currency	Euros (1)	Currency of issuance	Coupon
EMTN Bonds	02/07/2012	02/07/2017	120	120	EUR	4.7500%
	02/21/2012	02/21/2018	1,500	1,500	EUR	4.7970%
	03/12/2012	03/12/2020	700	858	GBP	5.5970%
	03/30/2012	03/30/2017	1,250	50	CZK	3.9340%
	07/11/2012	07/11/2018	10,000	88	JPY	4.2500%
	09/19/2012	09/05/2017	1,000	1,000	EUR	5.8110%
	10/19/2012	01/20/2020	1,200	1,200	EUR	4.7100%
	12/14/2012	12/14/2018	250	207	CHF	2.7180%
	12/14/2012	12/14/2022	150	124	CHF	3.4500%
Telefónica Emisiones, S.A.U.						
Debentures	09/10/2012	09/10/2017	2,000	742	BRL	100% CDI + 0.75% a.a.
Telefónica Brasil, S.A.						
Bonds	10/12/2012	10/12/2022	500	379	USD	3.8750%
Telefónica Chile, S.A.						
Bonds	09/27/2012	09/27/2022	750	568	USD	5.375%
Colombia Telecomunicaciones, S.A. ESP						
Bonds	08/10/2012	08/10/2019	50	15	PEN	5.5313%
Telefónica Móviles, S.A. (Perú)						
Debentures	11/29/2012	11/29/2022	1,165	1,165	EUR	4.1840%
Telefónica, S.A.						

(1) Exchange rate as at December 31, 2012

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The main debentures and bonds issued by the Group in 2011 are as follows:

			Nominal (millions)			
Item	Date	Maturity Date	Currency	Euros (1)	Currency of issuance	Coupon
EMTN Bonds	02/07/11	02/07/17	1,200	1,200	EUR	4.7500%
	03/21/11	02/07/17	100	100	EUR	4.7500%
	11/03/11	02/03/16	1,000	1,000	EUR	4.9670%
	11/04/11	11/04/16	7,000	70	JPY	2.8247%
SEC Bonds	02/16/11	02/16/16	1,250	966	USD	3.9920%
	02/16/11	02/16/21	1,500	1,159	USD	5.4620%
Telefónica Emisiones, S.A.U.						
Bonds	11/22/11	11/22/16	66,000	98	CLP	6.3000%
	11/22/11	11/22/16	2	66	UFC	UF + 3.60%
Telefónica Móviles Chile, S.A.						
Bonds	10/04/11	10/05/16	59	17	PEN	6.1875%
Telefónica del Perú, S.A.A.						
Bonds	03/24/11	03/24/18	60	17	PEN	7.3750%
Telefónica Móviles, S.A. (Perú)						
Notes	11/17/11	10/10/12	5	4	USD	4.0000%
	11/23/11	10/10/12	15	12	USD	4.0000%
Otecel, S.A.						

(1) Exchange rate as at December 31, 2011

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Appendix III: Financial instruments

The detail of the type of financial instruments arranged by the Group (notional amount) by currency and interest rates at December 31, 2012 is as follows:

Millions of Euros	2013	2014	2015	2016	2017	Subsequent years	Total	Underlying debt	Fair value Associated derivatives	TOTAL
EURO	662	5,044	9,398	8,787	5,039	11,281	40,211	29,280	11,737	41,017
Floating rate	(8,108)	2,635	4,243	3,306	1,139	(2,609)	606	9,688	(8,879)	809
Spread - Ref Euribor	–	–	–	–	–	–	–	–	–	–
Fixed rate	8,770	2,409	5,155	5,031	3,900	13,090	38,355	18,342	20,616	38,958
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	450	–	800	1,250	1,250	–	1,250
OTHER EUROPEAN CURRENCIES										
Instruments in CZK	463	341	164	507	50	–	1,525	205	1,357	1,562
Floating rate	96	–	164	119	–	–	379	52	328	380
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	367	341	–	388	50	–	1,146	153	1,029	1,182
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in GBP	(1,498)	546	13	496	123	3,006	2,686	3,784	(1,104)	2,680
Floating rate	(821)	306	(67)	6	184	1,262	870	(821)	1,711	890
Spread	–	–	–	1.00%	–	–	–	–	–	–
Fixed rate	(677)	240	80	490	(61)	1,621	1,693	4,482	(2,815)	1,667
Interest rate	–	–	–	–	–	(1.00)%	–	–	–	–
Rate cap	–	–	–	–	–	123	123	123	–	123
Instruments in CHF	–	–	–	–	–	20	20	352	(398)	(46)
Floating rate	–	–	–	–	–	–	–	–	(7)	(7)
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	–	–	–	–	–	20	20	352	(391)	(39)
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
AMERICA										
Instruments in USD	(99)	13	(108)	(1,473)	(653)	3,384	1,064	17,573	(16,299)	1,274
Floating rate	585	(65)	28	(1,402)	(668)	2,428	906	1,745	(984)	760
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	(684)	67	(147)	(82)	4	956	114	15,786	(15,315)	472
Interest rate	–	–	–	–	–	(7.00)%	–	–	–	–
Rate cap	–	11	11	11	11	–	44	42	–	42

Instruments in UYU	(215)	–	1	–	–	–	(214)	(23)	(204)	(227)
Floating rate	–	–	–	–	–	–	–	–	–	–
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	(215)	–	1	–	–	–	(214)	(23)	(204)	(227)
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in ARS	266	–	1	–	–	7	274	(9)	321	312
Floating rate	–	–	–	–	–	–	–	–	–	–
Spread	–	–	–	–	–	–	–	–	–	–

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Fixed rate	266	–	1	–	–	7	274	(9)	321	312
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in BRL	(1,878)	434	467	309	922	258	512	(417)	811	394
Floating rate	(2,379)	76	195	30	754	74	(1,250)	(1,751)	526	(1,225)
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	501	358	272	279	168	184	1,762	1,334	285	1,619
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in CLP	(417)	350	299	303	75	272	882	(53)	1,002	949
Floating rate	(150)	74	299	304	75	272	874	43	847	889
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	(267)	276	–	(1)	–	–	8	(96)	155	60
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in UFC	(6)	2	3	1	–	–	–	163	(163)	–
Floating rate	–	–	–	–	–	–	–	–	–	–
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	(6)	2	3	1	–	–	–	163	(163)	–
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in PEN	155	152	120	133	94	40	694	306	324	630
Floating rate	–	–	–	–	–	–	–	–	–	–
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	155	152	120	133	94	40	694	306	324	630
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in VAC	–	–	–	–	61	111	172	172	–	172
Floating rate	–	–	–	–	61	111	172	172	–	172
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	–	–	–	–	–	–	–	–	–	–
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in COP	762	58	61	167	264	244	1,556	664	1,108	1,772
Floating rate	–	1	48	154	168	234	605	603	–	603
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	762	57	13	13	96	10	951	61	1,108	1,169
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in UVR	–	–	–	–	–	1,576	1,576	1,576	–	1,576
Floating rate	–	–	–	–	–	1,576	1,576	1,576	–	1,576
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	–	–	–	–	–	–	–	–	–	–
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in VEB	(2,656)	(86)	(9)	–	–	–	(2,751)	(2,751)	–	(2,751)
Floating rate	–	–	–	–	–	–	–	–	–	–

Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	(2,656)	(86)	(9)	–	–	–	(2,751)	(2,751)	–	(2,751)
Interest rate	–	–	–	–	–	–	–	–	–	–

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Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in UDI	21	15	18	12	55	(76)	45	1,052	(935)	117
Floating rate	21	15	18	12	55	(76)	45	1,052	(935)	117
Spread	–	–	–	–	–	2.00%	–	–	–	–
Fixed rate	–	–	–	–	–	–	–	–	–	–
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in MXN	807	262	58	58	58	777	2,020	231	1,613	1,844
Floating rate	22	(29)	–	–	–	2	(5)	230	(235)	(6)
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	785	291	58	58	58	775	2,025	1	1,848	1,850
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in GTQ	(4)	–	–	–	–	–	(4)	30	–	30
Floating rate	(4)	–	–	–	–	–	(4)	30	–	30
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	–	–	–	–	–	–	–	–	–	–
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in NIO	(14)	–	–	–	–	–	(14)	(17)	–	(17)
Floating rate	(14)	–	–	–	–	–	(14)	(17)	–	(17)
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	–	–	–	–	–	–	–	–	–	–
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
ASIA										
Instruments in JPY	–	–	–	–	–	–	–	279	(308)	(29)
Floating rate	–	–	–	–	–	–	–	–	–	(2)
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	–	–	–	–	–	–	–	279	(308)	(27)
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
TOTAL	–	–	–	–	–	–	50,254	52,397	(1,138)	51,259
Floating rate							4,760	12,602	(7,628)	4,969
Fixed rate							44,077	38,380	6,490	44,875
Rate cap							1,417	1,415	–	1,415
Currency options							–	–	196	196

The table below is an extract of the previous table that shows the sensitivity to interest rates originated by our position on interest rate swaps categorized into instruments entered into for trading purposes and instruments entered into for purposes other than trading at December 31, 2012:

Interest rate swaps								
Millions of euros				Maturity				
Trading purposes	2013	2014	2015	2016	2017	Subsequent years	Total	Fair value

EUR								(286)
Fixed to fixed	–	–	–	–	–	–	–	1
Receiving leg	–	(35)	(20)	–	–	–	(55)	(55)

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Average interest rate	–	–	–	–	–	–	–	–
Paying leg	–	35	20	–	–	–	55	56
Average spread	–	1.12 %	1.63 %	–	–	–	1.31 %	–
Fixed to floating	–	–	–	–	–	–	–	(979)
Receiving leg	(1,405)	(1,522)	(900)	(3,145)	(1,690)	(6,199)	(14,861)	(8,620)
Average interest rate	3.23 %	2.34 %	2.79 %	0.28 %	2.85 %	3.14 %	2.41 %	–
Paying leg	1,405	1,522	900	3,145	1,690	6,199	14,861	7,641
Average spread	0.85 %	1.29 %	0.49 %	2.71 %	–	–	0.81 %	–
Floating to fixed	–	–	–	–	–	–	–	693
Receiving leg	(9,903)	(1,325)	(60)	(4,485)	(1,113)	(3,935)	(20,821)	(14,735)
Average interest rate	1.20 %	–	–	1.77 %	–	–	0.95 %	–
Paying leg	9,903	1,325	60	4,485	1,113	3,935	20,821	15,428
Average spread	1.00 %	3.14 %	0.66 %	1.20 %	3.17 %	2.89 %	1.65 %	–
Floating to floating	–	–	–	–	–	–	–	(1)
Receiving leg	–	–	(50)	–	–	–	(50)	(51)
Average spread	–	–	–	–	–	–	–	–
Paying leg	–	–	50	–	–	–	50	50
Average interest rate	–	–	0.28 %	–	–	–	0.28 %	–
USD								78
Fixed to fixed	–	–	–	–	–	–	–	(50)
Receiving leg	–	(38)	(114)	(121)	(182)	(326)	(781)	(831)
Average interest rate	–	1.04 %	0.95 %	2.20 %	3.95 %	2.13 %	–	–
Paying leg	–	38	114	121	182	326	781	781
Average spread	–	–	–	–	–	–	–	–
Floating to fixed	–	–	–	–	–	–	–	128
Receiving leg	(455)	(98)	(103)	(19)	(785)	(508)	(1,968)	(1,059)
Average interest rate	3.61 %	–	–	–	–	–	0.83 %	–
Paying leg	455	98	103	19	785	508	1,968	1,187
Average spread	–	0.92 %	2.52 %	1.07 %	3.06 %	2.77 %	2.13 %	–
GBP								(9)
Fixed to floating	–	–	–	–	–	–	–	(37)
Receiving leg	–	(61)	(49)	(110)	(61)	(460)	(741)	(780)
Average interest rate	–	1.53 %	1.46 %	1.75 %	1.87 %	2.25 %	2.03 %	–
Paying leg	–	61	49	110	61	460	741	743
Average spread	–	–	–	–	–	82.59 %	51.19 %	–
Floating to fixed	–	–	–	–	–	–	–	28
Receiving leg	–	(368)	(116)	(104)	–	(362)	(950)	(953)
Average spread	–	–	–	–	–	–	–	–
Paying leg	–	368	116	104	–	362	950	981
	–	1.09 %	0.93 %	1.15 %	–	2.39 %	–	–

Average interest rate								
CZK								1
Fixed to floating	–	–	–	–	–	–	–	–
Receiving leg	–	–	–	–	–	–	–	–
Average interest rate	–	–	–	–	–	–	–	–
Paying leg	–	–	–	–	–	–	–	–
Average spread	–	–	–	–	–	–	–	–
Floating to fixed	–	–	–	–	–	–	–	1
Receiving leg	–	–	–	–	(50)	–	(50)	(50)
Average spread	–	–	–	–	–	–	–	–
Paying leg	–	–	–	–	50	–	50	51
Average interest rate	–	–	–	–	1.25%	–	–	–

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Interest rate swaps Millions of euros Non trading purposes	2013	2014	2015	Maturity 2016	2017	Subsequent years	Total	Fair value
EUR								1,496
Fixed to fixed	–	–	–	–	–	–	–	–
Receiving leg	–	–	–	–	–	–	–	–
Average interest rate	–	–	–	–	–	–	–	–
Paying leg	–	–	–	–	–	–	–	–
Average spread	–	–	–	–	–	–	–	–
Fixed to floating	–	–	–	–	–	–	–	(1,082)
Receiving leg	(1,654)	(2,815)	(1,005)	(3,093)	(1,675)	(2,941)	(13,183)	(14,226)
Average interest rate	4.69 %	3.26 %	2.32 %	2.80 %	2.40 %	2.47 %	2.98 %	–
Paying leg	1,654	2,815	1,005	3,093	1,675	2,941	13,183	13,144
Average spread	0.03 %	0.01 %	0.03 %	0.01 %	0.02 %	0.00 %	0.01 %	–
Floating to fixed	–	–	–	–	–	–	–	2,578
Receiving leg	(4,976)	(2,372)	(6,368)	(3,120)	(2,132)	(11,730)	(30,698)	(25,726)
Average interest rate	0.69 %	0.72 %	0.32 %	–	–	–	0.23 %	–
Paying leg	4,976	2,372	6,368	3,120	2,132	11,730	30,698	28,304
Average spread	1.20 %	1.61 %	2.69 %	3.16 %	2.89 %	3.15 %	2.60 %	–
Floating to floating	–	–	–	–	–	–	–	–
Receiving leg	–	–	–	–	–	–	–	–
Average spread	–	–	–	–	–	–	–	–
Paying leg	–	–	–	–	–	–	–	–
Average interest rate	–	–	–	–	–	–	–	–
USD								(1,925)
Fixed to floating	–	–	–	–	–	–	–	(1,940)
Receiving leg	(1,678)	(78)	(1,935)	(5,004)	(608)	(5,591)	(14,894)	(13,537)
Average interest rate	2.97 %	3.07 %	3.04 %	3.25 %	5.33 %	3.88 %	3.51 %	–
Paying leg	1,678	78	1,935	5,004	608	5,591	14,894	11,597
Average spread	0.18 %	–	0.17 %	1.69 %	–	–	0.61 %	–
Floating to fixed	–	–	–	–	–	–	–	15
Receiving leg	(672)	(28)	(28)	(28)	–	–	(756)	(756)
Average interest rate	–	–	–	–	–	–	–	–
Paying leg	672	28	28	28	–	–	756	771
Average spread	3.35 %	4.34 %	4.34 %	4.34 %	–	–	–	–
MXN								(13)
Fixed to floating	–	–	–	–	–	–	–	(20)
Receiving leg	–	–	–	–	–	(117)	(117)	(142)
Average interest rate	–	–	–	–	–	8.07 %	–	–

Paying leg	–	–	–	–	–	117	117	122
Average spread	–	–	–	–	–	0.61 %	–	–
Floating to fixed	–	–	–	–	–	–	–	7
Receiving leg	–	(234)	–	–	–	(117)	(351)	(298)
Average interest rate	–	0.55 %	–	–	–	0.61 %	–	–
Paying leg	–	234	–	–	–	117	351	305
Average spread	–	5.55 %	–	–	–	6.62 %	–	–

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GBP								(249)
Fixed to floating	–	–	–	–	–	–	–	(319)
Receiving leg	–	(613)	–	–	–	(2,144)	(2,757)	(3,078)
Average interest rate	–	5.25%	–	–	–	2.99%	–	–
Paying leg	–	613	–	–	–	2,144	2,757	2,759
Average spread	–	–	–	–	–	–	–	–
Floating to fixed	–	–	–	–	–	–	–	70
Receiving leg	–	–	–	(496)	–	–	(496)	(496)
Average spread	–	–	–	–	–	–	–	–
Paying leg	–	–	–	496	–	–	496	566
Average interest rate	–	–	–	4.96%	–	–	–	–
JPY								(6)
Fixed to floating	–	–	–	–	–	–	–	(6)
Receiving leg	–	–	–	(62)	–	(88)	(150)	(156)
Average interest rate	–	–	–	2.82%	–	0.32%	–	–
Paying leg	–	–	–	62	–	88	150	150
Average spread	–	–	–	–	–	–	–	–
Floating to fixed	–	–	–	–	–	–	–	–
Receiving leg	–	–	–	–	–	–	–	–
Average interest rate	–	–	–	–	–	–	–	–
Paying leg	–	–	–	–	–	–	–	–
Average spread	–	–	–	–	–	–	–	–
CLP								1
Fixed to floating	–	–	–	–	–	–	–	2
Receiving leg	(24)	(32)	–	(182)	–	–	(238)	(251)
Average interest rate	4.12%	4.51%	–	6.51%	–	–	–	–
Paying leg	24	32	–	182	–	–	238	253
Average spread	–	–	–	1.66%	–	–	–	–
Floating to fixed	–	–	–	–	–	–	–	(1)
Receiving leg	(283)	–	–	–	–	–	(283)	(284)
Average interest rate	–	–	–	–	–	–	–	–
Paying leg	283	–	–	–	–	–	283	283
Average spread	4.33%	–	–	–	–	–	–	–
CHF								4
Fixed to floating	–	–	–	–	–	–	–	4
Receiving leg	–	–	–	–	–	(331)	(331)	(327)
Average interest rate	–	–	–	–	–	0.45%	–	–
Paying leg	–	–	–	–	–	331	331	331
Average spread	–	–	–	–	–	–	–	–

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Foreign exchange and interest rate options, by maturity, are as follows:

Currency options	Maturities					
Millions of euros	2013	2014	2015	2016	2017	Subsequent years
Put Divisas (EURUSD, EURGBP)						
Notional amount of options bought	1,872		91		1,487	143
Strike	1.14%		1.54%		1.36%	1.57%
Notional amount of options sold					831	
Strike					1.20%	

