TELEFONICA S A
Form 6-K
March 21, 2013
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of March, 2013

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant s name into English)

Distrito Telefónica, Ronda de la Comunicación s/n,

28050 Madrid, Spain

3491-482 85 48

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ¨ No x

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ¨ No x

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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Telefónica, S.A.

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1. Telefónica - 2012 Annual Accounts	

Account Auditor s Report, Annual Accounts and Management Report of Telefónica, S.A., all for the Fiscal Year 2012.

Account Auditor s Report, Annual Accounts and Management Report of the Consolidated Group of Companies, all for the Fiscal Year 2012.

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Telefónica, S.A. hereby submits the Individual Annual Accounts of Telefónica, S.A. and the Consolidated Annual Accounts of Telefónica S.A. and its Group of Subsidiaries for 2012 financial year, that have been filed with the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores CNMV).

The aforesaid Annual Accounts will be submitted for approval of the next Annual General Shareholders Meeting of the Company, the dates of which will be announced due course.

Madrid, March 21, 2013

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AUDIT REPORT, ANNUAL FINANCIAL STATEMENTS, AND

MANAGEMENT REPORT OF TELEFÓNICA, S.A., ALL FOR THE

YEAR ENDED DECEMBER 31, 2012

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Audit Report

TELEFÓNICA, S.A.

Financial Statements and Management Report

for the year ended

December 31, 2012

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Translation of a report and financial statements originally issued in Spanish. In the event of

discrepancy, the Spanish-language version prevails (See Note 23)

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of

Telefónica, S.A.

We have audited the financial statements of Telefónica, S.A., which comprise the balance sheet at December 31, 2012, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended. The Company s Directors are responsible for the preparation of the financial statements in accordance with the regulatory framework for financial information applicable to the entity in Spain (identified in Note 2.a to the accompanying financial statements), and specifically in accordance with the accounting principles and criteria contained therein. Our responsibility is to express an opinion on the aforementioned financial statements taken as a whole, based upon work performed in accordance with prevailing audit regulation in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the financial statements and the evaluation of whether their presentation, the accounting principles and criteria applied and the estimates made are in agreement with the applicable regulatory framework for financial information.

In our opinion, the accompanying 2012 financial statements give a true and fair view, in all material respects, of the equity and financial position of Telefónica, S.A. at December 31, 2012, and of the results of its operations and its cash flow for the year then ended, in conformity with the applicable regulatory framework for financial information in Spain, and specifically the accounting principles and criteria contained therein.

The accompanying 2012 management report contains such explanations as the Directors consider appropriate concerning the situation of the Company, the evolution of its business and other matters; however, it is not an integral part of the financial statements. We have checked that the accounting information included in the aforementioned management report agrees with the 2012 financial statements. Our work as auditors is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the Company s accounting records.

ERNST & YOUNG, S.L.

Ignacio Viota del Corte

March 20, 2013

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid

Inscrita en el Registro Mercantil de Madrid al

Tomo 12749, Libro 0, Folio 215, Sección 8ª,

Hoja M-23123, Inscripción 116. C.I.F. B-78970506

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2012

TELEFÓNICA, S.A.

Annual financial statements and management report for the year ended December 31, 2012

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2012 Financial Statements

Telefónica, S.A.

Balance sheet at December 31

Millions of euros	Notes	2012	2011
ASSETS			
NON-CURRENT ASSETS		**82,182**	**87,198**
Intangible assets	5	**64**	**68**
Patents, licences, trademarks and others		5	9
Software		15	11
Other intangible assets		44	48
Property, plant and equipment	6	**303**	**338**
Land and buildings		148	154
Plant and other PP&E items		115	141
Property, plant and equipment under construction and prepayments		40	43
Investment property	7	**410**	**423**
Land		65	65
Buildings		345	358
Non-current investments in Group companies and associates	8	**71,779**	**79,036**
Equity instruments		67,770	77,396
Loans to Group companies and associates		3,988	1,618
Other financial assets		21	22
Financial investments	9	**4,531**	**4,728**
Equity instruments		433	556
Loans to third parties		39	37
Derivatives	16	4,045	4,118
Other financial assets		14	17
Deferred tax assets	17	**5,095**	**2,605**
CURRENT ASSETS		**7,553**	**5,339**
Trade and other receivables	10	**1,065**	**698**
Current investments in Group companies and associates	8	**3,636**	**3,478**
Loans to Group companies and associates		3,608	3,390
Derivatives	16	2	57
Other financial assets		26	31
Investments	9	**390**	**394**

Loans to companies		9	46
Derivatives	16	282	348
Other financial assets		99	
Accruals		**12**	**4**
Cash and cash equivalents		**2,450**	**765**
TOTAL ASSETS		**89,735**	**92,537**

The accompanying Notes 1 to 23 and Appendix I are an integral part of these balance sheets

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2012 Financial Statements

Millions of euros	Notes	2012	2011
Equity and liabilities			
EQUITY		**22,978**	**26,597**
CAPITAL AND RESERVES		24,383	27,212
Share capital	11	**4,551**	**4,564**
Share premium	11	**460**	**460**
Reserves	11	**19,529**	**22,454**
Legal		984	984
Other reserves		18,545	21,470
Treasury shares and own equity instruments	11	**(788)**	**(1,782)**
Profit for the year	3	**631**	**4,910**
Interim dividend	3		**(3,394)**
UNREALIZED GAINS (LOSSES) RESERVE	11	(1,405)	(615)
Available-for-sale financial assets		(34)	(40)
Hedging instruments		(1,371)	(575)
NON-CURRENT LIABILITIES		**50,029**	**47,236**
Non-current provisions		**187**	**42**
Other provisions		187	42
Non-current borrowings	12	**13,274**	**11,339**
Bonds and other marketable debt securities	13	828	170
Bank borrowings	14	9,232	9,046
Derivatives	16	3,130	2,033
Finance leases		75	86
Other debts		9	4
Non-current borrowings from Group companies and associates	15	**36,069**	**35,381**
Deferred tax liabilities	17	**499**	**474**
CURRENT LIABILITIES		**16,728**	**18,704**
Current provisions		**8**	**65**
Current borrowings	12	**2,097**	**1,033**
Bonds and other marketable debt securities	13	828	87
Bank borrowings	14	1,145	742

Derivatives	16	124	204
Current borrowings from Group companies and associates	15	**14,181**	**17,140**
Trade and other payables	18	**439**	**440**
Accruals		**3**	**26**
TOTAL EQUITY AND LIABILITIES		**89,735**	**92,537**

The accompanying Notes 1 to 23 and Appendix I are an integral part of these balance sheets

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2012 Financial Statements

Telefónica, S.A.

Income statements for the years ended December 31

Millions of euros	Notes	2012	2011
Revenue	19	**5,817**	**7,952**
Rendering of services to Group companies and associates		687	707
Rendering of services to non-group companies		3	3
Dividends from Group companies and associates		4,852	6,967
Interest income on loans to Group companies and associates		275	275
Impairment and gains (losses) on disposal of financial instruments	19	**(5,311)**	**(1,082)**
Impairment losses and other losses	8	(5,312)	(1,606)
Gains (losses) on disposal and other gains and losses		1	524
Other operating income	19	**120**	**157**
Non-core and other current operating revenue - Group companies and associates		95	140
Non-core and other current operating revenue - non-group companies		25	17
Employees benefits expense	19	**(141)**	**(244)**
Wages, salaries and others		(130)	(213)
Social security costs		(11)	(31)
Other operational expense		**(500)**	**(399)**
External services - Group companies and associates	19	(99)	(94)
External services - non-group companies	19	(389)	(296)
Taxes other than income tax		(12)	(9)
Depreciation and amortization	5, 6 and 7	**(63)**	**(72)**
Gains (losses) on disposal of fixed assets		**(1)**	**1**
OPERATING PROFIT		**(79)**	**6,313**
Finance revenue	19	**213**	**139**
From equity investments of third parties		17	38
From marketable securities and other financial instruments of third parties		196	101
Finance costs	19	**(2,268)**	**(2,119)**
Borrowings from Group companies and associates		(2,042)	(1,872)
Third-party borrowings		(226)	(247)

Change in fair value of financial instruments		**(59)**	**(91)**
Trading portfolio and other securities		(4)	(11)
Gain (loss) on available-for-sale financial assets recognized in the period	9	(55)	(80)
Exchange rate gains (losses)	19	**41**	**(138)**
Impairment and gains (losses) on disposal of financial instruments with third-parties	19	**(53)**	**(105)**
NET FINANCIAL EXPENSE		**(2,126)**	**(2,314)**
PROFIT BEFORE TAX	21	**(2,205)**	**3,999**
Income tax	17	**2,836**	**911**
PROFIT FOR THE YEAR		**631**	**4,910**

The accompanying Notes 1 to 23 and Appendix I are an integral part of these income statements

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Statements of changes in equity for the years ended December 31

A) Statement of recognized income and expense

Millions of euros	Notes	2012	2011
Profit of the period		**631**	**4,910**
Total income and expense recognized directly in equity	**11**	**(950)**	**(612)**
From measurement of available-for-sale financial assets		(46)	(50)
From cash flow hedges		(1,310)	(824)
Income tax impact		406	262
Total amounts transferred to income statement	**11**	**160**	**147**
From measurement of available-for-sale financial assets		55	
From cash flow hedges		173	210
Income tax impact		(68)	(63)
TOTAL RECOGNIZED INCOME AND EXPENSE		**(159)**	**4,445**

The accompanying Notes 1 to 23 and Appendix I are an integral part of these statements of changes in equity.

B) Statements of total changes in equity for the years ended December 31

Millions of euros	Share capital	Share premium	Reserves	Treasury shares and own equity investments	Profit for the year	Interim dividend	Net unrealized gains (losses) reserve	Total
Balance at December 31, 2010	**4,564**	**460**	**24,710**	**(1,376)**	**4,130**	**(2,938)**	**(150)**	**29,400**
Total recognized income and expense					4,910		(465)	4,445
Transactions with shareholders and owners			(3,455)	(777)		(3,394)		(7,626)
Capital decreases								
Dividends paid			(3,458)			(3,394)		(6,852)
Transactions with treasury shares or own equity instruments (net)			3	(777)				(774)
Other movements			7	371				378
Appropriation of prior year profit (loss)			1,192		(4,130)	2,938		
Balance at December 31, 2011	**4,564**	**460**	**22,454**	**(1,782)**	**4,910**	**(3,394)**	**(615)**	**26,597**
Total recognized income and expense					631		(790)	(159)
Transactions with shareholders and owners	(13)		(4,497)	972				(3,538)
Capital decreases	(84)		(1,237)	1,321				
Dividends paid	71		(2,907)					(2,836)
			(353)	(349)				(702)

Transactions with treasury shares or own equity instruments (net)								
Other movements			56	22				78
Appropriation of prior year profit (loss)			1,516		(4,910)	3,394		
Balance at December 31, 2012	**4,551**	**460**	**19,529**	**(788)**	**631**		**(1,405)**	**22,978**

The accompanying Notes 1 to 23 and Appendix I are an integral part of these statements of changes in equity.

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2012 Financial Statements

Telefónica, S.A.

Cash flow statements for the years ended December 31

Millions of euros	Notes	2012	2011
A) CASH FLOWS FROM OPERATING ACTIVITIES		**1,981**	**6,423**
Profit before tax		**(2,205)**	**3,999**
Adjustments to profit:		**2,519**	**(3,773)**
Depreciation and amortization	5, 6 and 7	63	72
Impairment of investments in Group companies and associates	8	5,312	1,606
Change in long term provisions		145	
Gains on the sale of financial assets		(1)	(524)
Losses on disposal of property, plant and equipment		1	1
Dividends from Group companies and associates	19	(4,852)	(6,967)
Interest income on loans to Group companies and associates	19	(275)	(275)
Net financial expense	19	2,126	2,314
Change in working capital		**(165)**	**(108)**
Trade and other receivables		45	(51)
Other current assets		(35)	(16)
Trade and other payables		(73)	(106)
Other current liabilities		(102)	65
Other cash flows from operating activities	21	**1,832**	**6,305**
Net interest paid		(2,007)	(1,405)
Dividends received		3,337	7,073
Income tax receipts		502	637
B) CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		**1,372**	**(1,235)**
Payments on investments	21	(6,779)	(3,554)
Proceeds from disposals	21	8,151	2,319
C) CASH FLOWS USED IN FINANCING ACTIVITIES		**(1,663)**	**(4,817)**
Payments on equity instruments	11	(590)	(377)
Proceeds from financial liabilities	21	1,763	2,412
Debt issues		10,964	7,533
Repayment and redemption of debt		(9,201)	(5,121)
Dividends paid	11	(2,836)	(6,852)
D) NET FOREIGN EXCHANGE DIFFERENCE		**(5)**	**(22)**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,685**	**349**
Cash and cash equivalents at January 1		765	416
Cash and cash equivalents at December 31		2,450	765

Notes 1 to 23 and Appendix I are an integral part of these cash flow statements.