Interest rate options	Maturities				
Millions of euros	2013	2014	2015	2016	Subsequent years
Collars					
Notional amount of options bought	–	–	–	492	1,719
Strike Cap	–	–	–	4.30%	4.65%
Strike Floor	–	–	–	3.00%	3.64%
Caps					
Notional amount of options bought	–	–	–		
Strike	–	–	–		
Notional amount of options sold	–	–	–	492	1,419
Strike	–	–	–	5.11%	5.38%
Floors					
Notional amount of options bought	–	–	–	450	1,719
Strike	–	–	–	0.50%	0.99%
Notional amount of options sold	–	–	–		
Strike	–	–	–		

Cash flows receivable or payable on derivative financial instruments settled via the swap of nominals, by currency of collection/payment, along with contractual maturities are as follows:

Millions of euros		2013	2014	2015	2016	2017	Subsequent years	Total
Currency swaps								
Receive	ARS	–	–	–	–	–	–	–
Pay	ARS	–	–	–	–	–	–	–
Receive	BRL	–	61	–	–	–	–	61
Pay	BRL	(137)	(136)	(178)	(160)	(69)	(21)	(701)
Receive	CLP	109	–	299	123	75	–	606
Pay	CLP	(218)	(226)	(597)	(245)	(151)	–	(1,437)
Receive	COP	–	–	–	–	–	–	–

Pay	COP	(40)	(40)	(13)	(13)	(13)	(10)	(129)
Receive	CZK	–	–	–	–	–	–	–
Pay	CZK	(164)	(234)	(163)	(388)	–	–	(949)
Receive	EUR	378	281	163	1,151	60	–	2,033
Pay	EUR	(2,943)	(72)	(3,188)	(4,545)	(1,129)	(9,028)	(20,905)

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Millions of euros		2013	2014	2015	2016	2017	Subsequent years	Total
Receive	GBP	–	–	–	–	–	1,715	1,715
Pay	GBP	–	–	–	(496)	–	–	(496)
Receive	JPY	–	–	–	62	–	220	282
Pay	JPY	–	–	–	–	–	–	–
Receive	MAD	–	–	–	–	–	–	–
Pay	MAD	–	–	–	–	–	–	–
Receive	MXN	–	–	–	–	–	–	–
Pay	MXN	(148)	(58)	(58)	(57)	(57)	(658)	(1,036)
Receive	PEN	–	–	–	–	–	–	–
Pay	PEN	(16)	(16)	(16)	(36)	(16)	(7)	(107)
Receive	UFC	–	180	–	145	–	–	325
Pay	UFC	–	–	–	(72)	–	–	(72)
Receive	USD	3,437	279	4,171	4,611	1,341	7,324	21,163
Pay	USD	(255)	(71)	(290)	(53)	(74)	–	(743)
Receive	UDI	61	61	61	62	62	703	1,010
Pay	UDI	–	–	–	–	–	–	–
TOTAL		64	9	191	89	29	238	620

Millions of euros		2013	2014	2015	2016	2017	Subsequent years	Total
Forwards								
Receive	ARS	21	–	–	–	–	–	21
Pay	ARS	(349)	–	–	–	–	–	(349)
Receive	BRL	–	–	–	–	–	–	–
Pay	BRL	(45)	–	–	–	–	–	(45)
Receive	CLP	341	–	–	–	–	–	341
Pay	CLP	(145)	–	–	–	–	–	(145)
Receive	COP	–	–	–	–	–	–	–
Pay	COP	(682)	–	–	–	–	–	(682)
Receive	CZK	116	–	–	–	–	–	116
Pay	CZK	(597)	–	–	–	–	–	(597)
Receive	EUR	4,625	–	–	–	–	–	4,625
Pay	EUR	(3,255)	–	–	–	–	–	(3,255)
Receive	GBP	1,943	–	–	–	–	–	1,943
Pay	GBP	(1,374)	–	–	–	–	–	(1,374)
Receive	MXN	26	–	–	–	–	–	26
Pay	MXN	(665)	–	–	–	–	–	(665)
Receive	PEN	1	–	–	–	–	–	1
Pay	PEN	(207)	–	–	–	–	–	(207)
Receive	UFC	9	–	–	–	–	–	9
Pay	UFC	(98)	–	–	–	–	–	(98)
Receive	USD	2,637	–	–	–	–	–	2,637
Pay	USD	(2,500)	–	–	–	–	–	(2,500)
Receive	UYU	204	–	–	–	–	–	204
Pay	UYU	–	–	–	–	–	–	–

TOTAL	6	–	–	–	–	6

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The detail of financial instruments by the Group (notional amount) by currency and interest rates at December 31, 2011 was as follows:

Millions of Euros	2012	2013	2014	2015	2016	Subsequent years	Total	Underlying debt	Fair value Associated derivatives	TOTAL
EURO	5,187	5,396	5,447	7,094	8,808	9,224	41,156	31,251	10,767	42,018
Floating rate	(1,221)	639	2,751	1,887	3,288	(4,392)	2,952	12,087	(9,152)	2,935
Spread - Ref Euribor	(1.71)%	(0.33)%	0.56%	1.75%	0.46%	(0.02)%	–	–	–	–
Fixed rate	6,408	2,907	2,696	5,207	5,070	12,816	35,104	16,064	19,919	35,983
Interest rate	1.46%	2.31%	4.67%	3.03%	5.09%	3.63%	–	–	–	–
Rate cap	–	1,850	–	–	450	800	3,100	3,100	–	3,100
OTHER EUROPEAN CURRENCIES	(186)	581	489	159	863	2,754	4,660	4,604	551	5,155
Instruments in CZK	569	162	329	159	378	–	1,597	127	1,495	1,622
Floating rate	114	159	–	159	–	–	432	15	1,063	1,078
Spread	–	(0.09)%	–	(0.02)%	–	–	–	–	–	–
Fixed rate	455	3	329	–	378	–	1,165	112	432	544
Interest rate	1.12%	4.17%	–	3.84%	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in GBP	(755)	419	160	–	485	2,754	3,063	4,477	(944)	3,533
Floating rate	664	–	84	48	108	1,209	2,113	126	2,010	2,136
Spread	–	–	–	–	4.13%	–	–	–	–	–
Fixed rate	(1,419)	–	76	(48)	377	1,425	411	3,812	(2,954)	858
Interest rate	(0.34)%	–	5.01%	1.46%	5.88%	6.31%	–	–	–	–
Rate cap	–	419	–	–	–	120	539	539	–	539
AMERICA	(636)	2,205	1,431	928	(616)	6,726	10,038	22,160	(13,016)	9,144
Instruments in USD	(15)	784	(13)	56	(1,490)	2,880	2,202	14,814	(13,446)	1,368
Floating rate	119	481	(44)	(49)	(1,424)	1,227	310	1,547	(525)	1,022
Spread	2.02%	0.71%	(1.18)%	(1.35)%	(0.05)%	0.01%	–	–	–	–
Fixed rate	(134)	292	20	94	(77)	1,642	1,837	13,267	(12,921)	346
Interest rate	(9.74)%	5.47%	(14.48)%	27.57%	(28.28)%	10.77%	–	–	–	–
Rate cap	–	11	11	11	11	11	55	–	–	–
Instruments in UYU	(15)	–	–	1	–	–	(14)	(14)	–	(14)
Floating rate	–	–	–	–	–	–	–	–	–	–
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	(15)	–	–	1	–	–	(14)	(14)	–	(14)
Interest rate	4.23%	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in ARS	171	5	4	4	–	10	194	171	23	194

Floating rate	–	–	–	–	–	–	–	–	–	–
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	171	5	4	4	–	10	194	171	23	194
Interest rate	14.55 %	19.00 %	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in BRL	(303)	927	494	351	255	196	1,920	1,084	590	1,674
Floating rate	(966)	432	199	253	70	196	184	(309)	167	(142)
Spread	(0.31)%	1.17 %	2.91 %	3.36 %	12.03 %	10.77 %	–	–	–	–
Fixed rate	663	495	295	98	185	–	1,736	1,393	423	1,816
Interest rate	9.32 %	9.47 %	9.82 %	9.71 %	7.84 %	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–

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Instruments in CLP	(297)	102	329	263	287	–	684	695	(199)	496
Floating rate	57	22	69	263	287	–	698	85	105	190
Spread	2.26%	1.48%	1.09%	0.98%	1.45%	–	–	–	–	–
Fixed rate	(354)	80	260	–	–	–	(14)	610	(304)	306
Interest rate	0.76%	3.66%	5.97%	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in UFC	(3)	2	2	2	1	–	4	338	(8)	330
Floating rate	–	–	–	–	–	–	–	–	–	–
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	(3)	2	2	2	1	–	4	338	(8)	330
Interest rate	(3.54)%	6.00%	5.43%	6.00%	6.00%	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in PEN	148	161	163	86	123	300	981	971	–	971
Floating rate	(8)	(5)	(5)	(5)	(5)	189	161	161	–	161
Spread	3.55%	3.47%	3.47%	3.47%	3.47%	3.48%	–	–	–	–
Fixed rate	156	166	168	91	128	111	820	810	–	810
Interest rate	6.51%	6.60%	7.35%	7.48%	7.35%	7.37%	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in COP	918	171	211	68	43	21	1,432	1,272	130	1,402
Floating rate	287	134	143	56	31	–	651	650	–	650
Spread	3.78%	3.24%	3.20%	3.22%	3.31%	–	–	–	–	–
Fixed rate	631	37	68	12	12	21	781	622	130	752
Interest rate	4.47%	6.48%	6.71%	5.22%	5.22%	5.30%	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in UVR	–	35	–	119	132	2,437	2,723	2,723	–	2,723
Floating rate	–	35	–	119	132	2,437	2,723	2,723	–	2,723
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	–	–	–	–	–	–	–	–	–	–
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in VEB	(1,653)	(4)	(3)	–	–	–	(1,660)	(1,671)	–	(1,671)
Floating rate	–	–	–	–	–	–	–	–	–	–
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	(1,653)	(4)	(3)	–	–	–	(1,660)	(1,671)	–	(1,671)
Interest rate	1.68%	14.19%	16.00%	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in UDI	(32)	(32)	(32)	(76)	(21)	91	(102)	876	60	936
Floating rate	(32)	(32)	(32)	(76)	(21)	91	(102)	876	60	936
Spread	3.63%	5.21%	5.26%	4.66%	6.50%	(3.18)%	–	–	–	–
Fixed rate	–	–	–	–	–	–	–	–	–	–
Interest rate	–	–	–	–	–	–	–	–	–	–

Rate cap	–	–	–	–	–	–	–	–	–	–
Instruments in MXN	451	54	276	54	54	791	1,680	920	(166)	754
Floating rate	(2)	–	–	–	–	58	56	248	(26)	222
Spread	–	–	–	–	–	0.74 %	–	–	–	–
Fixed rate	453	54	276	54	54	733	1,624	672	(140)	532
Interest rate	10.13 %	3.70 %	5.19 %	3.70 %	3.70 %	3.95 %	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–

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Instruments in GTQ	(6)	–	–	–	–	–	(6)	(19)	–	(19)
Floating rate	(6)	–	–	–	–	–	(6)	(6)	–	(6)
Spread	1.00 %	–	–	–	–	–	–	–	–	–
Fixed rate	–	–	–	–	–	–	–	(13)	–	(13)
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
ASIA	–	–	–	–	–	–	–	520	(532)	(12)
Instruments in JPY	–	–	–	–	–	–	–	520	(532)	(12)
Floating rate	–	–	–	–	–	–	–	150	(150)	–
Spread	–	–	–	–	–	–	–	–	–	–
Fixed rate	–	–	–	–	–	–	–	370	(382)	(12)
Interest rate	–	–	–	–	–	–	–	–	–	–
Rate cap	–	–	–	–	–	–	–	–	–	–
TOTAL	–	–	–	–	–	–	55,854	58,535	(2,230)	56,305
Floating rate	–	–	–	–	–	–	10,172	18,353	(6,448)	11,905
Fixed rate	–	–	–	–	–	–	41,988	36,543	4,218	40,761
Rate cap	–	–	–	–	–	–	3,694	3,639	–	3,639
Currency options	–	–	–	–	–	–	22	–	22	22
Other	–	–	–	–	–	–	–	–	–	–

The table below is an extract of the previous table that shows the sensitivity to interest rates originated by the Group´s position on interest rate swaps categorized into instruments entered into for trading purposes and instruments entered into for purposes other than trading at December 31, 2011:

Interest rate swaps

Millions of euros	Maturity							
Trading purposes	2012	2013	2014	2015	2016	Subsequent years	Total	Fair value
EUR								(78)
Fixed to fixed	–	–	–	–	–	–	–	27
Receiving leg	(2,023)	–	(35)	(20)	–	–	(2,078)	(2,081)
Average interest rate	1.60 %	–	–	–	–	–	1.56 %	–
Paying leg	2,023	–	35	20	–	–	2,078	2,108
Average spread	1.60 %	–	1.12 %	1.63 %	–	–	1.60 %	–
Fixed to floating	–	–	–	–	–	–	–	(527)
Receiving leg	(475)	(1,405)	(1,447)	(745)	(2,145)	(6,626)	(12,843)	(8,061)
Average interest rate	15.34 %	2.76 %	2.22 %	3.15 %	0.41 %	3.15 %	2.99 %	–
Paying leg	475	1,405	1,447	745	2,145	6,626	12,843	7,534
Average spread	0.17 %	0.85 %	1.35 %	0.60 %	2.57 %	–	0.71 %	–
Floating to fixed	–	–	–	–	–	–	–	408
Receiving leg	(7,458)	(710)	(1,325)	–	(3,485)	(1,325)	(14,303)	(12,663)
Average spread	(0.05)%	1.56 %	–	–	1.22 %	–	0.35 %	–

Paying leg	7,458	710	1,325	–	3,485	1,325	14,303	13,071
Average interest rate	0.92 %	2.35 %	3.14 %	–	1.54 %	7.80 %	1.99 %	–
Floating to floating	–	–	–	–	–	–	–	14
Receiving leg	(4,123)	–	–	(50)	–	–	(4,173)	(4,191)
Average interest rate	(0.08)%	–	–	–	–	–	(0.08)%	–
Paying leg	4,123	–	–	50	–	–	4,173	4,205
Average spread	(0.08)%	–	–	0.28 %	–	–	(0.08)%	–
USD								54

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Fixed to floating	–	–	–	–	–	–	–	(42)
Receiving leg	–	–	(39)	(39)	(124)	(286)	(488)	(529)
Average interest rate	–	–	1.04%	1.66%	1.15%	3.61%	2.62%	–
Paying leg	–	–	39	39	124	286	488	487
Average spread	–	–	–	–	–	–	–	–
Floating to fixed	–	–	–	–	–	–	–	96
Receiving leg	(128)	(464)	(100)	(105)	(19)	(1,021)	(1,837)	(655)
Average spread	2.57%	3.61%	–	–	–	–	1.09%	–
Paying leg	128	464	100	105	19	1,021	1,837	751
Average interest rate	–	–	0.92%	2.52%	1.07%	3.31%	2.05%	–
GBP								(3)
Fixed to floating	–	–	–	–	–	–	–	(11)
Receiving leg	–	–	60	48	108	341	557	559
Average interest rate	–	–	–	–	–	–	–	–
Paying leg	–	–	(60)	(48)	(108)	(341)	(557)	(570)
Average spread	–	–	1.53%	1.46%	1.75%	2.25%	2.01%	–
Floating to fixed	–	–	–	–	–	–	–	8
Receiving leg	–	–	156	–	–	269	425	434
Average spread	–	–	1.31%	–	–	2.40%	2.00%	–
Paying leg	–	–	(156)	–	–	(269)	(425)	(426)
Average interest rate	–	–	–	–	–	–	–	–

Interest rate swaps

Millions of euros				Maturity				
Non trading purposes	2012	2013	2014	2015	2016	Subsequent years	Total	Fair value
EUR								522
Fixed to floating	–	–	–	–	–	(70)	(70)	(1,039)
Receiving leg	(594)	(1,654)	(2,815)	(1,005)	(3,093)	(2,650)	(11,811)	(12,717)
Average interest rate	4.26%	4.69%	3.26%	2.32%	2.80%	3.41%	3.35%	–
Paying leg	594	1,654	2,815	1,005	3,093	2,580	11,741	11,678
Average spread	0.04%	0.03%	0.01%	0.03%	0.01%	–	0.02%	–
Floating to fixed	–	–	–	–	–	–	–	1,561
Receiving leg	(4,776)	(4,476)	(2,330)	(6,302)	(3,120)	(13,303)	(34,307)	(24,704)
Average spread	1.03%	0.65%	0.74%	0.32%	–	–	0.34%	–
Paying leg	4,776	4,476	2,330	6,302	3,120	13,303	34,307	26,265
Average interest rate	0.92%	1.33%	1.62%	2.70%	3.13%	3.19%	2.43%	–
Floating to floating	–	–	–	–	–	–	–	–
Receiving leg	(42)	–	–	–	–	–	(42)	(43)
Average spread	0.43%	–	–	–	–	–	0.43%	–
Paying leg	42	–	–	–	–	–	42	43
Average interest rate	(0.10)%	–	–	–	–	–	(0.10)%	–
USD								(1,916)

Fixed to floating	–	–	–	–	–	–	–	(1,949)
Receiving leg	(222)	(1,711)	(79)	(1,973)	(5,103)	(5,356)	(14,444)	(12,663)
Average interest rate	0.61 %	2.97 %	3.07 %	3.04 %	3.25 %	4.45 %	3.59 %	–
Paying leg	222	1,711	79	1,973	5,103	5,356	14,444	10,714
Average spread	2.27 %	0.14 %	–	0.17 %	1.90 %	–	0.75 %	–
Floating to fixed	–	–	–	–	–	–	–	33

Receiving leg	(28)	(685)	(28)	(28)	(28)	–	(797)	(800)
Average spread	–	–	–	–	–	–	–	–
Paying leg	28	685	28	28	28	–	797	833
Average interest rate	4.34%	3.35%	4.34%	4.34%	4.34%	–	3.49%	–
MXN								(9)
Floating to fixed	–	–	–	–	–	–	–	(9)
Receiving leg	–	–	(222)	–	(166)	–	(388)	(417)
Average spread	–	–	0.55%	–	5.38%	–	2.62%	–
Paying leg	–	–	222	–	166	–	388	408
Average interest rate	–	–	5.55%	2.66%	2.66%	–	4.31%	–
GBP								(174)
Fixed to floating	–	–	–	–	–	–	–	(248)
Receiving leg	–	–	(599)	–	–	(1,257)	(1,856)	(2,106)
Average interest rate	–	–	5.25%	–	–	3.73%	4.22%	–
Paying leg	–	–	599	–	–	1,257	1,856	1,858
Average spread	–	–	–	–	–	–	–	–
Floating to fixed	–	–	–	–	–	–	–	74
Receiving leg	–	–	–	–	(484)	–	(484)	(484)
Average spread	–	–	–	–	–	–	–	–
Paying leg	–	–	–	–	484	–	484	558
Average interest rate	–	–	–	–	4.96%	–	4.96%	–
JPY								(10)
Fixed to floating	–	–	–	–	–	–	–	(10)
Receiving leg	(150)	–	–	–	(70)	–	(220)	(230)
Average interest rate	–	–	–	–	–	–	–	–
Paying leg	150	–	–	–	70	–	220	220
Average spread	0.34%	–	–	–	2.82%	–	1.13%	–
CLP								(8)
Fixed to floating	–	–	–	–	–	–	–	(7)
Receiving leg	–	(22)	(31)	–	(171)	–	(224)	(246)
Average interest rate	–	4.12%	4.51%	–	6.51%	–	6.00%	–
Paying leg	–	22	31	–	171	–	224	239
Average spread	–	–	–	–	1.66%	–	1.27%	–
Floating to fixed	–	–	–	–	–	–	–	(1)
Receiving leg	(78)	(103)	–	–	–	–	(181)	(182)
Average spread	–	–	–	–	–	–	–	–
Paying leg	78	103	–	–	–	–	181	181
Average interest rate	1.15%	3.76%	–	–	–	–	2.64%	–