TELEFÓNICA, S.A.

Annual financial statements and management report for the ended December 31, 2012

Note 1. Introduction and general information

Telefónica, S.A. (Telefónica or the Company) is a public limited company incorporated for an indefinite period on April 19, 1924, under the corporate name of Compañía Telefónica Nacional de España, S.A. It adopted its present name in April 1998.

The Company s registered office is at Gran Vía 28, Madrid (Spain), and its Employer Identification Number (CIF) is A-28/015865.

Telefónica s basic corporate purpose, pursuant to Article 4 of its Bylaws, is the provision of all manner of public or private telecommunications services, including ancillary or complementary telecommunications services or related services. All the business activities that constitute this stated corporate purpose may be performed either in Spain or abroad and wholly or partially by the Company, either through shareholdings or equity interests in other companies or legal entities with an identical or a similar corporate purpose.

In keeping with the above, Telefónica is currently the parent company of a group that operates mainly in the telecommunications, media and entertainment industries, providing a wide range of services on the international stage.

The Company is taxed under the general tax regime established by the Spanish State, the Spanish Autonomous Communities and local governments, and files consolidated tax returns with most of the Spanish subsidiaries of its Group under the consolidated tax regime applicable to corporate groups.

Note 2. Basis of presentation

a) True and fair view

These financial statements have been prepared from Telefónica, S.A. s accounting records by the Company s Directors in accordance with the accounting principles and standards contained in the Code of Commerce, developed in the Spanish GAAP in force (2007 Spanish GAAP) and other prevailing legislation at the date of these financial statements, to give a true and fair view of the Company s equity, financial position, results of operations and of the cash flows obtained and applied in 2012.

The accompanying financial statements for the year ended December 31, 2012 were prepared by the Company s Board of Directors at its meeting on February 27, 2013 for submission for approval at the General Shareholders Meeting, which is expected to occur without modification.

The figures in these financial statements are expressed in millions of euros, unless indicated otherwise, and therefore may be rounded. The euro is the Company s functional currency.

b) Comparison of information

In 2011 and 2012 there have not been significant transactions that should be taken into account in order to ensure the comparison of information included in the Annual Financial Statements of both years.

c) Use of estimates

The financial statements have been prepared using estimates based on historical experience and other factors considered reasonable under the circumstances. The carrying value of assets and liabilities, which is not readily apparent from other sources, was established on the basis of these estimates. The Company periodically reviews these estimates.

A significant change in the facts and circumstances on which these estimates are based could have an impact on the Company s results and financial position.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the financial statements of the following year are discussed below.

Provisions for impairment of investments in Group companies, joint ventures and associates

Investments in group companies, joint ventures and associates are tested for impairment at each year end to determine whether an impairment loss must be recognized in the income statement or a previously recognized impairment loss be reversed. The decision to recognize an impairment loss (or a reversal) involves estimates of the reasons for the potential impairment (or recovery), as well as the timing and amount.

Recoverable amount of investments in group companies, joint ventures and associates is measured as described in Note 4.e.

There is a significant element of judgment involved in the estimates required to determine recoverable amount and the assumptions regarding the performance of these investments, since the timing and scope of future changes in the business are difficult to predict.

Deferred taxes

The Company assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Company s ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

The appropriate classification of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Company as a result of changes in tax legislation or unforeseen transactions that could affect tax balances.

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Note 3: Proposed appropriation of profit

Telefónica, S.A. obtained 631 million euros of profit in 2012. Accordingly, the Company s Board of Directors will submit the following proposed appropriation of 2012 profit for approval at the Shareholders Meeting:

Millions of euros	
Proposed appropriation:	
Profit for the year	631
Distribution to:	
Goodwill reserve (Note 11.c)	2
Voluntary reserves	629

Note 4. Recognition and measurement accounting policies

The main recognition and measurement accounting policies applied in the preparation of the 2012 annual financial statements are the following:

a) Intangible assets

Intangible assets are stated at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses.

The useful lives of intangible assets are assessed individually to be either finite or indefinite. Intangible assets with finite lives are amortized systematically over the useful economic life and assessed for impairment whenever events or changes indicate that their carrying amount may not be recoverable.

Amortization methods and schedules are revised annually at year end and, where appropriate, adjusted prospectively.

Intangible assets include mainly the following:

1. Computer software licenses, which are recorded at cost and amortized on a straight-line basis over their useful lives, generally estimated at three years.

2. Intellectual property, which is recorded at the amounts paid to acquire ownership of or rights to use patents and trademarks and amortized on a straight-line basis over the useful life of the patent or trademark for a period of 3 to 10 years.

3. The goodwill arising from the merger of Telefónica, S.A. and Terra Networks, S.A. carried out in 2005. This is included under Other intangible assets at the carrying amount at January 1, 2008 of 33 million euros, calculated in accordance with the former accounting principles, less any accumulated impairment losses. Goodwill is not amortized, but is tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable (see Note 4.c).

b) Property, plant and equipment and investment property

Property, plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment in value. Land is not depreciated.

Cost includes external costs plus any internal costs comprising warehouse materials used, direct labor costs incurred in installation work and the allocable portion of the indirect costs required for the related investment. Cost includes, where appropriate, the initial estimate of decommissioning, retirement and site reconditioning costs when the Company is under obligation to incur such costs due to the use of the asset.

Costs incurred for expansion, remodeling or improvements which increase the productivity, capacity, or prolong the useful life of the asset are capitalized when the capitalization requirements are met.

Interest and other borrowing costs incurred and directly attributable to the acquisition or construction of assets that require preparation of more than one year for their intended use or sale are capitalized.

Upkeep and maintenance expenses are expensed as incurred.

The Company assesses the need to write down, if appropriate, the carrying amount of each item of property, plant and equipment to its recoverable amount whenever there are indications that the assets carrying amount exceeds the higher of its fair value less costs to sell or its value in use. The impairment provision is not maintained if the factors giving rise to the impairment disappear (see Note 4.c).

The Company depreciates its property, plant and equipment once the assets are in full working conditions using the straight-line method based on the assets estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

Estimated useful life	Years
Buildings	40
Plant and machinery	3 25
Other plant or equipment, furniture and fixtures	10
Other items of property, plant and equipment	4 10

Assets estimated residual values and methods and depreciation periods are reviewed, and adjusted if appropriate, prospectively at each financial year end.

Investment property is measured using the same criteria described for land and buildings for own use. Buildings included in investment property are depreciated on a straight-line basis over a period of up to 40 years.

c) Impairment of non-current assets

Non-current assets are assessed at each reporting date for indications of impairment. Where such indications exist, or in the case of assets which are subject to an annual impairment test, the Company estimates the asset s recoverable amount as the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows deriving from the use of the asset or its cash generating unit, as applicable, are discounted to their present value in the currency in which they will be generated, using a discount rate appropriate to that currency and reflecting current market assessments of the time value of money and the risks specific to the asset. The Company translates that present value into its accounting currency at the exchange rate prevailing at the close of the day of calculation of value in use. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired. In this case, the carrying amount is written down to recoverable amount and the resulting loss is taken to the income statement. Future depreciation or amortization charges are adjusted for the asset s new carrying amount over its remaining useful life. The Company assesses each asset individually for impairment, unless the asset does not generate cash inflows that are largely independent of those from other assets (or cash-generating units).

The Company bases the calculation of impairment on the business plans of the various cash-generating units to which the assets are allocated. These business plans generally cover a period of five years. For periods beyond the strategic plan, an expected constant or decreasing growth rate is applied to the projections based on these plans from the fifth year.

When there are new events or changes in circumstances that indicate that a previously recognized impairment loss no longer exists or has been decreased, a new estimate of the asset s recoverable amount is made. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset s recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal is limited to the net carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement and the depreciation charge is adjusted in future periods to the asset s revised carrying amount.

d) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the agreement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset and the agreement conveys a right to the Company to use the asset.

Leases where the lessor does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased item to the Company. These are classified at the inception of the lease, in accordance with its nature and the associated liability, at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the

finance costs and reduction of the principal of lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are taken to the income statement over the lease term.

e) Financial assets and liabilities

Financial investments

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Company commits to purchase or sell the asset. The Company classifies its financial assets into the following categories for initial recognition purposes: financial assets held for trading, other financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, investments in Group companies, joint ventures and associates, and available-for-sale financial assets. When appropriate, the Company re-evaluates the designation at each financial year end.

Financial assets held for trading, i.e., investments made with the aim of realizing short-term profits as a result of price changes, are included in Financial assets held for trading and presented under current or non-current assets depending on their maturity. Derivatives are classified as held for trading unless they are designated as effective hedging instruments.

Investments in group companies, joint ventures and associates are classified into a category of the same name and are shown at cost less any impairment loss (see Note 4.c). Group companies are those over which the Company exercises control, either by exercising effective control or by virtue of agreements with the other shareholders. Joint ventures are companies which are jointly controlled with third parties. Associates are companies in which there is significant influence, but not control or joint control with third parties. Telefónica assesses the existence of significant influence not only in terms of percentage ownership but also in qualitative terms such as presence on the board of directors, involvement in decision-making, the exchange of management personnel, and access to technical information.

Financial investments which the Company intends to hold for an unspecified period of time and could be sold at any time to meet specific liquidity requirements or in response to interest rate movements and which have not been included in the preceding categories are classified as available-for-sale. These investments are recorded under Non-current assets, unless it is probable and feasible that they will be sold within 12 months. Financial assets in this category are measured at fair value. Gains or losses arising from changes in fair value are recognized in equity until the asset is derecognized or impaired, at which time the cumulative gain or loss previously reported in equity is taken to the income statement. Dividends from available-for-sale equity investments are recognized in the income statement once the Company has the right to receive the dividend. In addition, interests, calculated using the effective interest rate model, are recognized in the income statement. Fair value is determined in accordance with the following criteria:

1. Listed securities on active markets: Fair value is considered to be the quoted market price at the closing date.

2. Unlisted securities: Fair value is determined using valuation techniques such as discounted cash flow analysis, option valuation models, or by reference to arm s length market transactions. Exceptionally, with equity instruments, when fair value cannot be reliably determined, the investments are carried at cost.

Loans and receivables includes trade or non-trade financial assets, that are neither derivatives nor equity instruments, with fixed or determinable payments and that are not quoted in an active market and not included in any of the preceding classifications. Upon initial recognition, these assets are recognized at fair value which, unless there is evidence to the contrary, is the transaction price, which is equivalent to the fair value of the consideration paid plus directly attributable transaction costs. Following initial recognition, these financial assets are measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the loans and receivables are settled or impaired, as well as through the amortization process. Trade receivables are recognized at the original invoice amount. A valuation adjustment is recorded when there is objective evidence of customer collection risk. The amount of the valuation adjustment is calculated as the difference between the carrying amount of the doubtful trade receivables and their recoverable amount. As a general rule, current trade receivables are not discounted, unless the effect of such discount is material.

The Group assesses at each reporting date whether a financial asset is impaired. If there is objective evidence that an impairment loss on a financial asset carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset s carrying amount and its recoverable value, calculated as the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset s original effective interest rate. If in a subsequent period the impairment loss decreases as a result of a subsequent event, the loss is reversed, with the asset s amortized cost had no impairment loss been recognized as the upper limit.

Such a reversal is recognized in the income statement of that year.

For instruments recognized as available-for-sale financial assets, the Company assesses individually for each security whether there is any objective evidence that an asset is impaired as a result of one or more events indicating that the carrying amount of the security will not be recovered. If there is objective evidence that an available-for-sale financial instrument is impaired, the cumulative loss recognized in equity measured as the difference between the acquisition cost (net of any principal payments and amortization made) and the current fair value, less any impairment loss on that investment previously recognized in the income statement, is removed from equity and recognized in the income statement. If in a subsequent period the fair value of the financial asset increases because of a subsequent event, the impairment loss is reversed through the income statement if the asset is a debt instrument. For equity instruments, the loss is not reversed in the income statement for the period, but rather in equity, as the instrument is measured at its new fair value, with any changes taken to equity.

Recoverable amount for estimating impairment of investments in group companies, joint ventures and associates is the higher of the investment s fair value less costs to sell and the present value of the future cash flows derived from the investment. These cash flows can be calculated by estimating the cash flows to be received from dividends or from the disposal or derecognition of the investment, or the Company s share of the cash flows expected to be generated by the investment (from operations, or the investment s disposal or derecognition).

Financial assets are only fully or partially derecognized when:

1. The rights to receive cash flows from the asset have expired.

2. The Company has transferred its rights to receive cash flows from the asset to a third party and transferred substantially all the risks and rewards of the asset.

Cash and cash equivalents

Cash and cash equivalents included on the balance sheet include cash on hand and at banks, demand deposits and other highly liquid investments with an original maturity of three months and limited risk of changes in their value. These items are stated at historical cost, which does not differ significantly from realizable value.

For the purpose of the cash flow statement, cash and cash equivalents are shown net of any outstanding bank overdrafts.

Issues and interest-bearing debt

These debts are recognized initially at the fair value which, unless there is evidence to the contrary, is the transaction price less directly attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method. Any difference between the cash received (net of transaction costs) and the repayment value is recognized in the income statement over the life of the debt. Interest-bearing debt is considered non-current when its maturity is over 12 months or the Company has full discretion to defer settlement for at least another 12 months from the reporting date.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced with another on substantially different terms, such an exchange is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in their respective carrying amounts is taken to the income statement.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially recognized at fair value, normally equivalent to cost. Their carrying amounts are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. They are classified as current or non-current depending on whether they fall due within less than or after one year, respectively. Derivatives that meet all the criteria for consideration as long-term hedging instruments are recorded as non-current assets when fair value is positive and non-current liabilities when fair value is negative.

The accounting treatment of any gain or loss resulting from changes in the fair value of a derivative depends on whether the derivative in question meets all the criteria for hedge accounting and, if appropriate, on the nature of the hedge.

The Company designates certain derivatives as:

1. Fair value hedges, when hedging the exposure to changes in the fair value of a recognized asset or liability or a firm transaction;

2. Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction; or

3. Hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment may be accounted for as a fair value or a cash flow hedge.

Changes in fair value of derivatives that qualify as fair value hedges are recognized in the income statement, together with changes in the fair value of the hedged item attributable to the risk hedged.

Changes in the fair value of derivatives that qualify and have been assigned to hedge cash flows, which are highly effective, are recognized in net equity. The portion considered ineffective is taken directly to the income statement. Fair value changes from hedges that relate to firm commitments or forecast transactions that result in the recognition of non-financial assets or liabilities are included in the initial measurement of those assets or liabilities. Otherwise, changes in fair value previously recognized in equity are recognized in the income statement in the period in which the hedged transaction affects profit or loss.

An instrument designed to hedge foreign currency exposure on a net investment in a foreign operation is accounted for in a way similar to foreign currency fair value hedges. For these purposes, the net investment in the foreign operation comprises not only the share in the equity of the foreign investment, but also the monetary item receivable or payable, the settlement of which is not expected or likely to take place in the foreseeable future, excluding trade items.

The application of the Company s corporate risk-management policies could result in financial risk-hedging transactions that make economic sense, yet do not comply with the criteria and effectiveness tests required by accounting policies to be treated as hedges. Alternatively, the Company may opt not to apply hedge accounting criteria in certain instances. In these cases, gains or losses resulting from changes in the fair value of derivatives are taken directly to the income statement.

From inception, the Company formally documents the hedge relationship between the derivative and the hedged item, as well as the associated risk management objectives and strategies. The documentation includes identification of the hedge instrument, the hedged item or transaction and the nature of the risk being hedged. In addition, it states how it will assess the hedging instrument s effectiveness in offsetting the exposure to changes in the hedged item s fair value or cash flows attributable to the hedged risk. Hedge effectiveness is assessed, prospectively and retrospectively, both at the inception of the hedge relationship and on a systematic basis throughout the life of the hedge.

Hedge accounting is discontinued whenever the hedging instrument expires or is sold, terminated or settled, the hedge no longer meets the criteria for hedge accounting or the Company revokes the designation. In these instances, gains or losses accumulated in equity are not taken to the income statement until the forecast transaction or commitment affects profit or loss. However, if the hedged transaction is no longer expected to occur, the cumulative gains or losses recognized directly in equity are taken immediately to the income statement.

The fair value of the unquoted derivatives portfolio includes estimates based on calculations using observable market data, as well as specific pricing and risk-management tools commonly used by financial entities.

f) Treasury shares

Treasury shares are stated at cost and deducted from equity. Any gain or loss obtained on the purchase, sale, issue or cancellation of treasury shares is recognized directly in equity.

Call options on treasury shares to be settled through the physical delivery of a fixed number of shares at a fixed price are considered treasury share instruments. They are valued at the amount of premium paid and are presented as a reduction in equity. If the call options are exercised upon maturity, the amount previously recognized is reclassified as treasury shares together with the price paid. If the call options are not exercised, their value is recognized directly in equity.

g) Foreign currency transactions

Monetary and non-monetary items denominated in foreign currencies are translated to euros at the exchange rates prevailing on the related transaction date, and are retranslated at year end to the exchange rates then prevailing.

All realized or unrealized exchange gains or losses are taken to the income statement for the year, with the exception of non-monetary items measured at fair value, provided that they are recognized directly in equity (such as investments in equity instruments classified as available-for-sale financial assets). In these cases, any exchange differences included in gains or losses recognized in equity derived from changes in the value of the non-monetary items measured at fair value are also recognized directly in equity.

h) Provisions

Pensions and other employee obligations

The Company has a defined-contribution pension plan for employees. The obligations are limited to the regular payment of the contributions, which are taken to the income statement as incurred.

Other provisions

Provisions are recognized when the Company has a present obligation (legal or constructive), as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted, and the corresponding increase in the provision due to the passage of time is recognized as a finance cost.

i) Share-based payments

For equity-settled share option plans, fair value at the grant date is measured by applying statistical techniques or using benchmark securities. The cost is recognized, together with a corresponding increase in equity, over the vesting period. At each subsequent reporting date, the Company reviews its estimate of the number of options it expects to vest, with a corresponding adjustment to equity.

j) Income tax

The income tax expense of each year includes both current and deferred taxes, where applicable.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax is provided using the balance sheet liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts.

The main temporary differences arise due to discrepancies between the tax bases and accounting amounts of investments in Group companies and associates.

Furthermore, deferred taxes arise from the carryforward of unused tax credits and unused tax losses.

The Company determines deferred tax assets and liabilities by applying the tax rates that will be effective when the corresponding asset is received or the liability settled, based on tax rates and tax laws that are enacted (or substantively enacted) at the reporting date.

Deferred income tax assets and liabilities are not discounted to present value and are classified as non-current, irrespective of the date of their reversal.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax relating to items directly recognized in equity is recognized in equity.

k) Revenue and expenses

Revenue and expenses are recognized on the income statement based on an accruals basis; i.e. when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

The income obtained by the Company in dividends received from Group companies and associates, and from the interest accrued on loans and credits given to them, are included in revenue in compliance with the provisions of consultation No. 2 of BOICAC 79, published on September 30, 2009.

l) Related party transactions

Related party transactions are accounted for in accordance with the criteria described above.

In mergers and spin-offs involving the parent company and its direct or indirect subsidiary, in cases of non-monetary contributions between Group companies, and in cases of dividends in kind, the contributed assets are valued, in general, at their pre-transaction carrying amount in the individual financial statements, given that the Telefónica Group does not prepare its consolidated financial statements in accordance with the Standards on Preparing Consolidated Financial Statements (Spanish NOFCAC).

In these same operations, companies may also opt to use the consolidated values under International Financial Reporting Standards (IFRS) as adopted by the European Union, providing that the consolidated figures do not differ from those obtained under the SPCFS. Lastly, the Company may also opt to use the values resulting from a reconciliation to the SPCFS. Any accounting difference is taken to reserves.

The effective date of mergers and spin-offs for accounting purposes is taken as the first day of the year in which the merger or spin-off was approved, to the extent that it falls after the companies were incorporated into the group. If one of the companies joins the group in the year of the merger or spin-off, the acquisition date is used for accounting purposes.

m) Financial guarantees

The Company has provided guarantees to a number of subsidiaries to secure their transactions with third parties (see Note 20.a). Where financial guarantees provided have a counterguarantee on the Company s balance sheet, the value of the counterguarantee is estimated to be equal to the guarantee given, with no additional liability recognized as a result.

Guarantees provided for which there is no item on the Company s balance sheet acting as a counterguarantee are initially measured at fair value which, unless there is evidence to the contrary, is the same as the premium received plus the present value of any premiums receivable. After initial recognition, these are subsequently measured at the higher of:

i) The amount resulting from the application of the rules for measuring provisions and contingencies.

ii) The amount initially recognized less, when applicable, any amounts take to the income statement corresponding to accrued income.

o) Consolidated data

As required under prevailing legislation, the Company has prepared separate consolidated annual financial statements, drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The balances of the main headings of the Telefónica Group s consolidated financial statements for 2012 and 2011 are as follows:

Millions of euros	2012	2011

Item		
Total assets	129,773	129,623
Equity:		
Attributable to equity holders of the parent	20,461	21,636
Attributable to minority interests	7,200	5,747
Revenue from operations	62,356	62,837
Profit for the year:		
Attributable to equity holders of the parent	3,928	5,403
Attributable to minority interests	475	784

Note 5. Intangible assets

The movements in the items composing intangible assets and the related accumulated amortization in 2012 and 2011 are as follows:

2012 Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	**320**	**15**	**(7)**	**3**	**331**
Patents, licenses, trademarks, and others	29	1	(5)	1	26
Software	173	11	(2)	2	184
Other intangible assets	118	3			121
ACCUMULATED AMORTIZATION	**(252)**	**(17)**	**2**		**(267)**
Patents, licenses, trademarks, and others	(20)	(2)	1		(21)
Software	(162)	(8)	1		(169)
Other intangible assets	(70)	(7)			(77)
Net carrying amount	**68**	**(2)**	**(5)**	**3**	**64**

2011 Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	**311**	**5**	**(11)**	**15**	**320**
Patents, licenses, trademarks, and others	22	2		5	29
Software	176	3	(11)	5	173
Other intangible assets	113			5	118
ACCUMULATED AMORTIZATION	**(240)**	**(22)**	**10**		**(252)**
Patents, licenses, trademarks, and others	(18)	(2)			(20)
Software	(162)	(10)	10		(162)
Other intangible assets	(60)	(10)			(70)
Net carrying amount	**71**	**(17)**	**(1)**	**15**	**68**

As of April 1st, 2012 Telefónica, S.A. transferred its digital business unit to Telefónica Digital España, S.L. Due to this operation the Company has registered disposals of software shown in the chart above.

Disposals in 2011 were related to sales of software, at carrying amount, to other Telefónica Group companies.

At December 31, 2012 and 2011 commitments exist to acquire intangible assets amounting to 1 million euros in both years. Future finance lease commitments are also disclosed in Note 19.5.

At December 31, 2012 and 2011, the Company had 223 million euros and 190 million euros, respectively, of fully amortized intangible assets.