Foreign exchange and interest rate options, by maturity, at December 31, 2011 were as follows:

Currency options	Maturities					
Millions of euros	2012	2013	2014	2015	2016	Subsequent years
Put Divisas (EURUSD)						
Notional amount of options bought	289	159		192		1,662

Strike	1.32	%	1.49	%	1.54	%	1.38	%
Notional amount of options sold	202						832	
Strike	1.26	%					1.20	%

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Interest rate options	Maturities				
Millions of euros	2012	2013	2014	2015	Subsequent years
Collars					
Notional amount of options bought	919	–	–	504	1,698
Strike Cap	5.05 %	–	–	4.29 %	4.76 %
Strike Floor	3.30 %	–	–	3.00 %	3.63 %
Caps		–	–		
Notional amount of options bought	2,749	–	–	–	–
Strike	4.37 %	–	–	–	–
Notional amount of options sold	3,668	–	–	504	1,698
Strike	4.95 %	–	–	4.45 %	5.22 %
Floors		–	–		
Notional amount of options bought	919	–	–	450	1,698
Strike	0.96 %	–	–	0.50 %	0.99 %
Notional amount of options sold	–	–	–	–	–
Strike	–	–	–	–	–

Cash flows receivable or payable on derivative financial instruments settled via the swap of nominals, by currency of collection/payment, along with contractual maturities at December 31, 2011 were as follows:

Millions of euros		2012	2013	2014	2015	2016	Subsequent years	Total
Currency swaps								
Receive	ARS	–	–	–	–	–	–	–
Pay	ARS	–	–	–	–	–	–	–
Receive	BRL	110	–	68	–	–	–	178
Pay	BRL	(258)	(136)	(151)	(197)	(177)	(38)	(957)
Receive	CLP	89	103	–	263	116	–	571
Pay	CLP	(252)	(206)	(212)	(527)	(231)	–	(1,428)
Receive	COP	–	–	–	–	–	–	–
Pay	COP	(214)	(37)	(37)	(12)	(12)	(21)	(333)
Receive	CZK	–	–	–	–	–	–	–
Pay	CZK	(114)	(159)	(228)	(159)	(378)	–	(1,038)
Receive	EUR	608	286	281	163	1,151	–	2,489
Pay	EUR	(582)	(2,943)	(72)	(3,176)	(4,533)	(8,034)	(19,340)
Receive	GBP	–	–	–	–	–	–	–
Pay	GBP	–	–	–	–	(484)	–	(484)
Receive	JPY	599	–	–	–	70	–	669
Pay	JPY	–	–	–	–	–	–	–
Receive	MAD	90	–	–	–	–	–	90
Pay	MAD	(90)	–	–	–	–	–	(90)
Receive	MXN	–	–	–	–	–	–	–
Pay	MXN	(51)	(51)	(51)	(51)	(51)	(645)	(900)
Receive	PEN	–	–	–	–	–	–	–
Pay	PEN	(29)	(15)	(15)	(15)	(35)	(23)	(132)
Receive	UFC	199	–	166	–	133	–	498

Pay	UFC	(100)	–	–	–	(66)	–	(166)
Receive	USD	306	3,498	284	4,203	4,690	8,419	21,400

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Pay	USD	(189)	(260)	(73)	(277)	(54)	–	(853)
Receive	UDI	52	52	52	52	52	664	924
Pay	UDI	–	–	–	–	–	–	–
TOTAL		174	132	12	267	191	322	1,098

Millions of euros		2012	2013	2014	2015	2016	Subsequent years	Total
Forwards								
Receive	ARS	26	–	–	–	–	–	26
Pay	ARS	(197)	–	–	–	–	–	(197)
Receive	BRL	–	–	–	–	–	–	–
Pay	BRL	(192)	–	–	–	–	–	(192)
Receive	CLP	185	–	–	–	–	–	185
Pay	CLP	(91)	–	–	–	–	–	(91)
Receive	COP	18	–	–	–	–	–	18
Pay	COP	(190)	–	–	–	–	–	(190)
Receive	CZK	5	–	–	–	–	–	5
Pay	CZK	(604)	–	–	–	–	–	(604)
Receive	EUR	3,661	–	–	–	–	–	3,661
Pay	EUR	(3,350)	(19)	–	–	–	–	(3,369)
Receive	GBP	2,530	–	–	–	–	–	2,530
Pay	GBP	(994)	–	–	–	–	–	(994)
Receive	MXN	4	–	–	–	–	–	4
Pay	MXN	(597)	–	–	–	–	–	(597)
Receive	PEN	2	–	–	–	–	–	2
Pay	PEN	(93)	–	–	–	–	–	(93)
Receive	UFC	20	–	–	–	–	–	20
Pay	UFC	(20)	–	–	–	–	–	(20)
Receive	USD	1,682	22	–	–	–	–	1,704
Pay	USD	(1,792)	–	–	–	–	–	(1,792)
TOTAL		13	3	–	–	–	–	16

Appendix IV: Interest-bearing debt

The main financing transactions included under this heading outstanding at December 31, 2012 and 2011 and their nominal amounts are as follows:

			Outstanding principal balance (millions of euros)			
Descriptive name summary	Contractual limit amount (millions)	Currency	12/31/12	12/31/11	Arrangement date	Maturity date
Telefónica, S.A.						
Syndicated loan**	700	EUR	700	700	04/21/2006	04/21/2017
ECAS structured facility **	351	USD	266	259	02/12/2010	11/30/2019
Syndicated loan Tranche A1	1,000	EUR	1,000	1,000	07/28/2010	07/28/2013
Syndicated loan Tranche A2	2,000	EUR	2,000	2,000	07/28/2010	07/28/2014
Syndicated loan Tranche A3	2,000	EUR	2,000	2,000	07/28/2010	07/28/2016
Syndicated loan Tranche B	3,000	EUR	3,000	3,000	07/28/2010	07/28/2015
ECAS structured facility **	370	USD	135	–	05/03/2011	07/30/2021
Bilateral loan	200	EUR	200	–	02/27/2012	02/27/2015
Syndicated loan Tranche D2 *	923	EUR	923	–	03/02/2012	12/14/2015
Telefónica Finanzas, S.A.						
EIB - HSLA financing (B) **	203	USD	154	196	03/31/2003	09/15/2016
EIB - RDI financing	100	EUR	100	100	12/01/2006	01/31/2015
EIB - Mobile financing	375	EUR	375	375	12/03/2007	01/30/2015
Telefonica Europe, B.V.						
Syndicated loan Tranche D	–	GBP	–	2,502	12/14/2006	12/14/2012
Syndicated loan Tranche E	2,100	GBP	123	463	12/14/2006	12/13/2013
Bilateral loan	15,000	JPY	132	150	08/16/2007	07/27/2037
Syndicated loan Tranche D1 *	801	EUR	801	–	03/02/2012	12/14/2015
Syndicated loan Tranche E1	756	EUR	–	–	03/02/2012	03/02/2017
	1,469	GBP	–	–	03/02/2012	03/02/2017

Syndicated loan Tranche E2 ***						
Vendor Financing **	375	USD	284	–	01/05/2012	01/31/2022
Vendor Financing **	1,200	USD	–	–	08/28/2012	10/31/2023
Other instrumental companies						
Bilateral loan	160	EUR	160	160	12/22/2010	12/22/2015
Atento syndicated loan	–	EUR	–	228	03/29/2011	03/29/2015
Chile						
Syndicated loan	150	USD	114	116	06/09/2008	05/13/2013
Brazil						
EIB financing **	365	USD	277	282	10/31/2007	03/02/2015
BNDES C2 bilateral loan **	562	BRL	208	337	08/09/2007	08/15/2014
BNDES bilateral loan **	983	BRL	365	573	10/23/2007	05/15/2015
FNE C2 bilateral loan **	259	BRL	96	105	10/30/2008	09/30/2016
BNDES C3 bilateral loan **	3,031	BRL	668	414	09/20/2011	07/15/2019
Law 4131 bilateral loan	150	USD	114	116	10/31/2011	10/25/2013
Colombia						
Syndicated loan	–	USD	–	211	12/20/2007	05/15/2012
Bilateral loan	318,475	COP	137	–	09/27/2012	09/27/2019
Bilateral loan	600,000	COP	257	–	09/28/2012	09/28/2019
Bilateral loan	310,000	COP	–	123	12/28/2009	09/28/2012
Czech Republic						
Bilateral loan	115	EUR	–	115	07/30/1997	07/30/2012
Syndicated	3,000	CZK	119	–	09/27/2012	09/27/2016

* Facility signed in GBP redenominated into EUR on 12/14/12 and available from 12/14/12
** Facilities with amortization schedule
*** Available from 12/13/13

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Appendix V: Main companies comprising the Telefónica Group

The table below lists the main companies comprising the Telefónica Group at December 31, 2012 and the main investments consolidated using the equity method.

Included for each company are the company name, corporate purpose, country, functional currency, share capital (in million of functional currency units), the Telefónica Group's effective shareholding and the company or companies through which the Group holds a stake.

Name and corporate purpose	Country	Currency	Capital	% Telefónica Group	Holding company
Parent company:					
Telefónica, S.A.	Spain	EUR	4,551		
Telefónica Latinoamérica					
Telefónica Internacional, S.A.U. Investment in the telecommunications industry abroad	Spain	EUR	2,839	100%	Telefónica, S.A. (100%)
Telefonica International Holding, B.V. Holding company	Netherlands	EUR	-	100%	Telefónica Internacional, S.A.U. (100%)
Telefónica Latinoamérica Holding, S.L. Holding company	Spain	EUR	185	100%	Telefónica, S.A. (94.59%) Telefónica Internacional, S.A.U. (5.41%)
Telefónica América, S.A. Holding company	Spain	EUR	-	100%	Telefónica, S.A. (50.00%) Telefónica Internacional, S.A.U. (50.00%)
Latin American Cellular Holdings, B.V. Holding company	Netherlands	EUR	-	100%	Telefónica Latinoamérica Holding, S.L. (100%)
Telefónica Datacorp, S.A.U. Holding company	Spain	EUR	700	100%	Telefónica, S.A. (100%)
Telefónica Brasil, S.A. Wireline telephony operator in Sao Paulo	Brazil	BRL	37,798	73.96%	Telefónica Internacional, S.A.U. (29.44%) Telefónica, S.A. (24.73%) Sao Paulo Telecomunicações Participações, Ltda. (19.73%) Telefónica Chile, S.A. (0.06%)
Vivo, S.A. Wireless services operator	Brazil	BRL	7,051	73.96%	Telefónica Brasil, S.A. (100%)
					Telefónica Holding de Argentina, S.A. (47.22%)

Compañía Internacional de Telecomunicaciones, S.A. Holding company	Argentina	ARS	562	100%	Telefónica Móviles Argentina Holding, S.A. (42.77%) Telefónica International Holding, B.V. (10.01%)
Telefónica de Argentina, S.A. Telecommunications service provider	Argentina	ARS	624	100%	Compañía Internacional de Telecomunicaciones, S.A. (51.49%) Telefónica Móviles Argentina, S.A. (29.56%) Telefónica Internacional, S.A. (16.20%) Telefónica, S.A. (1.80%) Telefonica International Holding, B.V.(0.95%)
Telefónica Móviles Argentina Holding, S.A. Holding company	Argentina	ARS	1,198	100%	Telefónica, S.A. (75%) Telefónica Internacional, S.A.U. (25%)

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Name and corporate purpose	Country	Currency	Capital	% Telefónica Group	Holding company
Telefónica Venezolana, C.A. Wireless communications operator	Venezuela	VEF	1,762	100%	Latin America Cellular Holdings, B.V. (97.04%) Comtel Comunicaciones Telefónicas, S.A. (2.87%) Telefónica, S.A. (0.09%)
Telefónica Móviles Chile, S.A. Wireless communications services operator	Chile	CLP	589,404	99.99%	TEM Inversiones Chile Ltda. (99.99%)
Telefónica Chile, S.A. Local and international long distance telephony services provider	Chile	CLP	578,078	97.89%	Inversiones Telefónica Internacional Holding Ltda. (53.00%) Telefónica Internacional de Chile, S.A. (44.89%)
Telefónica del Perú, S.A.A. Local, domestic and international long distance telephone service provider	Peru	PEN	2,962	98.49%	Telefónica Latinoamérica Holding, S.L. (50.18%) Latin American Cellular Holdings, B.V. (48.31%)
Telefónica Móviles Perú, S.A.C. Wireless communications services provider	Peru	PEN	625	98.49%	Telefónica del Perú, S.A.A. (99.99%)
Colombia Telecomunicaciones, S.A. ESP Communications services operator	Colombia	COP	1,454,871	70%	Telefónica Internacional, S.A.U. (32.54%) Olympic, Ltda. (18.94%) Telefónica, S.A. (18.51%)
Telefónica Móviles México, S.A. de C.V. (MÉXICO) Holding company	Mexico	MXN	52,120	100%	Telefónica, S.A. (100%)
Pegaso Comunicaciones y Sistemas, S.A. de C.V. Wireless telephone and communications services	Mexico	MXN	27,173	100%	Telefónica Móviles México, S.A. de C.V. (100%)
Telefónica Móviles del Uruguay, S.A. Wireless communications and services operator	Uruguay	UYU	350	100%	Latin America Cellular Holdings, B.V. (68.00%) Telefónica, S.A. (32.00%)
Telefónica Larga Distancia de Puerto Rico, Inc. Telecommunications service operator		USD	113	100%	

	Puerto Rico				Telefónica Internacional Holding, B.V. (100%)
Telefónica Móviles Panamá, S.A. Wireless telephony services	Panama	USD	24	100%	Telefónica, S.A. (56.30%) Panamá Cellular Holdings, B.V. (43.70%)
Telefónica Móviles El Salvador, S.A. de C.V. Provision of wireless and international long distance communications services	El Salvador	USD	187	99.18%	Telefónica El Salvador Holding, S.A. de C.V. (99.18%)
Telefónica Móviles Guatemala, S.A. Wireless, wireline and radio paging communications services provider	Guatemala	GTQ	2,701	100%	TCG Holdings, S.A. (65.99%) Telefónica, S.A. (13.61%) Guatemala Cellular Holdings, B.V. (13.13%) Panamá Cellular Holdings, B.V. (7.27%)
Telefonía Celular de Nicaragua, S.A. Wireless telephony services	Nicaragua	NIO	247	100%	Latin America Cellular Holdings, B.V. (100%)
Otecel, S.A. Wireless communications services provider	Ecuador	USD	183	100%	Ecuador Cellular Holdings, B.V. (100%)
Telefónica de Costa Rica TC, S.A. Wireless communications	Costa Rica	CRC	139,455	100%	Telefónica, S.A. (100%)
Telefónica Holding Atticus, B.V. Holding company	Netherlands	EUR	-	100%	Telefónica Internacional, S.A.U. (100%)

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Name and corporate purpose	Country	Currency	Capital	% Telefónica Group	Holding company
Telefónica Europe					
Telefónica Europe plc Holding company	UK	GBP	39	100%	Telefónica, S.A. (100%)
MmO2 plc Holding company	UK	GBP	9	99.99%	Telefónica Europe plc (99.99%)
O2 Holdings Ltd. Holding company	UK	GBP	12	100%	MmO2 plc (100%)
Telefónica UK Ltd. Wireless communications services operator	UK	GBP	17	100%	O2 Networks Ltd. (80.00%) O2 Cedar Ltd. (20.00%)
Tesco Mobile Ltd. (*) Wireless telephony services	UK	GBP	-	50.00%	O2 Communication Ltd. (50.00%)
Telefónica O2 Ireland Limited Wireless communications services operator	Ireland	EUR	98	100%	O2 (Netherlands) Holdings, B.V. (97.06%) Kilmaine Ltd (2.94%)
O2 (Europe) Ltd. Holding company	UK	EUR	1,239	100%	Telefónica, S.A. (100%)
Telefónica Deutschland Holding A.G. Holding company	Germany	EUR	1,117	76.83%	Telefónica Germany Holdings Limited (76.83%)
Telefónica Germany GmbH & Co. OHG Wireless communications services operator	Germany	EUR	51	76.83%	Telefonica Deutschland Holding A.G (76.82%) Telefónica O2 Germany Management GmbH (0.01%)
Telefónica de España, S.A.U. Telecommunications service provider	Spain	EUR	1,024	100%	Telefónica, S.A. (100%)
Telefónica Móviles España, S.A.U. Wireless communications services provider	Spain	EUR	423	100%	Telefónica, S.A. (100%)
Acens Technologies, S.L. Holding, housing and telecommunications solutions service provider	Spain	EUR	23	100%	Telefónica de España, S.A.U. (100%)
Telefónica Soluciones Sectoriales, S.A.U. Consulting services for ICT companies	Spain	EUR	14	100%	Telefónica de España, S.A.U. (100%)
Teleinformática y Comunicaciones, S.A.U. (TELYCO) Promotion, marketing and distribution of telephone and telematic equipment and services	Spain	EUR	8	100%	Telefónica de España, S.A.U. (100%)

Telefónica Serv. de Informática y Com. de España, S.A.U. Telecommunications systems, networks and infrastructure engineering	Spain	EUR	5	100%	Telefónica de España, S.A.U. (100%)
Telefónica Cable, S.A.U. Cable telecommunication services provider	Spain	EUR	3	100%	Telefónica de España, S.A.U. (100%)
Iberbanda, S.A. Broadband telecommunications operator	Spain	EUR	2	100%	Telefónica de España, S.A.U. (100%)
Telefónica Telecomunicaciones Públicas, S.A.U. Installation of public telephones	Spain	EUR	1	100%	Telefónica de España, S.A.U. (100%)
Telefónica Soluciones de Outsourcing, S.A. Promotion and networks management	Spain	EUR	1	100%	Telefónica Soluc. de Informática y Com. de España, S.A.U. (100%)
Telefónica Czech Republic, a.s. Telecommunications service provider	Czech Republic	CZK	28,022	69.41%	Telefónica, S.A. (69.41%)

Name and corporate purpose	Country	Currency	Capital	% Telefónica Group	Holding company
Telefónica Slovakia, s.r.o. Wireless telephony, internet and data transmission services	Slovakia Republic	EUR	240	69.41%	Telefónica Czech Republic, a.s. (100%)
Other companies					
Telefónica International Wholesale Services II, S.L. International services provider	Spain	EUR	-	100%	Telefónica, S.A. (100%)
Telefónica International Wholesale Services, S.L. International services provider	Spain	EUR	230	100%	Telefónica, S.A. (92.51%) Telefónica Datacorp, S.A.U. (7.49%)
Telefónica International Wholesale Services America, S.A. Provision of high bandwidth communications services	Uruguay	USD	591	100%	Telefónica, S.A. (74.36%) Telefónica International Wholesale Services, S.L. (25.64%)
Telefónica International Wholesale Services USA, Inc. Provision of high bandwidth communications services	US	USD	58	100%	T. International Wholesale Services America, S.A. (100%)
Telefónica Digital España, S.L. Holding company	Spain	EUR	9	100%	Telefónica, S.A. (100%)
Jajah Inc. IP telephony platform	US	USD	-	100%	Telefónica Europe plc (100%)
Tuenti Technologies, S.L. Private social platform	Spain	EUR	-	91.38%	Telefónica Móviles España, S.A.U. (91.38%)
Wayra Investigacion y Desarrollo, S.L. Talent identification and development in ICT.	Spain	EUR	1	100%	Telefónica Digital Holdings, S.L. (100%)
Wayra Chile Tecnología e Innovación Limitada Technological innovation-based business project development	Chile	CLP	20,028	100%	Wayra Investigacion y Desarrollo, S.L. (99.99%) Inversiones Telefónica Móviles Holding Ltda. (0.01%)
Wayra Brasil Aceleradora de Projetos Ltda. Fund manager in holding companies	Brazil	BRL	5	100%	Sao Paulo Telecomunicações Participações, Ltda. (100.00%)

WY Telecom, S.A. de C.V. Talent identification and development in ICT.	Mexico	MXN	24	100%	Wayra Investigacion y Desarrollo, S.L. (99.99%) Telefónica Digital Holdings, S.L. (0.01%)
Wayra Argentina, S.A. Talent identification and development in ICT.	Argentina	ARS	15	100%	Telefónica Móviles Argentina, S.A. (90%) Telefónica Móviles Argentina Holding, B.V. (10%)
Wayra Colombia, S.A.S. Technological innovation-based business project development	Colombia	COP	239	100%	Wayra Investigacion y Desarrollo, S.L. (100%)
Proyecto Wayra, C.A. Commercial, industrial and mercantile activities	Venezuela	VEF	11	100%	Telefónica Venezolana, C.A. (100%)
Wayra Perú Aceleradora de Proyectos, S.A.C. Technological innovation-based business project development	Peru	PEN	5	99.99%	Wayra Investigacion y Desarrollo, S.L. (99.99%)
Terra Networks Brasil, S.A. ISP and portal	Brazil	BRL	1,046	100%	Sao Paulo Telecomunicações Participações, Ltda. (100%)
Terra Networks México, S.A. de C.V. ISP, portal and real-time financial information services	Mexico	MXN	837	99.99%	Terra Networks Mexico Holding, S.A. de C.V. (99.99%)

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Name and corporate purpose	Country	Currency	Capital	% Telefónica Group	Holding company
Terra Networks Perú, S.A. ISP and portal	Peru	PEN	10	99.99%	Telefónica Internacional, S.A.U. (99.99%)
Terra Networks Argentina, S.A. ISP and portal	Argentina	ARS	7	100%	Telefónica Internacional, S.A.U. (99.99%) Telefonica International Holding, B.V. (0.01%)
Terra Networks Guatemala, S.A. ISP and portal	Guatemala	GTQ	154	99.99%	Telefónica Internacional, S.A.U. (99.99%)
Telfisa Global, B.V. Integrated cash management, consulting and financial support for Group companies	Netherlands	EUR	703	100%	Telefónica, S.A. (100%)
Telefónica Global Activities Holding, B.V. Holding company	Netherlands	EUR	-	100%	Telfisa Global, B.V. (100%)
Telefónica Global Services, GmbH Purchasing services	Germany	EUR	-	100%	Telefónica Global Activities Holding, B.V. (100%)
Telefónica Global Roaming, GmbH Optimization of network traffic	Germany	EUR	-	100%	Telefónica Global Services, GmbH (100%)
Telefónica Compras Electrónicas, S.L. Development and provision of information society services	Spain	EUR	-	100%	Telefónica Global Services, GmbH (100%)
Telefónica de Contenidos, S.A.U. Organization and operation of multimedia service-related business	Spain	EUR	1,865	100%	Telefónica, S.A. (100%)
Televisión Federal S.A.- TELEFE Provision and operation TV and radio broadcasting -services	Argentina	ARS	135	100%	Atlántida Comunicaciones S.A. (79.02%) Enfisur S.A. (20.98%)
Atlántida Comunicaciones, S.A. Media	Argentina	ARS	22	100%	Telefonica Media Argentina S.A. (93.02%) Telefónica Holding de Argentina, S.A. (6.98%)
Telefónica Servicios Audiovisuales, S.A.U. Provision of all type of audiovisual telecommunications services	Spain	EUR	6	100%	Telefónica de Contenidos, S.A.U. (100%)
Telefónica On The Spot Services, S.A.U. Provision of telemarketing services	Spain	EUR	1	100%	Telefónica de Contenidos, S.A.U. (100%)

Telefónica Broadcast Services, S.L.U.					
DSNG – based transmission and operation services	Spain	EUR	-	100%	Telefónica Servicios Audiovisuales, S.A.U. (100%)
Telefónica Learning Services, S.L.					
Vertical e-learning portal	Spain	EUR	1	100%	Telefónica Digital España, S.L. (100%)
Atento Inversiones y Teleservicios, S.A.U.					
Holding company	Spain	EUR	24	100%	Telefónica, S.A. (100%)
Atento Venezuela, S.A.					
Provision of call-center services	Venezuela	VEF	70	100%	Atento Inversiones y Teleservicios, S.A.U. (100%)
Telfin Ireland Ltd.					
Intragroup financing	Ireland	EUR	-	100%	Telefónica, S.A. (100%)
Telefónica Ingeniería de Seguridad, S.A.U.					
Security services and systems	Spain	EUR	7	100%	Telefónica, S.A. (100%)

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Name and corporate purpose	Country	Currency	Capital	% Telefónica Group	Holding company
Telefónica Engenharia de Segurança do Brasil, Ltda. Security services and systems	Brazil	BRL	35	99.99%	Telefónica Ingeniería de Seguridad, S.A. (99.99%)
Telefónica Capital, S.A.U. Finance company	Spain	EUR	7	100%	Telefónica, S.A. (100%)
Lotca Servicios Integrales, S.L. Aircraft ownership and operation	Spain	EUR	17	100%	Telefónica, S.A. (100%)
Fonditel Pensiones, Entidad Gestora de Fondos de Pensiones, S.A. Administration of pension funds	Spain	EUR	16	70.00%	Telefónica Capital, S.A. (70.00%)
Fonditel Gestión, Soc. Gestora de Instituciones de Inversión Colectiva, S.A. Administration and representation of collective investment schemes	Spain	EUR	2	100%	Telefónica Capital, S.A. (100%)
Telefónica Investigación y Desarrollo, S.A.U. Telecommunications research activities and projects	Spain	EUR	6	100%	Telefónica, S.A. (100%)
Telefónica Investigación y Desarrollo de México, S.A. de C.V. Telecommunications research activities and projects	Mexico	MXN	-	100%	Telefónica Investigación y Desarrollo, S.A. (100%)
Telefónica Luxembourg Holding, S.à.r.L. Holding company	Luxembourg	EUR	3	100%	Telefónica, S.A. (100%)
Casiopea Reaseguradora, S.A. Reinsurance	Luxembourg	EUR	4	100%	Telefónica Luxembourg Holding, S.à.r.L. (100%)
Telefónica Insurance, S.A. Direct insurance transactions	Luxembourg	EUR	7	100%	Telefónica Luxembourg Holding, S.à.r.L. (100%)
Seguros de Vida y Pensiones Antares, S.A. Life insurance, pensions and health insurance	Spain	EUR	51	100%	Telefónica, S.A. (100%)
Telefónica Finanzas, S.A.U. (TELFISA) Integrated cash management, consulting and financial support for Group companies	Spain	EUR	3	100%	Telefónica, S.A. (100%)
Pléyade Peninsular, Correduría de Seguros y Reaseguros del Grupo Telefónica, S.A.					Telefónica Finanzas, S.A.U. (TELFISA) (83.33%)

Distribution, promotion or preparation of insurance contracts	Spain	EUR	-	100%	Telefónica, S.A. (16.67%)
Fisatel Mexico, S.A. de C.V.					
Integrated cash management, consulting and financial support for Group companies	Mexico	MXN	5	100%	Telefónica, S.A. (100%)
Telefónica Europe, B.V.					
Fund raising in capital markets	Netherlands	EUR	-	100%	Telefónica, S.A. (100%)
Telefónica Finance USA, L.L.C.					
Financial intermediation	US	EUR	59	0.01%	Telefónica Europe, B.V. (100%)
Telefónica Emisiones, S.A.U.					
Financial debt instrument issuer	Spain	EUR	-	100%	Telefónica, S.A. (100%)
Telefónica Global Technology, S.A.U.					
Global management and operation of IT systems	Spain	EUR	13	100%	Telefónica, S.A. (100%)
Telefónica Móviles Soluciones y Aplicaciones, S.A.					
IT and communications services provider	Chile	CLP	7,801	100%	Telefónica S.A. (100%)
Aliança Atlântica Holding B.V.					Telefónica, S.A. (50.00%)
Holding company	Netherlands	EUR	40	93.99%	Telefónica Brasil, S.A. (43.99%)

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2012 Consolidated Financial Statements

Name and corporate purpose	Country	Currency	Capital	% Telefónica Group	Holding company
Telefónica Gestión de Servicios Compartidos España, S.A. Management and administrative services rendered	Spain	EUR	8	100%	Telefónica, S.A. (100%)
Telefónica Gestión de Servicios Compartidos Argentina, S.A. Management and administrative services rendered	Argentina	ARS	-	99.99%	Telefónica Gestión de Servicios Compartidos España, S.A. (95.00%) Telefónica, S.A. (4.99%)
Telefónica Gestión de Servicios Compartidos de Chile, S.A. Management and administrative services rendered	Chile	CLP	1,019	97.89%	Telefónica Chile, S.A. (97.89%)
Telefónica Gestión de Servicios Compartidos Perú, S.A.C. Management and administrative services rendered	Peru	PEN	1	100%	T. Gestión de Servicios Compartidos España, S.A. (99.48%) Telefónica del Perú, S.A.A. (0.52%)
Telefónica Transportes e Logística Ltda. Logístics services rendered	Brazil	BRL	-	99.33%	Telefónica Gestión de Servicios Compartidos España, S.A. (99.33%)
Telefonica Serviços Empresariais do BRASIL, Ltda. Management and administrative services rendered	Brazil	BRL	12	99.99%	Telefónica Gestión de Servicios Compartidos España, S.A. (99.99%)
Telefónica Gestión de Servicios Compartidos México, S.A. de C.V. Management and administrative services rendered	Mexico	MXN	50	100%	Telefónica Gestión de Servicios Compartidos España, S.A. (100%)
Telefónica Servicios Integrales de Distribución, S.A.U. Distribution services provider	Spain	EUR	2	100%	Telefónica Gestión de Servicios Compartidos España, S.A. (100%)
TGestiona Logística, S.A.C. Logistics	Peru	PEN	15	100%	Telefónica Gestión de Servicios Compartidos España, S.A. (99.4775%) Telefónica del Perú, S.A.A. (0.5160%) Telefónica Gestión de Servicios Compartidos Perú,

					S.A.C. (0.0065%)
Telefónica Gestión Integral de Edificios y Servicios, S.L.					
Management and administrative services rendered	Spain	EUR	-	100%	Taetel, S.L. (100%)
Tempotel, Empresa de Trabajo Temporal, S.A.					
Temporary employment agency	Spain	EUR	-	100%	Taetel, S.L. (100%)
Companies accounted for using the equity method					
Telefónica Factoring España, S.A.					
Factoring services provider	Spain	EUR	5	50.00%	Telefónica, S.A. (50.00%)
Telefónica Factoring Do Brasil, Ltd.					Telefónica, S.A. (40.00%)
Factoring services provider	Brazil	BRL	5	50.00%	Telefónica Factoring España, S.A. (10.00%)
Telefónica Factoring Mexico, S.A. de C.V. SOFOM ENR					Telefónica, S.A. (40.5%)
Factoring services provider	Mexico	MXN	33	50.00%	Telefónica Factoring España, S.A. (9.50%)
Telefónica Factoring Perú, S.A.C.					Telefónica, S.A. (40.5%)
Factoring services provider	Peru	PEN	6	50.00%	Telefónica Factoring España, S.A. (9.50%)
Telefónica Factoring Colombia, S.A.					Telefónica, S.A. (40,5%)
Factoring services provider	Colombia	COP	4,000	50.00%	Telefónica Factoring España, S.A. (9.50%)
Telco, S.p.A.					
Holding company	Italy	EUR	1,785	46.18%	Telefónica, S.A. (46.18%)

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Name and corporate purpose	Country	Currency	Capital	% Telefónica Group	Holding company
DTS Distribuidora de Televisión Digital, S.A. Broadcasting, satellite TV signal transmission and linkage services	Spain	EUR	126	22.00%	Telefónica de Contenidos, S.A.U. (22%)
China Unicom (Hong Kong) Ltd. Telecommunications service operator	China	RMB	2,311	5.01%	Telefónica Internacional, S.A.U. (5.01%)

(*) Consolidated by using proportionate consolidation method

Through these consolidated financial statements, Telefónica (Germany) GmbH & Co.OHG, complies with the provisions of Art.264b HGB “Handelsgesetzbuch”: Germany code of commerce, and is exempt in accordance with the stipulations of Art.264b HGB.

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Appendix VI: Key regulatory issues and concessions and licenses held by the Telefónica Group

Regulations

As a telecommunications operator, the Telefónica Group is subject to sector-specific telecommunications regulations, general competition law and a variety of other regulations, which can have a direct and material effect on the Group's business areas, particularly in regions that favor more exclusive regulatory intervention. The extent to which telecommunications regulations apply to the Telefónica Group depends largely on the nature of our activities in a particular country, with traditional fixed telephony services usually subject to more extensive regulations.

In order to operate its networks, the Telefónica Group must obtain general authorizations, concessions and/or licenses from the pertinent authorities in each country in which the Group operates (hereinafter referred to as the national regulatory authority, NRAs). The Group is also required to obtain radio frequency licenses for its mobile operations. The duration of any particular license or spectrum right depends on the legal framework in place in the relevant country.

The following section describes the regulatory frameworks and the latest legislative developments in the regions and countries in which the Group has significant interests. Many of the regulatory developments described herein involve ongoing proceedings or consideration of potential legislation that have not reached a conclusion. Accordingly, it is difficult to accurately quantify the effect on the Group's operations of these developments in such instances.

Electronic Communication Regulation in the European Union

The European Union's legal framework for electronic communications services was developed during many years with the aim of promoting competition and improving the harmonized functioning of the European market for telecommunications networks and services. The European Union's legal framework was last modified in 2009, in response to market and technological and changes in the industry.

Rules promulgated pursuant to the European Union’s Legal framework define user’s rights and focus on access to networks, interconnection, privacy, data security, and protection and preservation of universal access, among other things. Recent EU measures have supplemented the EU framework with regulations focused on international roaming, spectrum, and call termination rates for fixed and mobile networks.

European Union Member States are generally required to incorporate EU legislation into their national law regimes and consider European legislation when applying their national laws. In each Member State a national regulatory authority, or NRAs, is responsible for enforcing national telecommunications laws incorporating the EU framework. NRAs generally have significant power under their relevant telecommunication acts, including the authority to impose network access and interconnections obligations, and to approve or review new charges and conditions of wholesale and retail services of providers with “significant market power” or SMP. In general, an operator is considered to have SMP if its share of a particular market exceeds 40%. NRAs are also entrusted with duties on spectrum assignments and frequencies supervision, and to impose universal service obligations.

NRAs are subject to the supervision of the European Commission, which formally and informally influences their decisions in order to ensure harmonized application of the EU framework throughout the European Union. In particular, the European Commission has identified certain markets that are susceptible of ex-ante regulation. These markets have to be analyzed by ANRs in order to see whether there are participants with SMP. In these instances, NRAs are instructed to impose at least one obligation relating to price control, transparency, non-discrimination, accounting separation or access obligations on market participants. Along with these general requirements, the

Commission has adopted specific recommendations on certain markets, such as next-generation fixed networks or call termination on fixed and mobile networks. Companies may challenge the decisions of their national regulatory authorities before their domestic courts. Such legal proceedings may led to a decision by the European Court of Justice or ECJ, which is the ultimate authority on the correct application of EU legislation.

EU competition law

The European Union's competition rules have the force of law in all EU Member States and are, therefore applicable to the Telefónica Group's operations in those countries.

The Treaty of Rome, which officially established the European Economic Community, prohibits "concerted practices" and all agreements for undertakings that may affect trade between Member States and which restrict or are intended to restrict, competition within the internal market. The treaty also prohibits any abuse of a dominant competitive position within the common market of the EU, or any substantial part of it, that may affect trade between Member States.

The EU Merger Regulation requires that all mergers, acquisitions, and joint ventures involving participants meeting certain turnover thresholds be submitted to the EU Commission for review, rather than to the national competition authorities. Under the amended EU Merger Regulation, market concentrations will be prohibited if they significantly impede effective competition in the EU common market. The European Commission and the office of the European Competition Commissioner are granted the authority to apply the EU competition framework.

Similar competition rules are set forth in each EU Member State, with the corresponding national competition authorities overseeing compliance with these regulations. All the European countries in which the Telefónica Group operates and referred to below are Member States of the European Union.

Recent developments

The regulatory debate in the European Union has continued to focus on the roll-out of ultra-high speed networks, roaming and net neutrality, issues particularly important for the development of the European telecommunications market and Information Society.

During 2012, the Commission continued a debate about the costs and prices of current fixed copper networks and future fibre networks. The Commission is looking for ways to promote fibre investment and is asking for views about the best approach for setting the prices of current and future wholesale services in order to facilitate fibre investments.

On July 12, 2012, Commissioner Kroes released a policy statement on a regulation package intended to create a more stable fibre investment environment in Europe to be applicable at least until 2020. It will provide more pricing flexibility for fibre pricing at retail and wholesale (by departing from the cost-orientation pricing) at the expense of more strict measures on the replicability of fibre based access services. In addition, the idea of forcing copper prices down in order to foster fibre investment has been definitively discarded and the Commission is now bound to ensure copper price stability (around 9€ on average for ULL). Details need now to be developed and materialised in a Commission Recommendation on Non-discrimination and on Costing methodologies. It is expected to be ready by mid-2013. Additionally the Commissioner announced that she will be proposing legislative measures to reduce the cost of NGA roll-outs including sharing of ducts from utilities and smother permitting processes this year.