Note 6. Property, plant and equipment

The movements in the items composing property, plant and equipment and the related accumulated depreciation in 2012 and 2011 are as follows:

2012					
Millions of euros	**Opening balance**	**Additions and allowances**	**Disposals**	**Transfers**	**Closing balance**
PROPERTY, PLANT AND EQUIPMENT, GROSS	**594**	**7**	**(4)**	**(5)**	**592**
Land and buildings	228			(1)	227
Plant and other PP&E items	323	3	(2)	1	325
Property, plant and equipment under construction and prepayments	43	4	(2)	(5)	40
ACCUMULATED DEPRECIATION	**(256)**	**(37)**	**2**	**2**	**(289)**
Buildings	(74)	(5)			(79)
Plant and other PP&E items	(182)	(32)	2	2	(210)
Net carrying amount	**338**	**(30)**	**(2)**	**(3)**	**303**

2011					
Millions of euros	**Opening balance**	**Additions and allowances**	**Disposals**	**Transfers**	**Closing balance**
PROPERTY, PLANT AND EQUIPMENT, GROSS	**598**	**12**	**(1)**	**(15)**	**594**
Land and buildings	219	1		8	228
Plant and other PP&E items	305	9	(1)	10	323
Property, plant and equipment under construction and prepayments	74	2		(33)	43
ACCUMULATED DEPRECIATION	**(217)**	**(40)**	**1**		**(256)**
Buildings	(69)	(5)			(74)
Plant and other PP&E items	(148)	(35)	1		(182)
Net carrying amount	**381**	**(28)**		**(15)**	**338**

Firm commitments to acquire property, plant and equipment at December 31, 2012 and 2011 amounted to 1 million euros and 0.4 million euros, respectively.

In 2012 and 2011, no interest or other borrowing costs incurred in the construction of property, plant and equipment were capitalized.

At December 31, 2012 and 2011, the Company had 42 million euros and 36 million euros, respectively, of fully depreciated items of property, plant and equipment.

Telefónica, S.A. has taken out insurance policies with appropriate limits to cover the potential risks which could affect its property, plant and equipment.

Property, plant and equipment includes the net carrying amount of the land and buildings occupied by Telefónica, S.A. at its Distrito Telefónica headquarters, amounting to 78 million euros and 79 million euros at the 2012 and 2011 year-ends, respectively. Also included is the net carrying amount of the remaining assets (mainly plant and property) of 88 and 114 million euros at December 31, 2012 and 2011, respectively. The land and buildings rented to other Group Companies have been included as Investment properties in Note 7.

Note 7. Investment properties

The movements in the items composing investment properties in 2012 and 2011 and the related accumulated depreciation are as follows:

	2012				
Millions of euros	**Opening balance**	**Additions and allowances**	**Disposals**	**Transfers**	**Closing balance**
INVESTMENT PROPERTIES, GROSS	**474**		**(4)**		**470**
Land	65				65
Buildings	409		(4)		405
ACCUMULATED DEPRECIATION	**(51)**	**(9)**			**(60)**
Buildings	(51)	(9)			(60)
Net carrying amount	**423**	**(9)**	**(4)**		**410**

	2011				
Millions of euros	**Opening balance**	**Additions and allowances**	**Disposals**	**Transfers**	**Closing balance**
INVESTMENT PROPERTIES, GROSS	**386**	**88**			**474**
Land	65				65
Buildings	321	88			409
ACCUMULATED DEPRECIATION	**(41)**	**(10)**			**(51)**
Buildings	(41)	(10)			(51)
Net carrying amount	**345**	**78**			**423**

In January 2011, the Telefónica Group completed the move to Diagonal 00 building, its new corporate headquarters in Barcelona. The building has been accounted for as an asset acquired under a finance lease. It is accordingly shown under Additions in the table of 2011 at the present value of the rental payments, 88 million euros. 100% of this space is rented to Telefónica Group companies under 15-year non-cancellable lease contracts that can be renewed for up to 50 years at the discretion of Telefónica. In 2012 the present value of the rentals has been reestimated and the value has been impaired in 4 million euros shown as Disposals in the table above. The maturity calendar of the future minimum payments is as follows:

Millions of euros	**Future minimum payments**
Up to one year	5
Between one and five years	21
Over 5 years	49
Total	**75**

In addition to the Diagonal 00 building mentioned above, Investment properties mainly includes the value of land and buildings leased by Telefónica, S.A. to other Group companies at the Distrito Telefónica head offices in Madrid.

The Company has buildings with a total area of 332,291 square meters leased to several Telefónica Group and other companies, equivalent to an occupancy rate of 93.45% of the buildings it has earmarked for lease. In 2011, it had a total of 367,167 square meters leased, equivalent to an occupancy rate of 93.3% of the buildings earmarked for lease.

Total income from leased buildings in 2012 (see Note 19.1) amounted to 50 million euros (52 million euros in 2011). Future minimum rentals receivable under non-cancellable leases are as follows:

Millions of euros	2012 Future minimum recoveries	2011 Future minimum recoveries
Up to one year	51	51
Between one and five years	134	121
Over 5 years		5
Total	**185**	**177**

All lease contracts held with subsidiaries occupying Distrito Telefónica premises expired in 2010. These contracts were renewed in 2011, for a non-cancellable period of three years. The figures for 2011 also reflect non-cancellable lease revenue from Diagonal 00, the contracts for which expire in 2016.

The main contracts in which Telefónica, S.A. acts as lessee are described in Note 19.5.

Note 8. Investments in group companies and associates

8.1. The movements in the items composing investments in Group companies, joint ventures and associates in 2012 and 2011 are as follows:

	2012								
Millions of euros	**Opening balance**	**Additions**	**Disposals**	**Transfers**	**Exchange losses**	**Dividends**	**Hedges of a net investment**	**Closing balance**	**Fair value**
Non-current:									
Equity instruments (Net) (1)	77,396	(2,439)	(7,311)	27		(30)	127	67,770	128,574
Equity instruments (Cost)	86,956	2,873	(7,421)	27		(30)	127	82,532	
Impairment losses	(9,560)	(5,312)	110					(14,762)	
Loans to Group companies and associates	1,618	786	(9)	1,593				3,988	4,051
Other financial assets	22	21		(22)				21	21
Total non-current investment in Group companies and associates	**79,036**	**(1,632)**	**(7,320)**	**1,598**		**(30)**	**127**	**71,779**	**132,646**
Current									
Loans to Group companies and associates	3,390	3,249	(1,479)	(1,620)	68			3,608	3,624
Derivates	57	4	(59)					2	2
Other financial assets	31	10	(37)	22				26	26
Total current investments in Group companies and associates	**3,478**	**3,263**	**(1,575)**	**(1,598)**	**68**			**3,636**	**3,652**

(1) Fair value at December 31, 2012 of Group companies and associates quoted in an active market (Telefónica Brasil, S.A. and Telefónica Czech Republic, a.s.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities business plans.

	2011								
Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange losses	Dividends	Hedges of a net investment	Closing balance	Fair value
Non-current:									
Equity instruments (Net) (1)	78,870	(1,148)	(404)	123		(113)	68	77,396	139,678
Equity instruments (Cost)	86,824	458	(404)	123		(113)	68	86,956	
Impairment losses	(7,954)	(1,606)						(9,560)	
Loans to Group companies and associates	2,832	149	(31)	(1,322)	(10)			1,618	1,681
Other financial assets	24	25		(27)				22	22
Total non-current investment in Group companies and associates	**81,726**	**(974)**	**(435)**	**(1,226)**	**(10)**	**(113)**	**68**	**79,036**	**141,381**
Current									
Loans to Group companies and associates	3,295	750	(1,856)	1,322	(121)			3,390	3,467
Derivates	12	57	(12)					57	57
Other financial assets	28	9	(33)	27				31	31
Total current investments in Group companies and associates	**3,335**	**816**	**(1,901)**	**1,349**	**(121)**			**3,478**	**3,555**

(1) Fair value at December 31, 2011 of Group companies and associates quoted in an active market (Telefónica de Peru, S.A.A. Telefónica Brasil, S.A. and Telefónica Czech Republic, a.s.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities business plans.

2012

In April, 2012, Telefónica Móviles Colombia, S.A. (a company fully owned by the Telefónica Group), the Colombian government (hereinafter the Government) and Colombia Telecomunicaciones, S.A. ESP (a company 52% owned by Telefónica Group and 48% by the Government) reached a final agreement to restructure their wireline and wireless businesses in Colombia. The agreement led to the merger between Colombia Telecomunicaciones, S.A. ESP and Telefónica Móviles Colombia, S.A., resulting in Telefónica holding 70% of the share capital of the resulting company and the Government the remaining 30%, based on the valuations of the companies used to determine said shareholdings. Telefónica, S.A. held a direct shareholding of 49.42% in Telefónica Móviles Colombia, S.A., holding 18.51% of the merged company after the merger. This transaction did not alter the cost of the investment held by the Company.

Telefónica started to reorganize its business in Latin America during 2012. As part of this process, on October 10, 2012 and November 7, 2012 two new companies, Telefónica América, S.A. and Telefónica Latinoamérica Holding, S.L., were incorporated, both of which are jointly controlled by Telefónica, S.A. and Telefónica Internacional, S.A.U. On December 13, 2012, Telefónica Latinoamérica Holding, S.L. performed two consecutive capital increases. In the first, Telefónica, S.A. contributed its shareholding in Latin American Cellular Holdings, B.V. at its carrying amount of 1,749 million euros. In the second, Telefónica Internacional, S.A.U. contributed 100 million euros in cash. Telefónica, S.A. a held 94.59% in this company subsequent to the capital increase. This shareholding contribution is not shown in the table of movements attached. In addition, on December 18, 2012, Telefónica, S.A. sold its non-controlling interest in Telefónica de Perú,S.A.A. to Telefónica Latinoamérica Holding, S.L. for 4 million euros. The share transfer was performed at the price quoted on the Peruvian stock market of 2.3 PEN per share, and gave rise to gains of 1 million euros, recognized under the income statement caption Gains (losses) on disposal and other gains and losses . This transaction is recognized under Others in the Disposals of investments table in section b) of this Note.

Telefónica has also commenced the reorganization of its subsidiaries in Chile. During the first quarter of 2012, Inversiones Telefónica Móviles Holding, Ltd. distributed a dividend in kind comprising the shareholding in Inversiones Telefónica Fija, S.A. at its net carrying amount totaling 67 million euros. This contribution is reflected as an addition in the table of movements for 2012. Meanwhile, on November 19, 2012, Telefónica Chile Holdings, B.V. was incorporated with share capital of 1 euro. On December 10, 2012, it increased its share capital, which was subscribed by the Company in exchange for the Company s shareholding in Inversiones Telefónica Fija, S.A. Finally, on December 24, 2012, Telefónica Chile Holdings, B.V. increased its share capital, subscribed in full by Telefónica, S.A. for 405 million euros, paid in cash. This capital increase involving a shareholding contribution is not shown in the table of movements attached, whereas that involving the cash payment is shown under Additions.

Transfers in 2012 include the capitalization of the participative loan awarded to Telefónica Digital España, S.L. and amounting to 27 million euros.

Movement in Transfers under Loans to Group companies and associates primarily relates to the reclassification from non-current to current, in accordance with the loan maturity schedule.

The column headed Dividends sets out the amounts of dividends paid out by Group companies and associates in respect of earnings generated prior to the effective date of the corresponding shareholding. Dividends comprise those distributed by Telefónica Czech Republic, a.s. totalling 30 million euros in 2012, and mainly by Sao Paulo Telecommunicaçoes (107 million euros) in 2011.

The impact in 2012 of hedges of net investments in foreign operations amounted to a gain of 127 million euros (68 million euros in 2011).

2011

On March 25, 2011 the Boards of Directors of each of the subsidiaries controlled by Telefónica, Vivo Participações and 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. The restructuring process was approved by the shareholders of Vivo Participações at the Extraordinary General Shareholders Meeting held on April 27, 2011 and by the shareholders of Telesp at the Extraordinary General Shareholders´ Meeting held on the same date following authorization by the Brazilian telecommunications regulator, Anatel.

At that date, Telefónica, S.A. held a direct stake of approximately 60% in Vivo Participaçoes, Ltda., valued at 13,021 million euros, subsequent to the liquidation by absorption of Portelcom Participaçoes, S.A., PTelecom Brasil, S.A. and Telefónica Brasil Sul Celular Participaçoes, Ltda.

The restructuring process was approved by the shareholders of Vivo Participações at the Extraordinary General Shareholders Meeting held on April 27, 2011 and by the shareholders of Telesp at the Extraordinary General Shareholders Meeting held on the same date.

Following the share exchange, a partial contribution was made to Sao Paulo Telecommunicaçoes (SPT), leaving the direct stake in Telesp at 24.68%. As all the aforementioned transactions were performed at the carrying amounts, they are not reflected in the table of movements for 2011.

On June 14, 2011, the Boards of Directors of Vivo Participações and Telesp approved a restructuring plan whose objective was 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).

This deal was submitted for consideration by the Brazilian telecommunications regulator and finally approved at the General Shareholders Meetings of both companies on October 3, 2011. The company arising from the merger changed its name to Telefónica Brasil, S.A.

In 2011, Transfers primarily reflected capitalization on June 15, 2011 and September 12, 2011 of accrued interest receivable on loans granted to Telefónica Móviles México, S.A. de C.V., amounting to 32 million euros (541 million Mexican pesos) and 30 million euros (524 million Mexican pesos), respectively.

In January and October 2011, rights to collection from Telcel, C.A. were contributed to Latin American Cellular Holding, S.A., so that the latter could offset them against the loan it had received from the former. These contributions amounted to 61 million euros, as reflected under Transfers.

In 2012 and 2011, Telefónica, S.A. bought and sold the following shareholdings:

a) Acquisitions of investments and capital increases:

Millions of euros **Companies**	**2012**	**2011**
Telfin Ireland, Ltd.	1,081	
Telfisa Global, B.V.	703	
Telefónica Chile Holdings, B.V.	405	
Telco, S.p.A.	277	
Casiopea Re, S.A.		80
Telefónica Global Technology, S.A.U.	35	38
Telefónica Móviles México, S.A. de C.V.	97	176
Telefónica de Costa Rica, S.A.	74	127
Inversiones Telefónica Fija, S.A.	67	
Telefónica Capital, S.A.U.	76	
Telefónica Digital Holding, S.A.U.	47	
Other companies	11	37
Total	**2,873**	**458**

2012

On September 11 and 13, 2012, the Company completed two capital increases in Telfin Ireland, Ltd. totalling 1,005 million euros. In September 2012, the share capital of Telfisa Global, B.V. was increased by 703 million euros. The aforementioned transactions were performed as part of the Group s reorganization of various subsidiaries in Europe, prior to the initial public offering (IPO) of Telefónica Germany, GmbH.

On November 22, 2012, Telfin Ireland, Ltd increased its capital again by 76 million euros, subscribed by the Company. These funds were then transferred to Telefónica O2 Holding, Ltd. as a loan to enable this subsidiary to meet its general financing requirements.

The amount for Telefónica Chile Holdings, B.V. relates to the capital increase carried out on December 24, 2012 subscribed in full by Telefónica, S.A. as explained in the previous chapter.

On May 31, 2012 the Board of Directors of Telefónica, S.A. ratified the refinancing proposal that Telco, S.p.A. had submitted for approval by its partners. This refinancing involved increasing share capital by 277 million euros and subscribing a bond of 208 million euros, as well as renewing the existing bond of 600 million euros (see Note 8.5).

In April 2012, Telefónica, S.A. subscribed various share capital increases in Telefónica Móviles México, S.A. de C.V. totalling 1,668 million Mexican pesos (97 million euros) in order to provide the subsidiary with the funds needed to pay for the spectrum licenses acquired in 2011.

2011

On June 27, 2011, Telefónica, S.A. performed a capital increase of 1,285 million Mexican pesos (76 million euros) at its subsidiary Telefónica Móviles México, S.A. de C.V. In October 2011, several more capital increases were carried out, totalling 1,832 million Mexican pesos (100 million euros).

In late 2010, the Telefónica Group was awarded a mobile telephone license in Costa Rica. Until that date, the Group had no operations in that country. To operate under this license, on February 14, 2011 Telefónica, S.A. incorporated the company Azules y Platas, S.A., with 2 million US dollars. The Company made an additional contribution to equity of 6 million euros on February 15, 2011, as well as a capital increase of 170 million US dollars on June 26, 2011. The euros value of the three aforementioned capital increases is 127 million euros. On September 22,

2011 the change of name of this company, to Telefónica de Costa Rica, S.A., was formally entered in the pertinent mercantile registry.

On September 26, 2011, Telefónica, S.A. injected a further 80 million euros of equity into Casiopea Re, S.A.

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On October 31, 2011, Telefónica, S.A. injected a further 38 million euros of equity in its subsidiary Telefónica Global Technology, S.A.U.

b) Disposals of investments and capital decreases:

Millions of euros Companies	2012	2011
Subsidiaries:		
Telefónica O2 Europe, Ltd.	5,729	
Telefónica de España, S.A.U.	731	
Inversiones Telefónica Móviles Holding, S.A. (Chile)	652	
Telefónica Czech Republic, a.s.	114	
Telefónica Móviles Puerto Rico, Inc.	110	
Telefónica Móviles Argentina Holding, S.A.		285
Atento Inversiones y Teleservicios, S.A.		116
Other companies	85	3
Total Subsidiaries:	**7,421**	**404**

2012

On December 5, Telefónica O2 Europe, Ltd resolved to pay back contributions totaling 5,729 million to its parent. This consideration was collected in December 2012.

On March 27, 2012, it was resolved at the Ordinary General Shareholders Meeting of Telefónica de España, S.A.U. to distribute dividends of 221 million euros and repay contributions of 731 million euros. The dividends are recognized as revenues in the income statement (see Note 19.1.) and the repayment of contributions is recognized under Disposals in the accompanying table of movements. These considerations were collected in 2012.

On November 12, 2012, it was resolved at the Extraordinary Shareholders Meeting of Inversiones Telefónica Móviles Holding, S.A. to reduce share capital by repaying contributions totaling 652 million euros. This consideration was collected in December 2012.

On May 25, 2012, it was resolved at the Ordinary General Shareholders Meeting of Telefónica Czech Republic, a.s. to reduce share capital by 4,187 million Czech crowns. Once the transaction had been approved by the state authorities, it was recognized by Telefónica, S.A. in November 2012, having an impact of 114 million euros, which was repaid by the subsidiary in December 2012.

On July 18, 2012, the State Department of Puerto Rico ratified the winding up of Telefónica Móviles Puerto Rico, Inc. The investment amounted to 110 million euros and was provisioned for in full at the time of its liquidation; therefore this event has not had an impact in the income statement.

2011

In January 2011, Telefónica, S.A. sold a 25% stake in Telefónica Móviles Argentina Holding, S.A. to Telefónica Internacional, S.A.U., at market value as determined in an independent expert report. This sale generated gains of 511 million euros, recognized under Gains (losses) on disposal and other gains and losses in the accompanying income statement (see Note 19.9).

On March 31, 2011, Atento Inversiones y Teleservicios, S.A. resolved to pay out 150 million euros to its sole shareholder, Telefónica, S.A. 116 million euros of that amount related to a reduction in the share premium, recognized as a return of contributions and thus stated as a disposal in the table of movements for the year. The remainder, 34 million euros, was recognized in the income statement as income from dividends.

8.2. Assessment of impairment of investments in group companies, joint ventures and associates

At each year end, the Company re-estimates the future cash flows derived from its investments in Group companies and associates. The estimate is made based on the discounted cash flows to be received from each subsidiary in its functional currency, net of the liabilities associated with each investment (mainly net borrowings and provisions) and translated to euros at the official closing rate of each currency at December 31, 2012 and 2011.

As a result of these estimations and the effect of the net investment hedge in 2012, an impairment provision of 5,312 million euros was recognized. This amount derives mainly from the following companies: (a) the write-down recognized by Telefónica Europe, plc. (3,682 million euros), less 82 million euros for the effect of the net investment hedge and (b)the write-down of 1,305 million euros made in Telco, S.p.A. to reflect the decrease in value of the stake in Telecom Italia, along with the effect of recovering part of the operational synergies during the year. The write-down of Telefónica Europe, plc. is a consecuence of the net impact of fluctuations in the sterling exchange rate and changes in the present value of expectations regarding the business of the subsidiary, which operates in several European markets.

In 2011, a write-down of 1,606 million euros was recognized, corresponding to the following opposing effects: (a) the reversal of the impairment loss recorded for Telefónica Europe, plc. (1,279 million euros), less 120 million euros for the effect of the net investment hedge; (b) the write-down of 2,085 million euros in Telefónica Móviles México, S.A. de C.V.; (c) the write-down of 629 million euros made in Telco, S.p.A. to reflect the decrease in value of the stake in Telecom Italia, along with the effect of recovering part of the operational synergies.

8.3. The detail of subsidiaries and associates is shown in Appendix I.

8.4. Transactions protected for tax purposes

Transactions carried out in 2012 that are considered protected for tax purposes, as defined in Articles 83 or 94, as applicable, of Chapter VII of Title VIII of Legislative Royal Decree 4/2004 of March 5 approving the Revised Spanish Corporate Income Tax Law (TRLS in Spanish), are detailed in the following paragraphs. Transactions protected for tax purposes carried out in prior years are disclosed in the annual financial statements for those years.

On May 18, 2012, Telefónica, S.A. as sole stakeholder of Telefónica Gestión de Servicios Compartidos España, S.A.U., decided to partially spin off the integrated facilities and building management business, and its contribution to the newly-incorporated Telefónica Gestión Integral de Edificios y Servicios, S.L.U. On the same day, Telefónica Gestión de Servicios Compartidos España, S.A.U, as sole stakeholder of Telefónica Servicios Integrales de Distribución, S.A.U., also decided to partially spin off the special services and postal services business and its contribution to Telefónica Gestión Integral de Edificios y Servicios, S.L.U.

On June 29, 2012, the Colombian company Telefónica Móviles Colombia, S.A. in which Telefónica, S.A. held a 49.42% interest, was taken over (as executed in a public deed in Colombia) by the Colombian company Colombia Telecomunicaciones, S.A. ESP, in which Telefónica Internacional, S.A.U. held a 52.03% interest at that time. As a result of this merger, Telefónica, S.A. and Telefónica Internacional, S.A.U. held interests of 18.51% and 32.54% in the resulting company. As transferor of the absorbed company, Telefónica, S.A. treats the transaction under the Special Regime by applying the provisions set forth in the second paragraph of Article 43.2 of the Income Tax Regulation. Telefónica, S.A. has recognized the portfolio received for the same amount as the portfolio contributed (272 million euros).

At the July 25, 2012 Extraordinary Shareholders Meetings at which all shareholders were present of Acens Technologies, S.L. and Interdomain, S.L., shareholders approved the takeover of Interdomain, S.L. by Acens Technologies, S. L. For this merger and pursuant to Article 36 of Law 3/2009 regarding structural modifications to corporations, the merger balance sheets were considered to be those closed by the absorbing and absorbed companies at December 31, 2011. According to Section 7 of Article 31 of Law 3/2009 regarding structural modifications to corporations, transactions performed by absorbed companies are treated as having been performed by absorbing companies as from January 1, 2012. Pursuant to Article 93 of the TRLS, disclosures on the accounting obligations laid down in this article are presented in the notes to the financial statements of the absorbing company.

On December 10, 2012, Telefónica Chile Holdings, B.V., with registered offices in Holland, and Telefónica, S.A. agreed to exchange the shares of Inversiones Telefónica Fija Holding, S.A.(Chilean company), wholly owned by Telefónica, S.A., for shares in the Dutch company, giving it a 100% stake. The carrying amount of the Chilean company s shares handed over recognized by Telefónica, S.A. was 67 million euros. The shares of the Dutch company received in exchange were recognized for the same amount.

On December 14, 2012, a deed was signed for the non-monetary contribution of the Dutch company Latin America Cellular Holdings, B.V. (wholly owned by Telefónica S.A.), through which all the shares were contributed to Telefónica Latinoamérica Holding, S.L.; a Spanish company in which Telefónica, S.A. has a 94.59% stake and Telefónica Internacional, S.A.U. a 5.41% stake. The carrying amount of the contributed stake in Telefónica, S.A. was 1,749 million euros, while the portfolio received was recognized for the same amount.