On July 2012, the Commission launched a new public consultation on Net Neutrality, focusing on transparent offers to end users, traffic management and privacy. The Commission will also release a Recommendation on Net Neutrality during 2013. The Recommendation is expected to focus mainly on transparency issues of retail broadband offers. The intention is that users are well informed about the traffic management practices of operators, so they can take this information into account when they choose their fixed or mobile broadband offer. On June 2012, the Commission approved the International Roaming Regulation (Roaming III), which replaces previous regulations Roaming (Roaming I and II).

This new Regulation contains, for the first time, structural measures to impulse competition in the market for international roaming, so that, from July 1, 2014, customers could, if they wish, sign a roaming agreement with another operator apart from their domestic mobile services without changing the phone number, terminal or SIM card to change countries. The proposal also would entitle mobile operators to use other operators' networks in other Member States at regulated wholesale prices, thereby encouraging more operators to compete on the roaming market.

To cover the period until such structural measures are fully effective and competition pushes prices down, the proposal gradually reduces the limits of retail and wholesale prices for voice, text (SMS) and data. Price cuts have to implemented by operators on July 1st, 2012, 2013 and 2014.

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The retail prices set by the Regulation are as follows:

	Previous	July 1, 2012	July 1, 2013	July 1, 2014
Data (€cent/MB)	Not regulated	70	45	20
Voice - calls made (€cent/min)	35	29	24	19
Voice - calls received (€cent/min)	11	8	7	5
SMS (€cent/text)	11	9	8	6

The wholesale prices set by Regulation are as follows:

	Previous	July 1, 2012	July 1, 2013	July 1, 2014
Data (€cent/MB)	50	25	15	5
Voice (€cent/min)	18	14	10	5
SMS (€cent/text)	4	3	2	2

On September 2009, the Commission adopted Directive 114/2009, amending the GSM Directive 372/87, which authorizes the use of GSM band for the provision of mobile broadband services. On 14 February 2012 the European Parliament and the Council adopted Decision 243/2012/EU which settles a multiannual program policy spectrum for the following four years. The Radio Spectrum Policy Programme, amongst others, will identify 1200MHz spectrum for wireless data traffic, explore new approaches in spectrum licensing, identify long term spectrum needs and finally will look for additional harmonized bands for mobile broadband.

On May 2009, the Commission approved the Recommendation on the methodology for determining wholesale termination prices between fixed and mobile network operators, which is having its impact on the decisions of national regulators about the pricing of termination wholesale fixed and mobile networks.

Finally, in its Digital Agenda, the EU has set some objectives for broadband development: 100% of broadband coverage by 2013, increase of the speed up to 30 Mbps for all European citizens by 2020 and 50% of European households connected to 100Mbps by 2020.

Telefónica Europe

Spain

General regulatory framework

The legal framework for the regulation of the telecommunications sector in Spain is governed by the General Telecommunications Law (32/2003) and several Royal Decrees. The General Telecommunications Law, among other things, sets forth rules regarding the new system of notification for electronic communications services, establishes the terms by which operators interconnect their networks, defines the universal service provision regime and subjects providers with SMP in particular telecommunications markets to specific obligations.

This law has been modified by Royal Decree law 13/2012 of March 30, which transposes directives regarding the gas, and the electric interior markets, and regarding electronic communications. The Royal Decree adopts measures in order to correct deviations caused by the mismatch between revenues and expenses of the electric and gas sector.

Regulatory supervision

The Telecommunications Market Commission, or the CMT, is the NRA responsible for regulating the telecommunications and audiovisual service markets in Spain.

Market analysis

Pursuant to the EU framework, the CMT identifies those markets in which true competition could be hindered, and sets out specific obligations for those operators holding significant market power (SMP). The CMT has carried out market analyses to determine which operators hold SMP in specific markets. Some of the most prominent conclusions drawn from these analyses, and the corresponding legislative changes, are described below.

Fixed markets

Retail access to the fixed-location public telephone network, retail market for calls in a fixed location, and retail market for rental lines

In this market, the CMT had made a third round of market analysis, applying a final resolution dated on December 13, 2012, concluding that Telefónica de España has significant market power in retail access to fixed-location public telephone network services, for clients with an identification number not associated to a specific business plan, such as a reference market which can be regulated ex ante.

As an operator with SMP, Telefónica de España is subject to certain specific obligations and restrictions, in which we can include: operator selection (call to call and pre-selection); Telefónica cannot commercialize retail offers which could result in free competence risks; retail price transparence, with prior notification of 21 days, or the one which could delimit the methodology updates for the ex-ante analysis of Telefónica’s commercial offer, carried out every 6 months. It also delimits the capacity limits for doing promotions in the different combined services or packaging; accounting separation, and cost accounting regarding the access services to the RTPF. For the client services not included in this analysis, they maintain the obligations of the previous analysis, where it is pointed out the price limit of the monthly fee.

The offer presented and approved by the Ministry of Industry, Energy and Tourism, for the provision of an obligation (Universal Service), considered an update of the annual fee due to the CPI (consumer price index).

Wholesale fixed call origination market

On March 22, 2007, the CMT adopted new regulations concerning call origination on the wholesale fixed call origination market that oblige Telefónica de España to provide wholesale access to its fixed network to other operators, allowing competitors to use its networks to provide access and other associated services to their own customers.

In December 2008, the CMT concluded that Telefónica de España is an operator with SMP in this market and requested that Telefónica de España offer wholesale service to assist other operators in offering IP telephony services and provide transparent information of migration to Next Generation Networks, or NGN, centrals, which involves the provision of a wide range of information to competitors about network evolution.

Fixed call termination market on individual networks

As an operator with SMP in fixed call termination market on individual networks, Telefónica de España is required to submit an “Interconnection Reference Offer” (OIR) outlining the terms and conditions under which it will interconnect with other operators. In November 2010 the CMT approved a modification of the Telefónica OIR, reducing interconnection prices paid by alternative operators for call termination in Telefónica network.

Mobile market

Mobile voice call termination

On May 2012, Resolution MTZ 2011/2503 approved the definition and analysis of the markets for voice call termination on individual mobile networks, the designation of operators with significant market power and the imposition of specific obligations for these operators, and imposes notification to the European Commission and the Body of European Regulators for Electronic Communications (BEREC). The definitive measure maintains the target wholesale price at 0.109 euros/minute, in the delimit of the fixed glide path, which will be ready in July 2013, which represents a decrease of

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approximately 75% (from 0.04 euros/minute) in the wholesale prices of the three main mobile operators networks (Movistar, Vodafone and Orange), and down nearly 80% for Yoigo (from 0.0498 to 0.0109 euros/minute).

Wholesale (physical) to network infrastructure access

In January 2009, the CMT concluded that Telefónica de España is an operator with SMP in the wholesale (physical) network infrastructures access market, and imposed the following obligations on Telefónica de España: access to full and shared unbundled access to copper loops, sub-loops and ducts, cost oriented tariffs and accounting separation, transparency and non-discrimination obligations including an "Unbundling Reference Offer" and a "Ducts Reference Offer." In February 2008, the CMT imposed similar obligations with respect to vertical access to buildings.

Wholesale broadband access

In January 2009, the CMT concluded that Telefónica de España has significant market power in the wholesale broadband access market and is therefore required to provide other operators with wholesale broadband access services up to 30 Mbps in copper and fiber infrastructures. The CMT also required Telefónica de España to publish a wholesale broadband access reference offer, provide cost-oriented rates and accounting separation, to avoid discrimination in network access, and to report broadband retail changes in services prior to offering them in the market.

On November 16, 2010, the CMT approved a new wholesale broadband offer (known as the new broadband Ethernet service or NEBA) which will allow alternative operators to provide retail services to consumers more independently from Telefónica retail offers. Until the NEBA service is available, Telefónica will offer its FTTH retail services for resale through third parties.

Universal service obligations

The General Telecommunications Law aims to ensure that all Spanish citizens have access to certain basic telecommunications services, regardless of their geographic location, with a minimum quality level and at accessible prices.

Under the law, universal service is generally defined as a set of communication services satisfying reasonable quality and price threshold guaranteed to all end users, irrespective of their geographic location. Universal service aims to ensure that all citizens have access to a connection to the fixed line public network and network services, a telephone directory service, a sufficient number of public telephones and functional Internet access. Additional provisions included within the scope of a universal service obligation, or USO, ensure that users with disabilities and special social needs, including those with low incomes, have access to the services enjoyed by the majority of users.

In December 2008, following applications by three operators, Telefónica de España was awarded a tender for the provision of directory enquiry services for a period of three years and it has also been designated for the provision of the remaining universal service elements until a new tender process takes place. A new tender process took place during the third quarter of 2011. Telefónica de España, SAU was designated the operator responsible for the provision of the connection to the public electronic communications network, with the possibility of establishing broadband data connection with a descending speed no less than 1Mbit per second, and the provision of the public telephone service available from a fixed location and the operator responsible for the preparation and delivery of public telephone directories to the telephone subscribers. Telefónica Telecomunicaciones Públicas, SAU was designated as the operator responsible for the provision of a sufficient supply of public payphones .In December 2012, Telefónica de España has noted the Ministry of Industry, Energy and Tourism, its intention to update the annual fee due to the CPI (consumer price index).

Consumer protection

On December 9, 2006, Law 44/2006 regarding the protection of consumers and users was approved, which provides that users may only be charged for services actually used. Consequently, operators may only charge based on exact seconds of usage.

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Data retention for law enforcement purposes

The 2006 Directive 2006/24/EC of the European Parliament and of the Council on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks (“Data Retention Directive”) was incorporated into Spanish legislation on November 9, 2007. Electronic communications operators are obliged to ensure the retention of data on electronic communications for a period of twelve months. Additionally, Spain has implemented a register of pre-pay mobile customers in conjunction with these requirements.

Contribution to RTVE funding mechanism

In August 2009, the Radio and Television Corporation Finance Law “(Ley de Financiación de la Corporación de Radio y Television Española)” was approved establishing that: (i) telecommunication operators, which operate nationwide or at least in more than one region, have to make a fixed annual provision of 0. 9 % of the invoiced operating income of the year (excluding the revenues of the wholesale reference market), and, (ii) on the other hand, the concessionaire companies and providers of TV services which operate nationwide or at least in more than one region should make an annual contribution fixed as follows; (a) 3% on the gross revenue of the year for open concessionaire companies or TV services providers, and (b) 1.5% on the gross revenue of the year for concessionaire companies to provide pay TV services.

In Spain, self-settlement of the contributions made has been appealed by Telefónica España and Telefónica Móviles España as well as, the Royal Decree 1004/2010, which approves the Regulation developing the abovementioned law.

In the European level there are two ongoing processes as regards this issue. First, the European Commission (EC) questioned the Spanish Government the legality of this measure and requested its cancellation in the light with the European telecommunications regulatory framework. On September 13, 2011, the EC filed an appeal against the Kingdom of Spain before the European Court of Justice, for the infringement of the Directive 2002/20/CE. The appeal is pending resolution.

Secondly, the European Commission initiated a state aid investigation and concluded that such funding mechanism did not constitute illegal state aid. Against this decision, “Telefónica de España” and “Telefónica Móviles España”, filed an appeal before the European Court of Justice. This appeal is still pending resolution.

United Kingdom

General regulatory framework

The EU Regulatory Framework was implemented in the United Kingdom by the Communications Act in 2003. The Act designates the Office of Communications, or Ofcom, as the NRA responsible for the regulation of electronic communications networks and services. The Act was amended in 2011 following changes to the Common Regulatory Framework.

Market reviews

Following a market review, mobile termination rates for the four national mobile communications operators (Vodafone, Telefónica UK, Everything Everywhere and H3G) are subject to controls based on the pure long-run incremental cost (pure LRIC) approach. As from April 2013, these rates are reduced to cost level (0.69 ppm expressed in 2008/2009 prices, or around 0.85 ppm in nominal terms). These rates are currently set at 1.5 ppm.

Germany

General regulatory framework

The European Union legislative framework was implemented in Germany at the end of June 2004, by the Telecommunications Act ("Telekommunikationsgesetz"). The national regulatory authority responsible for regulation of electronic communication networks and services is the Bundesnetzagentur, or BNetzA.

Following the adaptation of the 2009 EU Telecom Package, the Telecom Act was amended and entered into force in May 2012.

While most of the new regulation entered into force in May 2012, transition periods existed for some of them. Worth mentioning are the rules concerning the free-of-charge-waiting-loop and some of the rules concerning the change of the provider.

Market reviews

In August 2006, BNetzA completed its review of voice termination in individual mobile networks, concluding that, as an operator with SMP, Telefónica Germany was required to reduce the rates applied to other operators for call termination in Telefónica Germany's network, from 1.24 euros/minute to 0.994 euros/minute. In 2007, Telefónica Germany was required to reduce further its termination rates, from 0.994 euros/minute to 0.880 euros/minute. Telefónica Germany has brought legal challenges against BNetzA’s 2006 and 2007 decision that Telefónica Germany has SMP and against the imposition of regulatory remedies. The Federal Administrative Court, as the highest level of appeal, confirmed all regulatory remedies meaning that the price controls stay in force for all mobile operators. All four German mobile telephone operators filed a constitutional compliant in order to challenge the decision regarding SMP. All other actions (regarding the amount of mobile telephone termination rates) are pending resolution of the Federal Constitutional Court. A new market analysis carried out by BNetzA in 2008 concluded that all mobile network operators have SMP, and maintained its position on regulatory measures in line with the 2006 decision. Telefónica Germany has also appealed against the 2008 decision, although the matter has been suspended until the Federal Constitutional Court issues its ruling. On March 31, 2009 (entry into force on April 1, 2009), BNetzA approved a mobile termination rate for Telefónica Germany of 0.714 euros/minute for a 20-month period (until November 30, 2010). Telefónica Germany challenged this decision and the claim has been suspended until the Federal Constitutional Court decision.

Subsequently, BNetzA developed its own cost model and imposed it on all four mobile telephone operators, as a basis for the calculation of significant market power in 2010. As from December 2010, BNetzA considerably reduced mobile termination rates: 0.0339 euros/minute for Telefónica Germany, 0.0336 euros/minute for Vodafone and Eplus, and 0.0338 euros/minute for T-Mobile. Telefónica Germany appealed this decision, and BNetzA issued its final ruling in February 2011, retroactive to December 1, 2010, confirming the provisional mobile termination rates. This regulation is in force until November 30, 2012. BNetzA based its calculation on its internally-developed cost model, which implements the European Commission's recommendation on regulating fixed and mobile termination rates in the EU, and which is expected to be applied in the next assessment of mobile termination rates.

On November 16, 2012, BNetzA issued a preliminary decision on mobile termination rates for the period from December 1, 2012 to November 30, 2014. According to this resolution, these rates will decrease to 0.0185 euros/minute as of December 1, 2012 and to 0.0179 euros/minute as of 1 December, 2013. These termination rates apply to all mobile network operators (Deutsche Telekom, Vodafone D2, E-Plus and Telefónica Germany). Telefónica Germany challenged this preliminary decision on September 24, 2012. Focus will be on the bottom-up cost model and reference network operator (i.e., application of the EU recommendation adverse to German Telecommunications Act).

The European Commission has been notified of the preliminary decision. On December 19, 2012, Telefónica Germany filed a lawsuit against the decision, in an attempt to secure higher termination rates.

On November 30, 2012, BNetzA issued a preliminary resolution on Telekom's fixed termination rates (FTRs), whereby local FTRs were reduced by approximately 20%. In view of the regulatory obligations, Telekom's FTRs would also affect the FTRs for traffic exchanged with alternative network operators (ANO). The final decision is expected to be issued in the first or second quarter of 2013.

BNetzA also set the prices for local-loop unbundling (LLU) (10.08 euros instead of 10.20 euros, for 2009-2011) and for sub-loop unbundling (SLU) (7.17 euros instead of 7.21 euros), and will apply to the Commission for notification shortly.

As of April 2012, BNetzA prohibited Deutsche Telekom's contingent model, under which the company intended to grant bit-stream access to its competitors, in respect of VDSL access on the basis of contingent accesses agreed. After Telekom Germany successfully eased BNetzA's concerns, the regulator approved the contingent model in July 2012, and submitted the model to the European Union for consultation. These changes entail the ability to migrate accesses to alternative infrastructures, reduce minimum commitments, and attain greater monthly shares.

BNetzA expects that implementation of the contingent model will encourage distribution of high-range broadband accesses and serve as an incentive for rolling out new infrastructures (such as through co-extended operations).

Telefónica Germany and Deutsche Telecom entered into an agreement regarding the contingent model, in order to promote VDSL access.

Czech Republic

General regulatory framework

The EU Regulatory Framework was implemented in the Czech Republic in 2005 by the Electronic Communications Act. The revision of the EU Regulatory Framework was transposed into the Czech legislation as of January 2012. The NRA responsible for the regulation of electronic communications networks and services is the Český Telekomunikační Úřad (Czech Telecommunication Office or CTO). Governmental responsibility for the area of electronic communications lies with the Ministry of Industry and Trade.

Market reviews

Telefónica Czech Republic has been designated as an SMP entity in seven of the eight relevant markets:

Market 3: In December 2012, the European Commission expressed serious concerns regarding the proposed fixed termination rates, objecting to the high price. FTRs was proposed to drop from 0.34 Czech crowns/0.17 Czech crowns to 0.08 Czech crowns/0.04 Czech crows (transit peak/off peak) in mid 2013.

Market 4: In June 2012, the CTO published price controls decision that deceased monthly prices for full/shared access from the previous rates of 242 Czech crowns/41 Czech crowns to the current rates of 197 Czech crowns/39 Czech crowns. The CTO awarded a two-month grace period for adopting the new rates.

Market 5: In August 2012, the European Commission vetoed the Market 5 analysis, objecting to the geographical segmentation made in market definition phase.

Market 7: In July and December 2012, the CTO issued decisions reducing termination rates as shown below. The mobile termination rates adopted in December are based on the pure LRIC calculation model.

Effective date	7/15/12-12/31/12	1/1/13-6/30/13	From 7/1/13
CZK/min	0.55	0.41	0.27
0.00 EUR/min	2.2	1.64	1.08

Market 8: In 2012, the CTO launched a process to define and analyze the wholesale mobile access market and the call origination market, in which Telefónica Czech Republic could be declared SMP operator.

Ireland

General regulatory framework

The EU Regulatory framework has been in place in Ireland since 2002 with ComReg the designated independent regulator. The 2009 directives have been already transposed.

Market reviews

The key market review for Telefónica in Ireland is the wholesale termination market for mobile voice. ComReg issued their latest decision in December 2012 introducing LRIC pricing and MTRs planned to reduce to 1cent by July 2013. This decision has been challenged by Vodafone.

Slovakia

General regulatory framework

The EU Regulatory Framework was implemented in Slovakia in 2003 through the Act on Electronic Communications. The law has been significantly amended as of November 1, 2011.

The NRA responsible for the regulation of electronic communications' networks and services is the Telecommunications Regulatory Authority of the Slovak Republic (TUSR). Governmental responsibility for the legislative area of electronic communications lies with the Ministry of Transport, Construction and Regional Development.