On December 17, 2012, Telefónica Gestión de Servicios Compartidos España, S.A.U. agreed to its partial spin-off through the transfer en bloc of 100% of its interest in Telefónica Gestión Integral de Edificios y Servicios, S.L.U. and Tempotel, Empresa de Trabajo Temporal, S.A.U. under universal succession to Taetel, S.L.U. On the same date, it agreed to receive and acquire en bloc the capital of Telefónica Gestión de Servicios Compartidos España, S.A.U., which was partially spun off.

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8.5. The breakdown and maturity of loans to Group companies and associates in 2012 and 2011 are follows:

2012

Millions of euros **Company**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018 and subsequent years**	**Final balance, current and non-current**
Telefónica Móviles España, S.A.U.	971						971
Telefónica Móviles México, S.A. de C.V.	82	1,367					1,449
Telefónica de Contenidos, S.A.U.	72	1,142	79				1,293
Telefónica de España, S.A.U.	384						384
Lotca, S.L.	43	6	5	6	6	39	105
Telefónica Global Technology, S.A.U.	5	5	1	14	14	139	178
Telco, S.p.A.	19	808					827
Telefónica Emisiones, S.A.U.	268	197	56				521
Telefónica Europe, B.V.	84					18	102
Telefónica Internacional, S.A.U.	1,588						1,588
Other companies	92	33	41			12	178
Total	**3,608**	**3,558**	**182**	**20**	**20**	**208**	**7,596**

2011

Millions of euros **Company**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017 and subsequent years**	**Final balance, current and non-current**
Telefónica de España, S.A.U.	1,036						1,036
Telefónica Móviles México, S.A. de C.V.	1,298						1,298
Telefónica de Contenidos, S.A.U.	2	1,142		79			1,223
Telefónica Móviles Argentina, S.A.	8	5					13
Telefónica Global Technology, S.A.U.	5	5	5	1	13	75	104
Telco, S.p.A.	614						614
Telefónica Emisiones, S.A.U.	4	117	42				163
Other companies	423	26	22	27	7	52	557
Total	**3,390**	**1,295**	**69**	**107**	**20**	**127**	**5,008**

The main loans granted to Group companies are described below:

The balance of loans granted to Telefónica de España, S.A.U. in 2012 comprises tax receivables from this subsidiary in connection with the consolidated tax group amounting to 384 million euros.

In 2012, the loan granted to Telefónica de España, S.A.U. on January 4, 1999 resulting from the company s spin-off from Telefónica bearing interest at 6.80% and with an outstanding balance of 692 million euros at December 31, 2011 was repaid.

At December 31, 2012, the debt with Telefónica Móviles México, S.A. de C.V. amounted to 23,393 million Mexican pesos, equivalent to 1,367 million euros in 2012 (1,298 million euros at December 31, 2011) recognized as non-current pursuant to the period of collection expected at the reporting date. The interest receivable at December 31, 2012 amounted to 82 million euros, which forms part of current receivables.

The debt with Telefónica de Contenidos, S.A.U. at December 31, 2012 consisted of:

a) a 1,142 million euro 10-year participative loan granted in 2003, which bears interest based on Telefónica de Contenidos, S.A.U. s business performance. This loan is recognized as non-current pursuant to the period of collection expected at the reporting date. Accrued interest receivable at December 31, 2012 amounted to 70 million euros, which forms part of current receivables.

b) a new 79 million euro participative loan granted in 2005 and maturing in 2015. No interest receivable is outstanding in respect of 2012 or 2011; and

c) tax receivables from this subsidiary amounting to 2 million euros, in connection with the consolidated tax group.

On May 28, 2012, Telco, S.p.A. (Telco) issued 1,750 million euros of bonds with fixed interest of 4% maturing in April 2013. Telefónica, S.A. and the rest of the partners undertook to subscribe in proportion to their interests. For Telefónica, S.A., this amounted to 808 million euros. With the proceeds from the bond issue, Telco repaid the bond issued on February 19, 2010, of 1,300 million euros, of which the portion subscribed by Telefónica, S.A. amounted to 600 million euros. The amount drawn down is recognized as non-current pursuant to the period of collection expected at the reporting date. Accrued interest receivable at December 31, 2012 amounted to 19 million euros, which forms part of current receivables (14 million euros in 2011).

The financing awarded to Móviles España, S.A.U. comprises three loans of 81 million euros, 95 million euros and 462 million euros received in 2012, the main purpose of which is to provide the subsidiary with the funds required to pay for the spectrum capacity acquired. These loans fall due in 2013 and are recognized under current receivables.
The Company also has tax receivables from this subsidiary amounting to 333 million euros, in connection with the consolidated tax group.

The debt with Telefónica Global Technology, S.A. (TGT) at December 31, 2012 consisted of:

a) A credit facility signed on January 19, 2010 for 19 million euros with an outstanding balance at December 31, 2012 of 10 million euros (15 million euros in 2011). This financing has a repayment schedule.

b) A number of long-term financing agreements under participative loans which bear interest based on the company s business performance, with an outstanding balance at December 31, 2012 of 168 million euros (90 million euros in 2011). In 2012, two agreements were signed, for 56 million euros and 22 million euros, which were fully drawn down in the year.

In 2012, the Company continued to buy back bonds issued by Telefónica Emisiones S.A.U. and Telefonica Europe, B.V., reaching a total of 606 million euros in the year (a cumulative amount of 159 million euros in 2011). In addition, there was accrued interest receivable at the end of 2012 of 17 million euros (a cumulative amount of 4 million at the end of 2011).

In December 2012, the shareholders of Telefónica Internacional, S.A.U. agreed in general meeting to distribute a dividend of 1,500 million euros against unrestricted reserves, which had yet to be collected at the end of the reporting period. This amount is recognized under current receivables in the table.

Disposals of current loans to group companies and associates includes the cancellation of balances receivable from subsidiaries on account of their membership of Telefónica, S.A. s tax group against debts held by these same subsidiaries totaling 665 million euros (703 million euros in 2011).

The Company has also extended 814 million euros (665 million euros in 2011) of loans in connection with the taxation of Telefónica, S.A. as the head of the tax group pursuant to the consolidated tax regime applicable to corporate groups (see Note 17), mainly: 333 million euros to Telefónica Móviles España, S.A.U. (264 million euros in 2011), 384 million euros to Telefónica de España, S.A.U. (366 million euros in 2011) and 88 million euros to Telefónica Internacional, S.A.U. (no balance in 2011). All these amounts fall due in the short term.

Total accrued interest receivable at December 31, 2012 included under Current loans to group companies and associates amounted to 191 million euros (27 million euros in 2011).

8.6. Other financial assets with Group companies and associates

This includes rights to collect amounts from other Group companies related to share-based payment plans involving Telefónica, S.A. shares offered by subsidiaries to their employees maturing in 2013, 2014 and 2015 (see Note 19.3).

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Note 9. Financial investments

9.1. The breakdown of Financial investments at December 31, 2012 and 2011 is as follows:

	2012												
	Assets at fair value							Assets at amortized cost					
					Measurement hierarchy								
Millions of euros	**Available-for-sale financial assets**	**Financial assets held for trading**	**Hedges**	**Subtotal assets at fair value**	**Level 1: quoted prices**	**Level 2: Estimates based on other directly observable market inputs**	**Level 3: Estimates not based on observable market data**	**Loans and receivables**	**Other financial assets**	**Subtotal assets at amortized cost**	**Subtotal liabilities at fair value**	**Total carrying amount**	**Total fair value**
Non-current financial investments	**433**	**2,093**	**1,952**	**4,478**	**433**	**4,045**		**39**	**14**	**53**	**53**	**4,531**	**4,531**
Equity instruments	433			433	433							433	433
Derivatives (Note 16)		2,093	1,952	4,045		4,045						4,045	4,045
Loans to third parties and other financial assets								39	14	53	53	53	53
Current financial investments		**222**	**60**	**282**		**282**		**9**	**99**	**108**	**108**	**390**	**390**
Loans to third parties								9	99	108	108	108	108
Derivatives (Note 16)		222	60	282		282						282	282
Total financial investments	**433**	**2,315**	**2,012**	**4,760**	**433**	**4,327**		**48**	**113**	**161**	**161**	**4,921**	**4,921**

	2011												
	Assets at fair value							Assets at amortized cost					
					Measurement hierarchy								
Millions of euros	**Available-for-sale financial assets**	**Financial assets held for trading**	**Hedges**	**Subtotal assets at fair value**	**Level 1: quoted prices**	**Level 2: Estimates based on other directly observable market inputs**	**Level 3: Estimates not based on observable market data**	**Loans and receivables**	**Other financial assets**	**Subtotal assets at amortized cost**	**Subtotal liabilities at fair value**	**Total carrying amount**	**Total fair value**
Non-current financial investments	**556**	**1,574**	**2,544**	**4,674**	**556**	**4,118**		**37**	**17**	**54**	**54**	**4,728**	**4,728**
Equity instruments	556			556	556							556	556
Derivatives (Note 16)		1,574	2,544	4,118		4,118						4,118	4,118
Loans to third parties and other financial assets								37	17	54	54	54	54
Current financial investments		**159**	**189**	**348**		**348**		**46**		**46**	**46**	**394**	**394**
Loans to third parties								46		46	46	46	46
Derivatives (Note 16)		159	189	348		348						348	348
Total financial investments	**556**	**1,733**	**2,733**	**5,022**	**556**	**4,466**		**83**	**17**	**100**	**100**	**5,122**	**5,122**

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.

The calculation of the fair values of the Company s financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company s bonds and credit derivatives.

9.2 Held-for-trading financial assets and hedges

These two categories include the fair value of outstanding derivate financial instruments at December 31, 2012 and 2011 (see Note 16).

9.3 Available-for-sale financial assets.

This category mainly includes the fair value of investments in listed companies (equity instruments) over which the Company does not have significant control or influence. The movement of items composing this category at December 31, 2012 and 2011 are as follows:

	December 31, 2012					
Millions of euros	**Opening balance**	**Additions**	**Disposals**	**Other movements**	**Fair value adjustments**	**Closing balance**
Banco Bilbao Vizcaya Argentaria, S.A.	327			(11)		316
Portugal Telecom, SGPS, S.A.	193		(76)		(33)	84
Other companies	36	47	(35)		(15)	33
Total	**556**	**47**	**(111)**	**(11)**	**(48)**	**433**

	December 31, 2011					
Millions of euros	**Opening balance**	**Additions**	**Disposals**	**Other movements**	**Fair value adjustments**	**Closing balance**
Banco Bilbao Vizcaya Argentaria, S.A.	418			(11)	(80)	327
Portugal Telecom, SGPS, S.A.			(10)	235	(32)	193
Other companies	55		(1)		(18)	36
Total	**473**		**(11)**	**224**	**(130)**	**556**

In 2010, Telefónica entered into three equity swap contracts for Portugal Telecom, SGPS, S.A. shares with a number of financial institutions, subject to net settlement, which grant Telefónica the equivalent total return of the investment.

In October 2011, the Company reclassified the carrying amount of its stake in this company at that date from Available-for-sale financial assets . Consequently, since October 2011, changes in the market value of these shares have been reflected under equity (32 million euros, net of the tax effect, in 2011). In December 2011, the Company sold 1.9 million shares, reflected under Disposals in the table of movements.

In 2012 21 million shares were sold, fully canceling the equity swap agreements with Credit Suisse and Mediobanca. These transactions are shown under Disposals in the table of movements for 2012. The negative impact on the income statement amounts to 34 million euros, recognized under Gain (loss) on available-for-sale financial assets recognized in the period .

In 2012, regarding Banco Bilbao Vizcaya Argentaria, S.A., the only movement in the table relates to the sale of rights to two scrip dividends that the bank distributed in March and September 2012 and were sold on the market. In 2011, this item also amounted to 11 million euros.

In 2011, Telefónica, S.A. adjusted the cost of its investment in Banco Bilbao Vizcaya Argentaria, S.A. by 80 million euros, in order to bring the cost per share in line with the fair value. This adjustment was taken directly to the income statement, under Gain (loss) on available-for-sale financial assets recognized in the period , with no impact on the statement of recognized income and expenses.