Market reviews

In May 2012, the TUSR adopted a price decision, that decreased maximal mobile termination rates from EUR 0.0551/min to EUR 0,0318/min effective from July 2012 to May 2013. The NRA is currently developing an own model to set mobile termination rates through pure LRIC method. The new mobile termination rates shall become applicable as of June 1, 2013.

Telefónica Latin America

Brazil

General legislative framework

The delivery of telecommunications services in Brazil is subject to regulation under the regulatory framework provided in the General Telecommunications Law enacted in July 1997. The National Agency for Telecommunications, (Agência Nacional de Telecomunicações or ANATEL), is the principal regulatory authority for the Brazilian telecommunications sector.

Interconnection

Interconnection among public networks is mandatory in Brazil. Parties can freely negotiate the terms and conditions about technical points, economic discounts and rights/obligations, of the interconnection agreements. For rates, the regulations that apply follows: (i) interconnection for fixed network operator identifies as operator with Significant Market Power (Res. 588/2012), the maximum rate is established by ANATEL; (ii) in relation to the use of mobile operators network (Res. 438/2006), rates may be agreed between the parties, however, if the parties fail to reach a consensus, particularly regarding charges to fixed operators (Res. 576/2011) ANATEL imposes the rates to be used. In general, operators shall maintain public offers of interconnection conditions.

Competition law

Brazilian competition regulation is based on Law No. 12,529 of November 30, 2011, which generally prohibits any practice aimed at restricting free competition, dominating the relevant market of goods or services, arbitrarily increasing profits, or abusively exercising dominant market position. The Administrative Council for Economic Defense, or CADE, is the agency authorized to enforce the competition rules.

The new antitrust law has brought important changes, specially the establishment of a pre-merger notification regime, with new turnover thresholds (one participant with gross revenue of BLR750 million in Brazil and other participant with gross revenue of BRL75 million in Brazil) and maximum time length for merger review procedure (240 days, extendable to 330 days).

Recent regulatory developments

In June 2011 the new General Plan of Universal Service Goals was approved, which is applicable into 2011-2015 periods. The new Plan establishes goals on public telephony in large cities, and establishes the installation of public telephones in remote areas. Along with the approval of the Plan, Telefónica has signed the revised Concession

Agreement for STFC, valid for the period from 2011 to 2015, when there should be further review of its terms. The main change brought refers to the end of restrictions for Concessionaries on operations of cable TV, which allowed Telefónica to exercise the option to purchase full control of the TVA (the cable TV company in the Abril Group).

In October 2011 Anatel approved the Regulation of Adjustment for Fixed-Mobile Rates, which provides for the progressive reduction of these rates through a reduction factor, to be deducted from inflation. This reduction factor is 18% in 2012, 12% in 2013 and 10% in 2014. The absolute reduction in the public rates should be passed on to mobile interconnection rates (VU-M).

ANATEL has also approved, in October 2011, the General Plans of Quality Service Goals to Multimedia Communication Services (MCS) and to Personal Mobile Services (PMS).

In March, 2012, ANATEL has approved the Regulation of the Conditional Access Service, which establishes the rules of the paid TV service.

In May 2012, ANATEL published a new Regulation of Industrial Exploration of Dedicated Lines, approved by Resolution n. 590/2012 which set new conditions for characterizing Standard Service (subject to public offer), a fine for delay in installation, possibility of discount depending on volume and contract period. Along with such regulations ANATEL published the publication of new reference values (Act n. 2716/2012).

In November 1st, 2012, ANATEL has published the General Plan of Competition, which, in general, provides ex-ante obligations for telecommunications providers that, according to the methodology set forth in the document, identify Significant Market Participation (SMP) in the various relevant markets identified as critical for the development of competition in the telecommunications industry. The ex-ante obligations include measures of price transparency and market conditions and specific rules for composition of conflicts between agents, such as: (i) mandatory submission and approval of offerings of reference in the wholesale market and warranty service requests from other players that correspond to 20% of the physical network of the SMP companies, (ii) transparency measures as the creation of a Data Base and Wholesale Supervisor Entity, (iii) specifically for providers acting in the mobile termination market (interconnection): full billing between undertakings with SMP, and Bill & Keep decreasing between SMP and non-SMP (80/20% between 2013 and 2014, 60/40% in 2015 and full billing from 2016).

Telefónica Group, including VIVO, has been identified as an operator with SPM in the following markets: (i) fixed network infrastructure access for data transmission in copper pairs or coaxial cables at speeds up to 10 Mbps in the region of São Paulo, (ii) wholesale fixed network infrastructure to transport local and long distance transmission at speeds up to 34 Mbps in the region of São Paulo, (iii) passive towers, ducts and trenches infrastructure throughout Brazil; (iv) call termination on mobile network in Brazil, and (v) national roaming market throughout Brazil.

Mexico

General regulatory framework

The provision of all telecommunication services in Mexico is governed by the Federal Telecommunication Law and various service-specific regulations. The governmental agencies which oversee the telecommunications industry in Mexico are the Secretariat of Communications and Transportation, or SCT, and the Federal Telecommunications Commission, or COFETEL.

Prices and tariffs

Tariffs charged to customers are not regulated. They are set by mobile operating companies and must be registered with COFETEL. Rates do not enter into force until registered by COFETEL.

Interconnection

Mexican telecommunications regulations obligate all telecommunications network concessionaires to execute interconnection agreements on specific terms when requested by other concessionaires. Interconnection rates and conditions may be negotiated by the parties. However, should the parties fail to agree, COFETEL must fix the unresolved issues, including tariffs.

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Throughout 2011, COFETEL issued several resolutions as a result of different interconnection disputes submitted by several operators. In such resolutions, COFETEL determined a mobile termination charge ("MTC") for Telefónica, as well as for other mobile operators, of $0.3912 Pesos per minute, billed per second without rounding. Telefónica México has appealed on an administrative basis such resolutions from COFETEL. Such appeals are still pending to be resolved. In May 2011, Mexico's National Supreme Court of Justice ruled that no court suspensions shall be granted to the effects of COFETEL´s resolutions relating to interconnection matters as it understood that it affects the public interest. Up until now Cofetel has not resolved applicable rate for 2012.

Foreign ownership/restrictions on transfer of ownership

Mexican foreign investment law restricts foreign investment in local fixed service and other telecommunications services to a maximum of 49% of the voting stock, unless the Mexican National Commission of Foreign Investment approves a higher percentage participation, which it can do only in the case of mobile telecommunications companies.

Bajacel, Movitel, Norcel, Cedetel and Pegaso, as mobile telecommunications companies, received the required approvals from the National Commission of Foreign Investment permitting our ownership of more than 49% of their outstanding voting capital.

GTM, a company in which Telefónica México has an interest, provides local fixed and long distance services. This operator complies with Mexican foreign investment law, and has a stock structure that includes the participation of its Mexican partner, Enlaces del Norte S.A. de C.V., which owns 51% of the voting stock.

Competition law

The Federal Economic Competition Law enacted in 1992 and amended on June 28, 2006 and on May 10, 2011, prohibits monopolies and any practices that tend to diminish, harm or impede competition in the production, processing, distribution or marketing of goods and services. The Federal Competition Commission, or COFECO, is the administrative body empowered to enforce the Law.

Venezuela

In December 2009, a new regulation applicable to all subscription TV service providers was enacted by CONATEL, the national regulatory authority, which mandates the inclusion (12%) of national production services (channels in which both reception and diffusion of sound and images take place in the country to later transmit it by means of subscription TV service providers) in regular programming packages. The implementation of the provisions and obligations under the Order was made since its enactment.

An Administrative Decision on Services Agreements (Providencia n° 1302 sobre Condiciones Generales de los Contratos de Servicios de Telecomunicaciones) was adopted, which included various regulations aimed at consumer protection. As a consequence of this regulation (2009), Telefónica Venezolana, C.A. proceeded to adapt all of its nine services agreements to fulfill all the conditions and impositions established. Since late 2011 we have all the approvals for service contracts models.

Prices and tariffs

Under new Venezuelan regulations, the free-pricing system for telecommunication services remains the same, except for basic telephony services (Local, LDN and LDI) and services rendered under universal service obligations; however, the regulatory entity may, considering CONATEL's opinion, alter prices for telecommunication services for “public interest reasons”. The amendment does not define the term “public interest reasons”.

In February 2011, CONATEL published an Order whereby reference values are set for the Determination of Interconnection Charges for use of Mobile Telephony Services. The aim of this regulation is the establishment of reference values and criteria for determining interconnection charges in mobile phone use on the basis of a model of long run incremental costs with breakdown of the network elements by CONATEL, who should intervene setting such charges solely in those cases where there are conflicts between operators relating such charges, and they failed to reach consensus within the period specified in the interconnection legislation.

Competition law

Venezuelan law governing competition is the Promotion and Protection of Free Competition Act 1992. It prohibits monopolistic and oligarchic practices and other means that could impede, restrict, falsify, or limit the enjoyment of economic freedom. The Office of the Superintendent for the Promotion and Protection of Free Competition is the agency empowered to apply the Competition Act.

Chile

General regulatory framework

The General Telecommunications Law No. 18,168 of 1982, as amended, establishes the legal framework for the provision of telecommunications services in Chile. The main regulatory authority in Chile is the Under-Secretary of Telecommunications, or SUBTEL.

On June 11, 2012, Law No. 20,599 was published. It regulates the installation of antennas stations and transmitters of telecommunication services.

In 2012, the telephone numbers portability was enabled in accordance with the calendar established by Subtel.

Prices and tariffs

Under the General Telecommunications Law, maximum tariffs for telephony services are set every five years by the Ministry of Transport and Telecommunications and the Ministry of Economy. In addition, the Competition Tribunal may subject any telephony service to price regulation, except for mobile telephone services to the public that are expressly exempted under the General Telecommunications Law.

The Competition Tribunal ruled in January 2009 that only some local telephone services were to be subject to tariff regulation (line connections, monthly fixed charges, variable traffics charges, and public payphone services are excluded). Accordingly, it was determined that every local telephone company, within its service zones, would be regulated with respect to tariff levels and structure. In addition, Telefónica Chile, in its capacity as a “SMP operator” (except in regions where other companies are the SMP operators), is regulated on a non-price basis, with requirements that it not engage in discriminatory pricing and that it give previous notice of plans and packages.

In 2011, the Ministries adopted, among other things, tariffs for local service, access charge and tariffs for other services within the local telephony service. Furthermore, others tariffs were regulated such as the Bitstream service and a number portability charge. Regarding mobile tariffs, charges for the use of the networks were adopted in 2009 for the period 2009-2014 and, the time structure was modified as well. At the end of 2012, a new procedure for the determination of tariffs will start.

On July 16, 2011 the Net Neutrality Act entered into force. Additionally, Long Distance Service was eliminated in the period between October and November 2011, in some regions of the country. Moreover, at the beginning of year 2014, Long Distance service will be completely eliminated in all regions of Chile if previously approved by the Competition Tribunal. A system of early alert was enabled in the mobile networks to inform opportunely the population in cases of catastrophe.

Through instruction No. 2, of 12.18.2012 , the Competition Tribunal orders that mobile companies may not sale plans with different pricing for calls on-net and off-net, from the next access charges Decree (February 2014). In addition, it authorizes pack of fixed and mobile services with discount since the entry into service of the LTE concession.

Interconnection

Interconnection is obligatory for all license holders with the same type of public telecommunications services and between telephony public services and intermediate services that provide long distance services. The same requirement applies to holders of those intermediate service licenses, who are required to interconnect their networks to the local telephone network.

A “calling party pays” tariff structure was implemented on February 23, 1999. Under this tariff structure, local telephone companies pay mobile telephone companies an access charge for calls placed from fixed networks to mobile networks. Local telephone companies may pass this interconnection charge on to their customers. Every five years, SUBTEL sets the applicable tariffs for services provided through the interconnected networks.

Competition law

The principal regulation concerning competition in Chile is Decree No. 211 of 1973, whose current text was established in Decree Nº 1 of 2005 (Ministry of Economía, Fomento y Reconstrucción). Pursuant to the provisions of this law, acts or behavior involving economic activities that constitute abuse of a dominant market position, or limit, restrain, or distort free competition in a manner that injures the common economic interest in the national territory are prohibited. This law prohibits, among others: a) the express or tacit agreements between competitors, or concerted practices between them, conferring them the power market; b) abuse of a dominant position; c) predatory or unfair competition practices carried out in order to obtain, maintain or enhance a dominant position. The Competition Tribunal deals with infringements of competition law.

Argentina

General regulatory framework

The basic legal framework for the provision of telecommunications services in Argentina is set forth in the National Telecommunications Law (No. 19,798) of 1972 and in the specific regulations governing each type of telecommunications service. Decree 764/00 established the new and current regulatory framework rules for a free market, and includes interconnection, license, universal service and spectrum rules.

The following regulatory authorities oversee the Argentine telecommunications industry:

- the National Communications Commission, or CNC, supervises compliance with licenses and regulations, and approves changes to mandatory goal and service requirements; and

- the Secretariat of Communications, or SECOM, grants new licenses, regulates the bidding and selection processes for radio-spectrum authorizations, and approves the related bidding terms and conditions.

Prices and tariffs

On October 21, 2003, Law No. 25,790 became effective, extending the term for the renegotiation of concession or licensing agreements with public utilities until December 31, 2004, which was subsequently extended until December 31, 2011. As an investor in Argentina through Telefónica de Argentina, we commenced arbitration proceedings against the Republic of Argentina based on the Reciprocal Protection of Investments Treaty between Spain and Argentina for damages suffered by us because of the measures adopted by the Argentine government in connection with the renegotiation of certain concession and licensing agreements. On August 21, 2009, the parties requested the Tribunal, in accordance with Rule 43 of the ICSID Arbitration Rules, declare a resolution of the termination of the proceedings. The agreement of the parties envisages the possibility of a new request for arbitration under the ICSID Convention being submitted by Telefónica.

Additionally, Decree No. 764/00 established that providers of telephone services may freely set rates and/or prices for their service which shall be applied on a non-discriminatory basis. However, until the Secretary of Communications determines that there is effective competition for telecommunications services, the “dominant” providers in the relevant areas (which include Telefónica de Argentina) must respect the maximum tariffs established in the general tariff structure.

Also, the guidelines set forth in article 26 of Decree No. 1185/90 continue in effect for operators with significant market power. These guidelines establish information obligations with which operators must comply with respect to tariffs and which flow toward both clients and the national regulator. This Decree also establishes the powers the regulator has to revise or revoke such tariffs.

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Furthermore, on October 15, 2012, became effective the resolution SC 45/2012 of the Secretary of Communications, which provides that the mobile phone companies should only bill to its clients the minutes since the call to be serviced by the receiver or his message box.

Tariffs charged to customers for mobile services are currently not regulated in Argentina.

Interconnection

Decree No. 764/00 approved new rules for national interconnection and established interconnection standards and conditions with which telephone service providers must comply regardless of pre-existing agreements. The rules for national interconnection set forth that interconnection agreements are to be freely negotiated between the relevant service providers, on a non-discriminatory basis. The regulations also establish the obligation for dominant and significant market operators to unbundle their local loops and to allow competitors to use them on a reasonable basis.

Competition law

Law 25,156, on Protection of Competition prohibits any acts or behaviors related to the production or trade of goods or services, whose purpose or effect is to prevent, restrict or distort competition or market access, or that constitute abuse of dominant position in a market. The National Commission for the Defense of Competition is the authority entrusted with application of the law.

In February 2011, the Argentine government announced the end of an investigation into monopolistic concentration by the country's anti-trust authorities, ratifying the fine (104,692,500 Argentine pesos) imposed on Telefónica for late filing of notification of the transaction. Then in February 2011 the fine was reduced to 50,000,000 Argentine pesos.

Colombia

General regulatory framework

In Colombia, telecommunications are a public service, subject to state regulation and oversight. Law 1341/09 ("Technologies of Information and Communications Law") reformed the legal framework, establishing the general regime for information and communication technologies. Under this law, providers of network and telecommunications services in Colombia must register with the Information and Communication Technologies Minister. In addition, operators must obtain a concession from the National Television Commission in order to provide television services.

Law 1341/09 established a transition period in which operators can: (i) preserve the original titles (licenses, contracts, permissions, authorizations) until their expiration or (ii) adopt the regime of general authorization stated by the law and the corresponding registration and preserve the necessary permissions in order to use the spectrum.

During 2009 the Colombian telecommunications regulator, Comisión de Regulación de Comunicaciones or CRC, identified the telecommunications relevant markets and operators with SMP and established certain ex ante regulations. In 2009 and 2011, CRC deregulated retail prices for fixed and mobile services. The exception is mobile voice retail market where Claro-America Móvil (Telefonica's competitor) has been identified as a SMP operator by CRC. In January 2013, CRC imposes the following measures: to anticipate to January 30th, 2013 the application of the regulated rates (previously set for 2015) meanwhile, the rest of the operators continue with the propose of reduction provided by Resolution 3136 of 2011 and, Claro must ensure that off-net prices which are offered to all of its users (prepaid and postpaid) are less than or equal to on-net prices.

Interconnection

Mobile and fixed operators in Colombia have the right to interconnect to other operators' networks. Before the intervention of regulatory authorities, operators must attempt direct negotiations. Interconnection must assure compliance with the objectives of non-discriminatory treatment, transparency, prices based on costs plus a reasonable profit and promotion of competition.

Prices and tariffs

The Technologies of Information and Communications Law, provides for free pricing for voice and Internet access services. Therefore, mobile tariffs charged to customers are not regulated, although they may not be discriminatory. Nevertheless, fixed-to-mobile tariffs are subject to a price cap. Rates are fixed by mobile operating companies and must be registered with the Comisión de Regulación de Telecomunicaciones. The regulator set a price cap of 392 Colombian pesos per minute for fixed to mobile tariffs since November 1, 2006, and in 2009 the CRC reduced the tariff to 198.4 Colombian pesos per minute.

In 2011, the CRC issued a progressive reduction on mobile termination charges from 2012- 2015 and they initiated an administrative action particularly against COMCEL (America Mobile Group) considered as a significant market power operator. On May 2011, a new regime for the protection of convergent consumers was adopted and on August 2011 a new regime for interconnection for convergent networks, introducing conditions for access by content and applications providers came into force. Furthermore, On December 2011, CRC adopted the conditions for the provision of content and applications in mobile networks setting a new numbering management plan and has fixed price caps for the SMS between operators, applicable from January 1, 2012 to December 31, 2014. Also, CRC has established quality conditions for the provision of the Internet mobile service. The regulator has also approved conditions for Net Neutrality allowing different offers according to the consumer profile but prohibiting discriminatory behavior.

Television services

In December 2010, the National Television Commission published Agreement Number 006 to modify the fees payable to exploit closed television. Before Agreement Number 006, operators paid 10% of gross incomes; now the percentage has been reduced to 7% of gross incomes.

In January 2011, Colombia Telecom signed with the National Television Commission an amendment to its concession agreement with the effect of including an arbitration clause.