At December 31, 2012 Telefónica, S.A. s investment in Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), held since 2000, represents 0.81% of that company s share capital.

Amper, S.A. and Zon Multimedia Serviços de Telecommunicaçoes e Multimedia, SGPS, S.A. were sold off in 2012. These investments were recognized under Other companies in the table of movements for 2011. The 21 million euro loss on these transactions is recognized under Gain (loss) on available-for-sale financial assets recognized in the period .

9.4 Other financial assets and loans to third parties

The breakdown of investments included in this category at December 31, 2012 and 2011 is as follows:

Millions of euros	**2012**	**2011**
Other non-current financial assets		
Loans to third parties	39	37
Prepayments	1	2
Guarantees given	13	15
Other current financial assets:		
Loans to third parties	9	46
Other financial investments	99	
Total	**161**	**100**

9.4.1 Loans to third parties

Non-current loans to third parties includes the cost of the financial instrument arranged in 2011 to partially cover share-based payment schemes involving Telefónica, S.A. shares (Manager and Senior Executive Options Remuneration Plan Performance & Investment Plan (PIP)) for 37 million euros, which will mature in 2014 (see Note 19.3).

Current loans to third parties in 2011 included, inter alia, the value of the financial instrument arranged in 2010 partly to cover the fourth phase of share-based payment schemes involving Telefónica, S.A. shares owing to its falling due in June 2012 (36 million euros).

9.4.2 Guarantees given.

Non-current loans to third parties primarily includes guarantees received from tenants of buildings owned by Telefónica, S.A., to be returned in a period of over 12 months.

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Note 10. Trade and other receivables

The breakdown of Trade and other receivables at December 31, 2012 and 2011 is as follows:

Millions of euros	**2012**	**2011**
Trade receivables	22	24
Trade receivables from Group companies and associates	413	453
Other receivables	19	21
Employee benefits payable	1	2
Tax receivables (Note 17)	610	198
Total	**1,065**	**698**

Trade receivables from Group companies and associates mainly includes amounts receivable from subsidiaries for the impact of the rights to use the Telefónica brand and the monthly office rental fees (see Note 7).

Trade receivables and Trade receivables from Group companies and associates in 2012 and 2011 include balances in foreign currency equivalent to 134 million euros. In December 2012, there were receivables in US dollars equivalent to 105 million euros and Czech crowns equivalent to 29 million euros. In December 2011, there were receivables in US dollars equivalent to 104 million euros and Czech crowns equivalent to 30 million euros.

These balances gave rise to exchange losses in the income statement of approximately 3 million euros in 2012 (8 million euros of exchange gains in 2011).

Note 11. Equity

11.1 Capital and reserves

a) Share capital

At December 31, 2012, Telefónica, S.A. s share capital amounted to 4,551,024,586 euros and consisted of 4,551,024,586 fully paid ordinary shares of a single series, per value of 1 euro, all recorded by the book-entry system and traded on the Spanish electronic trading system (Continuous Market), where they form part of the Ibex 35 Index, on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and listed on the New York, London, Buenos Aires and Lima Stock Exchanges.

With respect to authorizations given regarding share capital, on May 18, 2011, authorization was given at the Annual Shareholders Meeting of Telefónica, S.A. for the Board of Directors, at its discretion and in accordance with the Company s needs, to increase the Company s capital, at one or several times, within a maximum period of five years from that date, under the terms of Section 297.1.b) of the Corporate Enterprises Act up to a maximum increase of 2,281,998,242.50 euros, equivalent to half of Telefónica, S.A. s share capital at that date, by issuing and placing new shares, be they ordinary, preference, redeemable, non-voting or of any other type permitted by the Law, with a fixed or variable premium, and, in all cases, in exchange for cash, and expressly considering the possibility that the new shares may not be fully subscribed. The Board of Directors was also empowered to exclude, partially or fully, pre-emptive subscription rights under the terms of Section 506 of the Spanish Enterprises Act.

In addition, at the June 2, 2010 Shareholders Meeting, authorization was given for the Board of Directors to issue fixed-income securities and preferred shares at one or several times within a maximum period of five years from that date. These securities may be in the form of debentures, bonds, promissory notes or any other kind of fixed-income security, plain or, in the case of debentures and bonds, convertible into shares of the Company and/or exchangeable for shares of any of the Group companies. They may also be preferred shares. The total maximum amount of the securities issued agreed under this authorization is 25,000 million euros or the equivalent in another currency. For promissory notes, the outstanding balance of promissory notes issued under this authorization will be calculated for purposes of the aforementioned limit. As at December 31, 2012, the Board of Directors had exercised these powers, approving three programs to issue corporate promissory notes for 2011, 2012 and 2013.

In addition, on June 2, 2010, shareholders voted to authorize the acquisition by the Board of Directors of Telefónica, S.A. treasury shares, up to the limits and pursuant to the terms and conditions established at the Shareholders Meeting, within a maximum period of five years from that date. However, it specified that in no circumstances could the par value of the shares acquired, added to that of the treasury shares already held by Telefónica, S.A. and by any of its controlled subsidiaries, exceed the maximum legal percentage at any time (currently 10% of Telefónica, S.A. s share capital).

On May 25, 2012, the deed of capital reduction formalizing the implementation by Telefónica, S.A. s Board of Directors of the resolution adopted at the Shareholders Meeting on May 14, 2012, was executed. Capital was reduced through the cancellation of treasury shares previously acquired by Telefónica, S.A. as authorized at the Shareholders Meeting. As a result, 84,209,363 Telefónica, S.A. treasury shares were cancelled and the Company s share capital was reduced by a nominal amount of 84,209,363 euros. Article 5 of the Corporate Bylaws relating to the amount of share capital was amended accordingly to show 4,479,787,122 euros. At the same time, a reserve was recorded for the cancelled shares described in the section on Other reserves of this same Note.

The latest share capital modification by Telefónica, S.A. took place on June 8, 2012 and involved a share capital increase of 71,237,464 euros, during which 71,237,464 ordinary shares with a par value of 1 euro each were issued. This formalized the Board of Directors execution of the resolution passed at the Ordinary General Shareholder s Meeting on May 14, 2012 relating to the share capital increase by means of the issue of new ordinary shares of 1 euro par value each, of the same class and series as those already in circulation, with a charge to reserves, as part of the scrip dividend shareholder remuneration deal. Share capital amounts to 4,551,024,586 euros subsequent to this increase.

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At December 31, 2012 and 2011, Telefónica, S.A. held the following treasury shares:

		Euros per share			
	Number of shares	Acquisition price	Trading price	Market value (1)	%
Treasury shares at 12/12/31	47,847,809	10.57	10.19	488	1.05136%

(1) Millions of euros

		Euros per share			
	Number of shares	Acquisition price	Trading price	Market value (1)	%
Treasury shares at 11/12/31	84,209,363	15.68	13.39	1,127	1.84508%

(1) Millions of euros

The movement in treasury shares of Telefónica, S.A. in 2012 and 2011 is as follows:

	Number of shares
Treasury shares at 10/12/31	**55,188,046**
Acquisitions	55,979,952
Disposals	(24,058,446)
Delivery PSP Phase III (Note 19.3)	(2,900,189)
Treasury shares at 11/12/31	**84,209,363**
Acquisitions	126,489,372
Delivery GESP share plan (Note 19.3)	(2,071,606)
Disposals	(76,569,957)
Share redemption	(84,209,363)
Treasury shares at 12/12/31	**47,847,809**

Furthermore, at December 31, 2012 and 2011, one Telefónica, S.A. share is held by Telefónica Móviles Argentina, S.A.

The amount paid to acquire treasury shares in 2012 and 2011 was 1,346 million euros and 822 million euros, respectively.

On May 25, 2012, pursuant to the resolutions adopted in the General Shareholders Meeting of May 14, capital was reduced by redeeming 84,209,363 treasury shares, thereby reducing treasury shares by 1,321 million euros.

Treasury shares sold in 2012 and 2011 amounted to 801 million euros and 445 million euros, respectively. The main treasury share sales transactions during 2012 were as follows:

In November 2012, Telefónica submitted an offer to purchase and cancel the preference shares that it had indirectly issued in 2002 through its subsidiary Telefónica Finance USA, LLC totaling 2,000 million euros. The offer involved acquiring these shares at their par value, subject unconditionally and irrevocably to the simultaneous reinvestment in Telefónica, S.A. shares and the subscription of newly issued plain-vanilla bonds, in the following percentage:

a) 40% of the amount in treasury shares of Telefónica, S.A.

b) 60% of the amount shall be used to subscribe a bond issue with a face value of 600 euros, issued at par, the characteristics of which are described in Note 13.

97% of the holders of the preference shares accepted the offer, and therefore 76,365,929 treasury shares with a carrying amount of 815 million euros (exchange value of 776 million euros) were handed over, which are included under Disposals in 2012.

In addition to these disposals, on July 27, 2012, 2,071,606 shares were delivered to to Group employees when the first phase of the Global Employee Share Plan (the GESP) matured. In December 2012, the second phase of the GESP started, and 116,443 treasury shares were used to meet the demand for shares of employees that had joined this plan (see Note 19.1.c).

On June 30, 2011 and July 4, 2011, following the end of the third phase of the Performance Share Plan (PSP) (see Note 19.3), a total of 2,446,104 treasury shares were added, corresponding to two financial instruments arranged by the Company to meet its obligations to deliver treasury shares to managers and executives. The gross number of shares linked to the plan amounted to 4,166,304 shares, with a net 2,900,189 shares finally awarded (33 million euros).

Expanding on the existing strategic alliance, on January 23, 2011, Telefónica, S.A. and China Unicom (Hong Kong) Limited (China Unicom) signed an extension to their Strategic Partnership Agreement, in which both companies agreed to strengthen and deepen their strategic cooperation in certain business areas, and committed to investing the equivalent of 500 million US dollars in ordinary shares of the other party. Telefónica acquired through its subsidiary Telefónica Internacional, S.A.U. 282,063,000 shares of China Unicom from third parties for 358 million euros. In recognition of China Unicom s stake in Telefónica, approval was given at Telefónica s General Shareholders Meeting held on May 18, 2011 for the appointment of a board member named by China Unicom.

At December 31, 2012, Telefónica held 178 million call options on treasury shares subject to physical settlement (190 million options on treasury shares at December 31, 2011).

The Company also has a derivative on Telefónica shares, to be settled by offset, which has increased from 26 million shares in 2011 to 28 million shares in 2012, and is recognized under Derivatives (financial assets, current) on the balance sheet (in 2011, the fair value of this derivative was negative and therefore it was recognized under Derivatives (financial liabilities, current).

b) Legal reserve

According to the text of the Corporate Enterprises Act, companies must transfer 10% of profit for the year to a legal reserve until this reserve reaches at least 20% of share capital. The legal reserve can be used to increase capital by the amount exceeding 10% of the increased share capital amount. Except for this purpose, until the legal reserve exceeds the limit of 20% of share capital, it can only be used to offset losses, if there are no other reserves available. At December 31, 2012, the Company had duly set aside this reserve.

c) Other reserves

Other reserves includes:

The Revaluation reserve which arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 dated June 7. The revaluation reserve may be used, free of tax, to offset any losses incurred in the future and to increase capital. From January 1, 2007, it may be allocated to unrestricted reserves, provided that the capital gain has been realized. The capital gain will be deemed to have been realized in respect of the portion on which the depreciation has been recorded for accounting purposes or when the revalued assets have been transferred or derecognized. In this respect, at the end of 2012, an amount of 10 million euros corresponding to revaluations reserves subsequently considered unrestricted has been reclassified to Other reserves . In 2011, an amount of 15 million euros was reclassified in this connection. The balance of this reserve at December 31, 2012 and 2011 was 116 million euros and 126 million euros, respectively.

Reserve for cancelled share capital: In accordance with Section 335.c) of the Corporate Enterprises Act and to render null and void the right of opposition provided for in Section 334 of the same Act, whenever the Company decreases capital it records a reserve for cancelled share capital for an amount equal to the par value of the cancelled shares, which can only be used if the same requirements as those applicable to the reduction of share capital are met. In 2012, a reserve for cancelled share capital amounting to 84 million euros was recorded, the same amount as the capital reduction made in the year. The cumulative amount of the reserve for cancelled share capital at December 31, 2012 and 2011 was 582 million euros and 498 million euros.