Competition law

The Colombian Competition Law is incorporated in the Law No. 155/59, Decree No 2153/92 and Law 1340/09 on Restrictive Trade Practices. The law prohibits entering in any agreement or engaging in any type of practice, procedure, or system that aims to limit free competition and abuse of a dominant position. The Superintendent of Industry and Commerce is the Colombian competition authority.

Peru

General regulatory framework

The provision of telecommunications services in Peru is governed by the Telecommunications Law and related regulations.

On July, 2012 the Peruvian Congress approved the Law of Promotion of the Broad Band and Construction of the National Fiber Optic Backbone, Law N° 29904.

This Law declares of public necessity: (i) the construction of the National Fiber Optic Backbone which will be entitled to the government to make possible the connectivity by the broad band, and; ii) the access and use of the infrastructure associated with the public services of energy and hydrocarbon to facilitate the display of the telecommunication network for the provision of the broad band.

In addition, Law N° 29904 implies that operators of electric, transport and hydrocarbon infrastructure projects will have to install fiber optic that will be entitled to the State and will be given in concession to other telecommunication operators.

Law N° 29904 also establishes that a percentage of the capacity of the National Fiber Optic Backbone will be reserved for the Government to satisfy its necessities.

The emission of the Law regulation is pending.

Prices and tariffs

Tariffs for fixed telephony services must be approved by the National Regulatory Authority, the Organization for Supervision of Private Investment in Telecommunications, or OSIPTEL, in accordance with a price cap formula based on a productivity factor. Rates charged by mobile providers to their customers have been subject to a free tariff regime supervised by OSIPTEL. Tariffs must be reported to OSIPTEL prior to implementation.

On September 24, 2012 OSIPTEL fixed in S/0.0023 per second (not including taxes) (S/0.33 per minute, taxes included) the maximum rate applicable to local calls made from Telefónica del Perú S.A.A's fixed telephones to mobile telephones. This new rate is in force since October 1, 2012.

Interconnection

Mobile service providers are required, upon request, to interconnect with other concession holders. According to the principles of neutrality and non-discrimination contemplated in the Telecommunications Law, the conditions agreed upon in any interconnection agreement will apply to third parties in the event that those conditions are more beneficial than terms and conditions agreed upon separately.

Competition law

The general competition framework in Peru is based on the Legislative Decree No. 1034. This law prohibits any monopolistic practices, controls, and restraints on free competition and it is applied, in the telecommunication sector, by OSIPTEL.

Main concessions and licenses held by the Telefónica Group

Spain

In accordance with the European Union regulatory framework, companies wishing to operate a telecommunications network or provide electronic communication services must notify the Spanish telecommunications market regulator (Comisión del Mercado de Telecomunicaciones, CMT) prior to commencing such activities. Every three years, operators must notify the CMT of their intention to continue these activities.

Concessions for the use of spectrum are auctioned through a competitive, non-discriminatory procedure. Telefónica Móviles España holds rights to provide mobile services in certain spectrum bands. The main concessions are as follows:

Band	Duration	End date	Renewal period
800 MHz(2x10 MHz)	15 years	December 31, 2030	------
900 MHz (2x9.8 MHz)	20 years	February 4, 2015	Extension requested 2x1 MHz until December 31, 2030
900 MHz (E- GSM) (2X4 MHz)	20 years	June 6, 2025	Extension requested until December 31,

			2030
900 MHz (2x9.8 MHz)	15 years	December 31, 2030	------
DCS-1800 (2x10 MHz)	20 years	July 24, 2028	Extension requested until December 31, 2030
2.1 GHz (2x15 MHz + 5 MHz)	20 years (+10 years extension)	April 18, 2020 (April 18, 2030)	10 years
2.6 GHz	19 years	December 31, 2030	------

All concessions, except the 2.1 GHz band, have technological neutrality

United Kingdom

Telefónica O2 UK has provided GSM services since July 1994. This license is for an indefinite period. In April 2000, Telefónica UK obtained a UMTS license expiring on December 13, 2021 (2 x 10 MHz + 5 MHz). In January 2011, this license was modified to enable the UMTS roll-out on the 900 MHz (2 x 17.4 MHz) and 1800 MHz (2 x 5.8 MHz) frequency

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bands. Telefónica UK may apply for indefinite validity for his license. To be eligible, it must agree to provide coverage to 90% of the population.

On February 20, 2013, Telefónica UK won two 10 MHz of spectrum in the 800 MHz band for the rollout of a nationwide 4G network, for an investment of approximately 645 million euros.

Ofcom is also considering EE's proposal to grant frequencies in the 1800 MHz spectrum to H3G.

Germany

Telefónica Germany obtained a GSM license for the 1800 MHz frequency band in October 1998, as well as a separate license for the 900 MHz band in February 2007 (GSM 900 2 x 5 MHz and GSM 1800: 2 x 17.4 MHz). The GMS licenses expire on December 31, 2016. In August 2000, Telefónica Germany obtained a UMTS license expiring on December 31, 2020 (2 x 9.9 MHz). In May 2010, after a spectrum auction, Telefónica Germany acquired 10 MHz in the 800 MHz band (Digital Dividend), 20 MHz in the 2.6 GHz band (paired), 10 MHz in the 2.6 GHz band (unpaired), 5 MHz in the 2.0 GHz band (paired), and 20 MHz in the 2.0 GHz band (unpaired). These licenses expire in 2025. The assigned frequencies may be used for any technology.

These licenses are for a set period of time, although they may be renewed.

On October 21, 2011, amid the reform process, the regulator resolved to not redistribute spectrum in the 900 MHz frequency, allowing Telefónica Germany to keep the spectrum allotted to it.

Additionally, considering that the current licenses for 900 MHz and 1800 MHz frequencies expire at the end of 2016, the regulatory authority launched a public consultation to identify demand for spectrum in those bands as from 2017. A decision is expected in 2013.

In November 2012, the FNA published a scenario paper containing four potential scenarios regarding the future of spectrum. The scenarios range from prolongation over an isolated awarding scenario of the GSM licenses to scenarios that contain the allocation of the GSM spectrum together with additional spectrum that is expected to be available with the years to come. The scenario paper is open for discussion. Input is called for until January 31st 2013. BNetzA stated that it plans to publish a draft decision based on the input on the scenario paper.

Czech Republic

Telefónica Czech Republic provides electronic mobile communications services in the 900 MHz and 1800 MHz bands, under the GSM standard, in accordance with Czech Telecommunications Office licenses valid until February 7, 2016;in the 2100 MHz band under the UMTS standard, valid until January 1, 2022; and in the 450 MHz band for CDMA 2000, valid until February 7, 2011. The Czech government has granted an individual license to operate the CDMA network, which is valid under November 30, 2013. The amendment to the Electronic Communications Law, which took effect on January 1, 2012, grants Telefónica Czech Republic (as the previous license holder) the right to obtain a new license in the same 450 MHz frequency without having to participate in a selection process.

On July 2012, Czech Telecommunication Office (CTO) launched a public tender for the award of the rights to use radio frequencies for providing a public communications network in the 800 MHz, 1800 MHz and 2600 MHz bands. Applications were submitted by Telefónica Czech Republic, T-Mobile Czech Republic, Vodafone Czech Republic and PPF Mobile Services. All applications were approved from the formal point of view and accepted. This auction process is expected to end at the beginning of year 2013.

Slovakia

On September 7, 2006, Telefónica Slovakia secured a license for supplying electronic communications services through the public network using the GSM and UMTS mobile network standards. The license was granted for 20 years and expires in September 2026.

Awardal of the 800 MHz and 2.6 GHZ spectrum will take place in the first or second quarter of 2013, through an electronic auction. The TUSR is currently selecting an advisor for the process.

Ireland

Since March 1997, Telefónica Ireland has been providing GSM services under a license granted in May 1996. The GSM 900 license is for a 15-year period (GSM 900: 2 x 7.2 MHz). In May 2011, the company was granted a provisional license to extend the validity of its license until January 2013. In 2000, Telefónica Ireland secured another GSM 1800 (2 x 14.4 MHz) license for a 15 year period. In October 2002, the company obtained a 20-year UMTS license (2 x 15 MHz + 5 MHz).

ComReg auctioned off 800 MHz, 900 MHz and 1800 MHz band spectrum in a multi-band auction held in the first quarter of 2012. In the auction, Telefónica Ireland obtained the packages shown in the chart below. The company paid 125 million euros for spectrum licenses in respect of advance fees, and over 100 million euros in usage costs for the entire license period.

Frequency bands	Period	Packages
800 MHz	2013-2015	2 x 10 MHz
	2015-2030	2 x 10 MHz
900 MHz	2013-2015	2 x 10 MHz
	2015-2030	2 x 10 MHz
1800 MHz	2013-2015	-
	2015-2030	2 x 15 MHz

Brazil

In Brazil, concessions are awarded for providing services under the public system, while authorizations are granted for providing private system services. The only service provided under both systems is the Commuted Fixed Telephony Service (CFTS). All other services are provided under the private system.

In the state of São Paulo, Telefónica Brasil provides local and national long-distance CFTS under the public regime, and provides international and long-distance CFTS and broadband services under the private system. In the remaining states of Brazil, Vivo provides local and long-distance CFTS service, personal mobile service and broadband services, all under the private regime.

In 2005, Telefónica Brasil's concession arrangements for providing local and long-distance (national) services were extended for an additional 20-year period. In conjunction with the approval of the General Universal Service Targets Plans (GUSP), Telefónica signed the Commuted Fixed telephony service (CFTS) concession contract covering the period from 2011 to 2015. The terms of the concession will come up for review in 2015.

Telefónica Brasil's authorization for local and long-distance services under the private system was granted for an unlimited period of time. On September 5, 2011, these licenses were transferred to Vivo.

Telefónica Brasil also holds an authorization to provide broadband data services under the private system in the state of São Paulo, for an unlimited period of time.

Licenses for personal mobile services (PMS) carry the right to provide mobile services for an unlimited period of time. However, the use of spectrum is restricted in accordance with the specific license conditions. All Telefónica's Brazilian mobile telephone authorizations were granted to Vivo as follows:

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Vivo-Rio Grande do Sul, except Pelotas, Capão do Leão, Morro Redondo and Turuçu (“A” band) until 2022 (renewed in 2007)

- Vivo-Rio de Janeiro (“A” band) until 2020 (renewed in 2005)
- Vivo-Espírito Santo (“A” band) until 2023 (renewed in 2008)
- Vivo-Bahia (“A” band) and Vivo-Sergipe (“A” band) until 2023 (renewed in 2008)

- Vivo-São Paulo (“A” band) until 2023 or 2024 (renewed in 2008) for the cities of Ribeirão Preto and Guatapará (renewed in 2009)
- Vivo-Paraná/Santa Catarina (“B” band) until 2013
- Vivo-Distrito Federal (“A” band) until 2021 (renewed in 2006)
- Vivo-Acre (“A” band), Vivo-Rondônia (“A” band), Vivo-Mato Grosso (“A” band) and Vivo-Mato Grosso do Sul (“A” band) until 2024 (renewed in 2009)
- Vivo-Goiás/Tocantins (“A” band) until 2023 (renewed in 2008)
- Vivo-Amazonas/Roraima/Amapá/Pará/Maranhão (“B” band) until 2013
- Vivo Minas Gerais (“A” band) until 2023 (renewed in 2008)
- Vivo for the cities in which CTBC Telecom operates in the state of Minas Gerais (“E” band) until 2020

License renewals for “A” and “B” bands must be requested 30 months in advance of the expiry date. Spectrum rights may be renewed only once, for a 15-year period. After this period, the license must be renegotiated.

License renewals for the “E” band must be requested between 36 and 48 months in advance of the expiry date. Spectrum rights may be renewed only once, for a 15-year period. After this period, the license must be renegotiated.

In December 2007, ANATEL auctioned off 15 blocks in the 1900 MHz band (“L” band) nationwide. Vivo won 13 blocks throughout Brazil, except in the northern region and the towns of Londrina and Tamarana in the state of Paraná. The spectrum licenses, along with the related renewal dates, are as follows:

- Vivo-Rio Grande do Sul (“L” band) until 2022 (renewed in 2007) including cities in the Pelotas metropolitan area
- Vivo-Rio de Janeiro (“L” band) until 2020 (renewed in 2005)
- Vivo-Espírito Santo (“L” band) until 2023 (renewed in 2008)
- Vivo-Bahia (“L” band) and Vivo-Sergipe (“L” band) until 2023 (renewed in 2008)
- Vivo-São Paulo (“L” band) until 2023 (renewed in 2008), the cities of Ribeirão Preto, Guatapará and Bonfim Paulista (renewed in 2009) until 2024, and the cities where CTBC Telecom operates in the state of São Paulo until 2022
- Vivo-Paraná (excluding the cities of Londrina and Tamarana)/Santa Catarina (“L” band) until 2013
- Vivo-Federal District (“L” band) until 2021 (renewed in 2006)
- Vivo-Acre (“L” band), Vivo-Rondônia (“L” band), Vivo-Mato Grosso (“L” band) and Vivo-Mato Grosso do Sul (“L” band) until 2024 (renewed in 2008) and the city of Paranaíba de Mato Grosso do Sul until 2022
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Vivo-Goiás/Tocantins (“L” band) until 2023 (renewed in 2008) and the cities where CTBC Telecom operates in the state of Goiás until 2022

- Vivo-Alagoas/Ceará/Paraíba/Piauí/Pernambuco/Rio Grande do Norte (“L” band) until 2022

License renewals for the “L” band must be requested between 36 and 48 months in advance of the expiry date Spectrum rights may be renewed only once, for a 15-year period. After this period, the license must be renegotiated.

In April 2008, ANATEL auctioned off 36 blocks 2100 MHz band (3G licenses). Vivo obtained nine in the “J” band through Brazil, enabling it to provide nationwide 3G coverage. The spectrum licenses, along with the related renewal dates, are as follows:

- Vivo-Rio Grande do Sul (including cities in the Pelotas metropolitan area) (“J” band) until 2023
- Vivo-Rio de Janeiro (“J” band) until 2023
- Vivo-Espírito Santo (“J” band) until 2023
- Vivo-Bahia (“J” band) and Vivo-Sergipe (“J” band) until 2023
- Vivo-São Paulo (including the cities of Ribeirão Preto, Guatapará and Bonfim Paulista and the cities where CTBC Telecom operates in the state of São Paulo) (“J” band) until 2023
- Vivo-Paraná (including the cities of Londrina and Tamarana)/Santa Catarina (“J” band) until 2023
- Vivo-Federal District (“J” band) until 2023
- Vivo-Acre (“J” band), Vivo-Rondônia (“J” band), Vivo-Mato Grosso (“J” band) and Vivo-Mato Grosso do Sul (including the city of Paranaíba) (“J” band) until 2023
- Vivo-Goiás (including the cities where CTBC Telecom operates in the state of Goiás)/Tocantins (“J” band) until 2023
- Vivo-Alagoas/Ceará/Paraíba/Piauí/Pernambuco/Rio Grande do Norte (“J” band) until 2023
- Vivo-Amazonas/Roraima/Amapá/Pará/Maranhão (“J” band) until 2023
- Vivo-Minas Gerais (including the cities where CTBC Telecom operates in the state of Minas Gerais) (“J” band) until 2023

License renewals for the “J” band must be requested between 36 and 48 months in advance of the expiry date. Spectrum rights may be renewed only once, for a 15-year period. After this period, the license must be renegotiated.

In December 2010, ANATEL auctioned off 169 licenses in the 900 MHz, 1800 MHz and 2100 MHz frequencies. Vivo secured 23 blocks: 14 in 1800 MHz frequency band “D”, “E”, “M” and extension bands, and 9 in the 900 MHz extension bands, giving it nationwide coverage in the 1800 MHz frequency band. The spectrum licenses are up for renewal in 2023.

- "M" Band (1800 MHz) in the Federal District and the states of Paraná, Santa Catarina, Rio Grande do Sul, Goiás, Tocantins, Mato Grosso do Sul, Mato Grosso, Rondônia and Acre
- Extension of the 1800 MHz band throughout the State of São Paulo
- “D" Band (1800 MHz) in the cities of Pelotas, Morro Redondo, Capão do Leão and Turuçu in the state of Rio Grande do Sul
- "E" Band (1800 MHz) in the states of Alagoas, Ceará, Paraíba, Piauí, Pernambuco and Rio Grande do Norte

- Extension of the 900 MHz band in the State of Rio de Janeiro
- Extension of the 900 MHz band in the State of Espírito Santo
- Extension of the 900 MHz band in the States of Goiás, Tocantins, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and the Federal District, with the exception of the cities of Paranaíba in the state of Mato Grosso do Sul and the cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão, in the state of Goiás
- Extension of the 900 MHz band in the State of Rio Grande do Sul, with the exception of the cities of Pelotas, Morro Redondo, Capão do Leão and Turuçu

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- Extension of the 900 MHz band in the cities of registry area number 43 in the state of Paraná with the exception of the cities of Londrina and Tamarana

- Extension of the 900 MHz band in the States of Paraná and Santa Catarina with the exception of the cities of registry area number 43 in the state of Paraná and the cities of Londrina and Tamarana

- Extension of the 900 MHz band in the state of Bahía

- Extension of the 900 MHz band in the state of Sergipe

- Extension of the 900 MHz band in the states of Amazonas, Amapá, Maranhão, Pará and Roraima

- Extension of the 1800 MHz band in the state of São Paulo, with the exception of the cities in the metropolitan area of São Paulo and the cities where CTBC Telecom operates in the state of São Paulo

- Extension of the 1800 MHz band in the states of Amazonas, Amapá, Maranhão, Pará and Roraima

- Extension of the 1800 MHz band in the city of Paranaíba in the state of Mato Grosso do Sul

- Extension of the 1800 MHz band in the cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão, in the state of Goiás

- Another extension of the 1800 MHz band in the cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão, in the state of Goiás

- Extension of the 1800 MHz band in the states of Rio do Janeiro, Espírito Santo, Bahía and Sergipe

- Extension of the 1800 MHz band in the states of Amazonas, Amapá, Maranhão, Pará and Roraima

- Extension of the 1800 MHz band in the states of Alagoas, Ceará, Paraíba, Piauí, Pernambuco and Rio Grande do Norte

- Extension of the 1800 MHz band in the city of Paranaíba in the state of Mato Grosso do Sul, and the cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão, in the state of Goiás

- Extension of the 1800 MHz band in the cities of Londrina and Tamarana in the state of Paraná

In April 2012, ANATEL auctioned off 273 licenses in the 450 MHz and 2500 MHz bands. Vivo secured an "X" block (20 + 20 MHz) in the 2500 MHz band nationwide, which entails the obligation and right to use the 450 MHz band in the states of Alagoas (AL), Ceará (CE), Minas Gerais (MG), Paraíba (PB), Pernambuco (PE), Piauí (PI), Rio Grande do Norte (RN) and Sergipe (SE), as well as in the areas identified by national codes 13, 14, 15, 16, 17, 18 and 19, in the state of Sao Paulo (SP).

- Vivo Brazil (Banda "X" - 2500 MHz) until 2027 (associated with personal mobile services)

- Vivo AL, CE, MG, PB, PE, PI, RN, SE (450 MHz) until 2027 (associated with FSTS and personal mobile services)

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Vivo in the areas identified by national codes 13, 14, 15, 16, 17, 18 and 19, in the state of São Paulo (SP), until 2027 (associated with significant market power and personal mobile services)

Spectrum rights may be renewed only once, for a 15-year period. After this period, the license must be renegotiated.

It is also worth highlighting that Vivo has a multimedia communication services (MCS) license allowing it to provide nationwide service for an unlimited period of time. Telefónica International Wholesale Services Brasil Ltda. also has a MCS license, although it is limited to the São Paulo area.

The following companies hold paid TV licenses (at present, such licenses are now being granted under conditional access service authorizations): Telefónica Sistemas de Televisión S/A, A. Telecom S/A, TVA Sul Paraná S/A and Comercial Cabo TV São Paulo S/A. Meanwhile, A. Telecom, Ajato Telecomunicações Ltda. Comercial Cabo and Telefónica International Wholesale Services Brasil Ltda. hold MCS licenses.

Mexico

Authorizations to provide mobile telephone services in Mexico (mobile and personal communications services (PCS) in the 800 MHz and 1900 MHz bands, respectively) are granted through concessions.

Telefónica Móviles México and its subsidiaries and investees hold 43 licenses for providing telecommunications services.

Mobile telephone services concessions in the “A” band (800 MHz) were initially granted in 1990 and were renewed in May 2010 for a 15-year period. In addition, at the same time a concession was granted for the installation, operation and development of a public telecommunications network for the same length as the aforementioned concessions (Baja Celular Mexicana, S.A. de C.V., Movitel del Noroeste, S.A. de C.V., Telefonía Celular del Norte, S.A. de C.V., Celular de Telefonía, S.A. de C.V.).

The subsidiary Pegaso Comunicaciones y Sistemas, S.A. de C.V. holds a concession for providing public telecommunications services, granted in 1998, and nine licenses for providing personal communications services in the 1900 MHz band, until 2018. These licenses are renewable for an additional 20-year period. Renewal has been requested for all licenses.

In April 2005, Telefónica México obtained four additional licenses in the same 1900 MHz band, for providing personal communications services for a 20-year period, with possible renewal for an additional 20-year period.

In addition, new concessions were awarded during 2010: eight spectrum concessions in the 1900 MHz band for providing personal communications services and for a greater bandwidth in regions 1, 2, 3, 4, 5, 6, 7 and 9, for a period of 20 years; and six new concessions in band 1.7 – 2.1 GHz to provide AWS services in regions 2, 3, 4, 5, 6, 7 and 9, for a period of 20 years.

The SCT also granted the following licenses to Grupo de Telecomunicaciones Mexicanas, S.A. de C.V. (GTM):

- On June 24, 1998, GTM obtained a 20-year concession to install 23 GHz microwave links.

- On December 13, 1999, GTM obtained a 20-year concession to install 7 GHz microwave links. This contract may be renewed.

- On June 5, 2003, GTM obtained a 15-year concession to install a public telecommunications network to offer national and international long-distance service. This contract may be renewed.

- On March 28, 2006, GTM was authorized to renew the concession to provide fixed and public telephone services throughout the country, for a 15-year period. This contract may be renewed.

- On January 6, 2011, GTM was awarded the concession to install a public telecommunications network to offer pay TV and satellite data transmission services, for a 30-year period. This contract may be renewed.

- On July 6, 2012, GTM was awarded the concession to install a public telecommunications network to provide satellite data transmission services, for a 20-year period. This contract may be renewed.

On July 6, 2012, GTM was awarded the concession to exercise transmission and reception rights in respect of frequency bands or signals associated with foreign satellites that cover and are able to provide services in Mexico, for a 20-year period. This contract may be renewed.

Venezuela

Telefónica Venezolana, C.A. holds a mobile telephone concession for operating and offering mobile services in the 800 MHz band, with national coverage. This concession was granted in 1991 and expired on May 31, 2011. The concession was renewable for up to 20 years, at the discretion of CONATEL. In line with prevailing legislation, Telefónica Venezolana, C.A. submitted the application for renewal of the general 806-890 MHz and 890 to 902 concession (related to the provision of subscription TV services, land mobile radio communications, wireless telephone and data access network), to CONATEL, 90 days before their expiry. On May 31, 2011, CONATEL renewed these licenses for another 11 years. Pursuant to these renewals, the new expiry of the concessions is November 28, 2022.

Telefónica Venezolana, C.A. also holds a private network services concession granted in 1993 and renewed in 2007, until December 15, 2025. This concession allows Telefónica Venezolana, C.A. to provide private point-to-point and point-to-multipoint telecommunications services for companies.

In 2001, Telefónica Venezolana, C.A. secured a concession for offering nationwide wireless fixed access services using wireless technology in the subscriber loop until August 24, 2026.

In 2000, Telefónica Venezolana, C.A. received a general authorization for offering local, national long-distance and international long-distance telephone services and for operating telecommunications networks, for a 25-year period to December 15, 2025. In 2007, the remaining services provided by Telefónica Venezolana, C.A. were incorporated into this license, namely mobile, private networks, Internet access and transport services. On the same date, the company secured a concession for operating in the 1900 MHz band for a 15-year period until November 2022, renewable for a 10-year period.

By virtue of administrative order PADS-GST-00120, on March 31, 2011 the regulatory authority granted Telefónica Venezolana, C.A. a push-to-talk (PTT) licenses, whereby the company can offer PTT services nationwide in the bands assigned for mobile telephone use. The license expires on December 15, 2025, i.e. the same expiration date as its general HGT-001 license covering all the specific telecommunications services it can provide.

The additional 20 MHz block in the 1900 MHz band (specifically the portion between the 1945 MHz and the 1955 MHz bands) awarded to Telefónica Venezolana, C.A. during the public auction, was formalized through the concession contract signed between CONATEL and Telefónica Venezolana, C.A. on August 30, 2012.

Sistemas Timetrac, C.A. initially began operating under the 10-year concession no. SRMT-C-001 granted on July 30, 1996. While this concession expired on July 30, 2006, it was not until March 10, 2008 that CONATEL converted the licenses, granting the general HGTS-01268 license, which includes radiodetermination and telecommunications network creation and operation. The regulator set expressly the expiration of this license at September 23, 2010. On May 21, 2010, a request was submitted to renew the license, in accordance with notification received by the regulatory authority. By virtue of order PADS-SMT-00156, on March 21, 2012, CONATEL resolved to renew the aforementioned general authorization and concessions until September 2020.

Chile

Telefónica Chile holds the following telecommunications services licenses:

- Local public telephony services. Telefónica Chile holds a renewable license for local telephone services in all regions of Chile, for a 50-year period. This license was awarded in 1982, except for the X and XI regions, which were incorporated into the license in 1995. In addition, Telefónica Chile holds other nationwide renewable licenses for local telephone services, exclusively targeting rural areas. It also holds a renewable nationwide license for public data transmission services for a period of 30 years from July 1995 and another four renewable licenses for public data transmission services for a period of 30 years from June 2008. Telefónica Chile also has a renewable nationwide license for public VOIP services, for a period of 30 years from August 2010.

- Long distance licenses. Through its subsidiary Telefónica Larga Distancia, Telefónica Chile holds renewable licenses for a 30-year period as from November 1989, to install and operate a national fiber optics network, a national base station network and other transmission equipment, and to provide national and international long-distance services, including voice, data and image transmission throughout Chile. In addition, the company

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holds renewable nationwide public data transmission services licenses for a 30-year period as from June 1993. Telefónica also holds indefinite licenses for providing national and international long-distance services through central switches and nationwide cable and fiber optic networks.

- Public data transmission services. Since March 1987, Telefónica Empresas holds a license for an indefinite period for providing public nationwide data transmission services.

- Public mobile telephone services. Since November 1989, Telefónica Móviles Chile has held licenses for an indefinite period for providing public mobile telephone services throughout Chile in the 800 MHz band. In addition, the company holds three licenses for providing nationwide mobile telecommunications services in the 1900 MHz band. These concessions may be renewed for successive 30-year periods from November 2002, at the request of the license holder. On August 3, 2012, SUBTEL announced the results of the public tender process, assigning Telefónica Móviles Chile S.A. a public service concession for fixed and/or mobile data transmission in the 2545 MHz - 2565 MHz and 2665 MHz - 2685 MHz bands (4G technology).

- Limited television license. Telefónica Multimedia holds a license to establish, operate and use part of the 2.6 GHz band spectrum in Santiago de Chile for intermediate telecommunications services, authorizing the frequencies used for communicating voice, data and images, for a thirty-year period as from May 2008. The company also has a limited license to provide television services in the 2.6 GHz band. Since December 2005, the company holds a 10-year renewable license for providing limited satellite television services. In addition, since January 2006, it has a limited license for providing nationwide television services in the largest cities, except in region III, in Telefónica Chile's VDSL broadband network, for an indefinite period. Furthermore, in March 2007 the company was awarded a limited license for providing television services through the VDSL broadband network in the Santiago de Chile metropolitan area, for an indefinite period.

In addition, in 2000, Telefónica International Wholesale Services Chile S.A. (TIWS Chile) obtained the concession for intermediate telecommunications services, in order to install and put into operation an underwater fiber optic cable submarine cable, and to operate and develop a land fiber optic cable transmission system, in particular to provide services using the SAm-1 submarine cable system. The concession is for a 30-year period, and was modified in 2001 and 2005 to take into account new technological information.

Lastly, in 2011 TIWS Chile obtained a public service concession for the satellite transmission of mobile data, in order to operate in the "L" frequency band which enables Internet access and voice services.

Argentina

Telefónica de Argentina holds licenses, all of which have been granted for an unlimited period, allowing it to provide fixed telephone services, international telecommunications services, local services in the northern and southern regions; long-distance, international telecommunications services and data transmission in the northern region; and Internet and international data transmission access services.

Telefónica Móviles de Argentina's licenses for providing mobile services include PCS licenses and the corresponding authorizations for using spectrum in different regions, as well as licenses for trunk services or closed groups of users, in different cities.

These licenses do not expire, although they may be cancelled by SECOM in the event of failure to comply with the license terms.

In 2001, Telefónica International Wholesale Services Argentina S.A. was granted with a license to provide telecommunications services (fixed or mobile, cable or wireless, national or international, with or without own infrastructure), allowing it to offer SAm-1 submarine cable services.

Colombia

In March 1994, Telefónica Móviles Colombia was awarded concessions for providing mobile services in the eastern region, along the Caribbean coast and in the western region, for a 10-year period, renewed for another 10 years to March 2014. Prior to that year, the company may waive the concessions, renew the spectrum use permit for a 10-year period, and subsequently negotiate an extension. If Telefónica Móviles Colombia continues to hold its current concessions until 2014, in that year it must seek registration as a telecommunications operator and request permission to use spectrum.

In 2011, Telefónica Móviles obtained a license via Resolution 2105 (2011) to operate 15 MHz spectrum in the 1900 frequency band after participating in an auction held by the Ministry of Information and Communications Technology. The Ministry requested applicants to send, by January 6, 2012, statements of interest in acquiring spectrum in the 1.7, 2.1 and 2.5 GHz bands in order to verify a plurality of participants in the allocation process.

In March and August 2012, the Colombian government published the preliminary benchmark terms for the auction of up to 225 MHz, distributed as follows: (i) AWS bands from 1,710 MHz to 1,755 MHz, along with 2,110 MHz up to 2,155 MHz, (ii) 1,850 MHz to 1,990 MHz band, and (iii) 2,500 MHz to 2,690 MHz band. The auction was initially expected to take place in December 2012, and is currently expected to occur in the first half of 2013. However, the terms and period for the public auction are still subject to change.

With respect to fixed telephone services, the law establishes an indefinite permit for all operators to operate as local exchange carriers, nationwide. Colombia Telecomunicaciones registered in November 8, 2011, enabling it to provide all telecommunications networks and services; e.g. long-distance carrier services, value-added services, domestic carrier services and mobile services.

Now, in due to the effects of the merger in which Colombia Telecomunicaciones absorbed Telefónica Móviles, the concession to provide mobile services passes to the acquirer. At the same time, the titles that allowed Telefónica Móviles to provide carrier services and value added services ended. However, regarding that the law establishes a general and indefinite permission for telecommunications companies to offer different services than mobile services, Colombia Telecomunicaciones provides those, in use of that permit which was recognized by the ICT Ministry since November 8 of 2011.

In 2010, Telefónica International Wholesale Services Colombia S.A. became a registered operator and value-added service provider, enabling it to offer SAm-1 submarine cable services.

Peru

Telefónica del Perú, S.A.A. provides nationwide fixed telecommunications services according to two concessions granted on May 16, 1994 by the Ministry of Transport and Communications. The concessions were initially granted for 20 years, and may be partially renewed for additional five-year periods up to a maximum of 20 years. To date, three partial renewals extending the concession to November 27, 2027 have been approved.

Telefónica Móviles has four mobile services concessions, each for 20-year periods renewable, upon request, for equal periods. Although the two concessions for providing mobile service in Lima and Callao and one regarding the provision of mobile service in the rest of the country have expired, they are still in force according to Law, since the respective remain valid by law until the renewals proceedings are pending. Particularly, and regarding the renewal of such titles, on February 23, 2013, Resolution N° 091-2013-MTC/03 was published on the official newspaper “El Peruano”, stating that the renewal of the abovementioned concessions had been approved for an additional eighteen-year and ten months period. It also approved the addendum that will formalize such renewal and authorized to sign it within a maximum 60 working days period since the publication thereof. This addendum contains various obligations assumed by the Company in relation with geographical coverage and universal service. Telefónica Móviles also holds three 20-year concessions to provide domestic and international long-distance carrier services expiring between 2019 and 2022, three 20-year concessions to provide fixed mobile telephone services expiring between 2019 and 2028, and three concessions for local carrier services expiring between 2016 and 2022.

In 2003, Telefónica International Wholesale Perú S.A.C. secured a license to provide long-distance carrier service (non-switched). This license was modified in 2007 to take into account updated information on TIWS.

Ecuador

Otecel renewed the mobile telephone services concession under which it provides advanced mobile services, including 3G services. The concession expires in November 2023 and may be renewed for an additional 15-year period.

In addition, Otecel holds a fixed and mobile carrier services concession expiring in 2017. This concession may be renewed for an additional 15-year period. The different licenses for providing added-value mobile services and Internet access services expired in 2011. This license was renewed until June 2, 2021 and may be extended for another 10 years.

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Other countries in Latin America

Country	License/ Concession	Type of services	Spectrum	Band	Expiry
Costa Rica	Concession	Telecommunication services (7)	10.6 MHz/850 MHz 30 MHz/1800 MHz 20 MHz/2100 MHz		2026 (8)
El Salvador	Concession	Telecommunication services (1)	25 MHz/850 MHz	Band B	2018(2)
	Concession	Telecommunication services (1)	30 MHz/1900 MHz	Band C	2021
Guatemala	Concession	Telecommunication services (1)	80 MHz/1900 MHz	Bands B, C, E and F	2014(3)(9)
	Concession	Telecommunication services (1)			2014(3)(9)
	Concession	Telecommunication services (1)			2014(3)(9)
Nicaragua	Concession	Mobile telecommunication services	25 MHz/850 MHz	Band A	2023(4)
	Concession	Mobile telecommunication services	60 MHz /1900	Bands B, D, E and F	2023(4)
Panama	Concession	GSM/UMTS	25 MHz /850 10 MHz/1900 MHz	Band A Band F	2016(5)
Uruguay	License	Mobile telephone	25 MHz/800 MHz		2022-2024(6)(10)

(1) In accordance with the Telecommunications Law all of these concessions were granted to provide any type of telecommunication services.
(2) Concessions for the use of spectrum are granted for a period of 20 years and may be renewed for additional 20 year periods once the procedures established by the Telecommunications Law are fulfilled.
(3) These concessions are granted for a period of 15 years and may be renewed for successive 15 year periods at the holder’s request. In order to renew a concession the holder must prove to the regulatory agency that the spectrum has actually been used during the prior 15-year period. These concessions expire in 2014. In Guatemala, the concessions to grant mobile phone services expire in April and November of 2014. The request for renewal has to be made in June 2013 and January, 2014.
(4) Telefonía Celular de Nicaragua, S.A. (TCN) obtained a concession in 1992 for a period of 10 years to use the 25 MHz spectrum in band A of 800 MHz in order to provide mobile telecommunication services. This concession was renewed for a period of 10 years from August 2013 until July 2023. The regulatory agency awarded TCN additional spectrum of 65 MHz in bands B, D, E and F of 1900. The concession may be renewed for an additional 10-year periods via negotiation with TELCOR two years in advance of the expiry of the current concession, subject to compliance by the operator with certain conditions.
(5) The concession is valid for 20 years and expires in 2016. It is renewable for an additional period in accordance with the concession contract. The Government of Panama granted the right to use 10 MHz (5+5) in the 1900 MHz until 2016, which can be renewed for a further period. In January 2013 the company has file a request for the renewal of the concession. Its terms have to be agreed with the government of Panama.
(6) The expiry date depends upon the spectrum awarded: 800 MHz band (12.5 MHz + 12.5 MHz) – 20 years from July 2004; 1900 MHz band (5 MHz + 5 MHz) – 20 years from December 2002; and 1900 MHz band (5 MHz + 5 MHz) – 20 years from July 2004.
(7) Except for traditional basic telephone services through copper networks.
(8) The concession may be renewed for a period that added to the initial period and previous renewals does not exceed 25 years from the start date.
(9) The Guatemala Congress modified the Telecommunications Law, increasing the use period to 20 years for radio, television and telephone frequency. These modifications entered into force on December 6, 2012. Operators were granted a 90-day period to request a change in usage certificate from the regulatory agency. Upon expiry of the period,

an extension for a similar period may be requested. At present, Telefónica Guatemala is in the process of changing its usage certificate.

(10) The Uruguayan telecommunications regulator URSEC has opened a spectrum auction. Interested companies have been invited to request bidding documents before February 26. The awardees are expected to be announced on March 13.

The government is auctioning off two spectrum blocks in the 900 MHz frequency band, six blocks in the 1900 MHz band, and nine blocks in the frequency band from 1700 MHz to 2100 MHz. The minimum auction price for each 5+5 MHz block has been set at 7.5 million US dollars. Interest is primarily focused on the lower bands (900 MHz), which correspond to 4G technology. Only two blocks are available in these bands, one of which will be assigned to the state company ANTEL, which is directly assured the 40 MHz band. The remaining block will be awarded to the best bidder.

In 2007, Telefónica International Wholesale Services Ecuador S.A. secured a permit from the National Telecommunications Ministry to provide submarine cable capacity, allowing it to offer SAm-1 submarine cable services.

In 2000, Telefónica International Wholesale Services Guatemala S.A. was registered with the Superintendency of Telecommunications as a commercial network operator, allowing it to offer SAm-1 submarine cable services.