Pursuant to the provisions of Royal Decree 1514/2007, since 2008, after the distribution of profits for each year, the Company sets aside a non-distributable reserve of 1.7 million euros for goodwill amortization. The balance of this reserve at December 31, 2012 was 6.8 million euros. The proposed appropriation of 2012 profit (see Note 3) includes an allocation of 1.7 million euros to this restricted reserve.

In addition to the restricted reserves explained above, Other reserves includes unrestricted reserves from gains obtained by the Company in prior years.

d) Dividends

Dividends paid in 2012

Approval was given at the General Shareholders Meeting of May 14, 2012 to pay a gross 0.53 euro dividend per share outstanding with a charge to unrestricted reserves. The dividend was paid on May 18, 2012 and the total amount paid was 2,346 million euros.

In addition, approval at the same meeting was given to pay a scrip dividend consisting of the assignment of free allotment rights with an irrevocable purchase obligation on the Company, and a subsequent capital increase by means of the issue of new shares to fulfill said allotments.

At the close of the trading period for these rights, the holders of 37.68% of the Company s shares had accepted the Company s irrevocable commitment to buy. These rights have been repurchased and cancelled by the Company for the amount of 490 million euros.

62.32% of shareholders with allotment rights opted for the right to receive new Telefónica shares. A capital increase was required to fulfill said allotments, by means of the issue of 71,237,464 new shares with a nominal value of one euro each, which have been delivered to the shareholders who held the rights thereto.

Dividends paid in 2011

At its meeting of April 12, 2011, Telefónica, S.A.   s Board of Directors resolved to pay an interim dividend against 2011 profit of a fixed gross 0.75 euros per outstanding share carrying dividend rights. This dividend was paid in full on May 6, 2011, and the total amount paid was 3,394 million euros.

In addition, approval was given at the General Shareholders   Meeting on May 18, 2011 to pay a gross 0.77 dividend per share outstanding carrying dividend rights with a charge to unrestricted reserves. This dividend was paid in full on November 7, 2011, and the total amount paid was 3,458 million euros.

11.2 Unrealized gains (losses) reserve

The movements in the items composing   Unrealized gains (losses) reserve   in 2012 and 2011 are as follows:

2012

Millions of euros	**Opening balance**	**Valuation at market value**	**Tax effect of additions**	**Amounts transferred to income statement**	**Tax effect of transfers**	**Closing balance**
Available-for-sale financial assets (Note 9.3)	(40)	(46)	14	55	(17)	(34)
Cash flow hedges (Note 16)	(575)	(1,310)	393	173	(52)	(1,371)
Total	**(615)**	**(1,356)**	**407**	**228**	**(69)**	**(1,405)**

2011

Millions of euros	**Opening balance**	**Valuation at market value**	**Tax effect of additions**	**Amounts transferred to income statement**	**Tax effect of transfers**	**Closing balance**
Available-for-sale financial assets (Note 9.3)	(5)	(50)	15			(40)
Cash flow hedges (Note 16)	(145)	(824)	247	210	(63)	(575)
Total	**(150)**	**(874)**	**262**	**210**	**(63)**	**(615)**

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Note 12. Financial liabilities

The breakdown of Financial liabilities at December 31, 2012 and 2011 is as follows:

	2012									
	LIABILITIES AT FAIR VALUE			MEASUREMENT HIERARCHY			LIABILITIES AT AMORTIZED COST			
Millions of euros	**Financial liabilities held for trading**	**Hedges**	**Subtotal financial liabilities at fair value**	**Level 1: quoted prices**	**Level 2: Estimates based on other directly observable market inputs**	**Level 3: Estimates not based on other directly observable market data**	**Trade and other payables**	**Subtotal liabilities at fair value**	**TOTAL CARRYING AMOUNT**	**TOTAL FAIR VALUE**
Non-current financial liabilities	**1,638**	**1,492**	**3,130**		**3,130**		**46,213**	**49,439**	**49,343**	**52,569**
Payable to Group companies and associates							36,069	38,511	36,069	38,511
Bank borrowings							9,232	9,676	9,232	9,676
Bonds and other marketable debt securities							828	1,168	828	1,168
Derivatives (Note 16)	1,638	1,492	3,130		3,130				3,130	3,130
Other financial liabilities							84	84	84	84
Current financial liabilities	**116**	**8**	**124**		**124**		**16,154**	**16,088**	**16,278**	**16,212**
Payable to Group companies and associates							14,181	14,230	14,181	14,230
Bank borrowings							1,145	1,028	1,145	1,028
Bonds and other marketable debt securities							828	830	828	830
Derivatives (Note 16)	116	8	124		124				124	124
Other financial liabilities										
Total financial liabilities	**1,754**	**1,500**	**3,254**		**3,254**		**62,367**	**65,527**	**65,621**	**68,781**

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Millions of euros	2011 LIABILITIES AT FAIR VALUE			MEASUREMENT HIERARCHY			LIABILITIES AT AMORTIZED COST			
	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value	Level 1: quoted prices	Level 2: Estimates based on other directly observable market inputs	Level 3: Estimates not based on other directly observable market data	Trade and other payables	Subtotal liabilities at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
Non-current financial liabilities	**1,123**	**910**	**2,033**		**2,033**		**44,687**	**41,038**	**46,720**	**43,071**
Payable to Group companies and associates							35,381	33,465	35,381	33,465
Bank borrowings							9,046	7,374	9,046	7,374
Bonds and other marketable debt securities							170	109	170	109
Derivatives (Note 16)	1,123	910	2,033		2,033				2,033	2,033
Other financial liabilities							90	90	90	90
Current financial liabilities	**183**	**21**	**204**		**204**		**17,969**	**17,078**	**18,173**	**17,282**
Payable to Group companies and associates							17,140	16,270	17,140	16,270
Bank borrowings							742	721	742	721
Bonds and other marketable debt securities							87	87	87	87
Derivatives (Note 16)	183	21	204		204				204	204
Other financial liabilities										
Total financial liabilities	**1,306**	**931**	**2,237**		**2,237**		**62,656**	**58,116**	**64,893**	**60,353**

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.

The calculation of the fair values of the Company s financial debt instruments required an estimate for each currency of a credit spread curve using the prices of the Company s bonds and credit derivatives.

Note 13. Bonds and other marketable debt securities

13.1 The balances and movements in issues of debentures, bonds and commercial paper at December 31, 2012 and 2011 are as follows:

2012

Millions of euros	Non-convertible debentures and bonds	Other marketable debt securities	Total
Opening balance	**170**	**87**	**257**
Additions	1,165	332	1,497
Depreciation and amortization		(87)	(87)
Revaluation and other movements	(7)	(4)	(11)
Closing balance	**1,328**	**328**	**1,656**
Details of maturities:			
Non-current	828		828
Current	500	328	828

2011

Millions of euros	Non-convertible debentures and bonds	Other marketable debt securities	Total
Opening balance	**148**	**104**	**252**
Additions		44	44
Depreciation and amortization		(62)	(62)
Revaluation and other movements	22	1	23
Closing balance	**170**	**87**	**257**
Details of maturities:			
Non-current	170		170
Current		87	87

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Maturities of the nominal amounts of debenture and bond issues at December 31, 2012 and 2011 are as follows:

2012

Millions of euros			**Maturity**						
Name	**Interest rate**	**% interest rate**	**2013 (1)**	**2014**	**2015 (1)**	**2016**	**2017**	**Subsequent years**	**TOTAL**
DEBENTURES AND BONDS:									
JULY 99	ZERO COUPON (**)	6.39%						69	69
MARCH 00	FLOATING	2.411%(*)			50				50
NOVEMBER 12	FIX	4.18%	500		500			164	1,164
Total issues			**500**		**550**			**233**	**1,283**

(*) The applicable interest rate (floating, set annually) is the sterling 10-year swap rate multiplied by 1.0225.
(**) Issues of zero-coupon debentures and bonds are shown in the table above at amortized cost.
(1) For 2013 and 2015 the figures include a maturity of 500 million in both years, without a contractual obligation for these maturities, based on expectations of improvals in financial market conditions.

2011

Millions of euros			**Maturity**						
Name	**Interest rate**	**% interest rate**	**2012**	**2013**	**2014**	**2015**	**2016**	**Subsequent years**	**TOTAL**
DEBENTURES AND BONDS:									
JULY 99	ZERO COUPON (**)	6.39%						64	64
MARCH 00	FLOATING	3.831% (*)				50			50
Total issues						**50**		**64**	**114**

(*) The applicable interest rate (floating, set annually) is the sterling 10-year swap rate multiplied by 1.0225.
(**) Issues of zero-coupon debentures and bonds are shown in the table above at amortized cost.

13.2. The detail of the maturities and redemption values of zero-coupon debentures and bonds at December 31, 2012 and 2011 is as follows:

Issue	**Redemption date**	**Redemption rate**	**Redemption value**
DEBENTURES AND BONDS:			
JULY 99	2029/21/07	637.639%	191
Total			**191**

The remaining debentures and bonds have been measured at amortized cost at the year end.

13.3 At December 31, 2012, Telefónica, S.A. had a corporate promissory note program registered with the CNMV, with the following features:

Millions of euros Amount	Placement system	Nominal amount of the Promissory notes	Terms of the Promissory notes	Placement
	Auctions	1,000 euros	1, 2, 3, 6, 12, 18 and 25 months	Competitive auctions at least once a month
500 million; can be increased to 2,000 million	Tailored	100,000 euros	Between 7 and 750 days	Specific transactions

At December 31, 2012 the outstanding balance on this promissory note program was 332 million euros (87 million euros in 2011).

13.4 The average interest rate during 2012 on debentures and bonds outstanding during the year was 4.56% (4.74% in 2011) and the average interest rate on corporate promissory notes was 2.37% (1.88% in 2011).

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Note 14. Interest-bearing debt and derivates

14.1 The balances at December 31, 2012 and 2011 are as follows:

December 31, 2012

Millions of euros

Item	Current	Non-current	Total
Loans with financial entities	1,145	9,232	10,377
Derivative financial liabilities (Note 16)	124	3,130	3,254
Total	**1,269**	**12,362**	**13,631**

December 31, 2011

Millions of euros

Item	Current	Non-current	Total
Loans with financial entities	742	9,046	9,788
Derivative financial liabilities (Note 16)	204	2,033	2,237
Total	**946**	**11,079**	**12,025**

14.2 The nominal values of the main interest-bearing debts at December 31, 2012 and 2011 (in million of euros) are as follows:

December 31, 2012

Description	Value date	Maturity date	Currency	Limit 2012/12/31 (millions)	Balance (millions of euros)
Syndicated loan Tranche D2*	12/14/12	12/14/15	EUR	923	923
Bilateral loan	02/27/12	02/27/15	EUR	200	200
ECAS structured facility**	05/03/11	07/30/21	USD	370	135
Syndicated loan Tranche A1	07/28/10	07/28/13	EUR	1,000	1,000
Syndicated loan Tranche A2	07/28/10	07/28/14	EUR	2,000	2,000
Syndicated loan Tranche A3	07/28/10	07/28/16	EUR	2,000	2,000
Syndicated loan Tranche B	07/28/10	07/28/15	EUR	3,000	3,000
ECAS structured facility**	02/12/10	11/30/19	USD	351	266
Syndicated loan**	04/21/06	04/21/17	EUR	700	700

* Limit in Pounds sterling converted to euros at 12/14/2012

** These credit facilities have a repayment schedule

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December 31, 2011

Description	Value date	Maturity date	Currency	Limit 2011/12/31 (millions)	Balance (euros)
Syndicated loan Tranche A1	07/28/10	07/28/13	EUR	1,000	1,000
Syndicated loan Tranche A2	07/28/10	07/28/14	EUR	2,000	2,000
Syndicated loan Tranche A3	07/28/10	07/28/16	EUR	2,000	2,000
Syndicated loan Tranche B	07/28/10	07/28/15	EUR	3,000	3,000
ECAS/EKN loan*	02/12/10	11/30/19	USD	472	259
Syndicated loan savings banks*	04/21/06	04/21/17	EUR	700	700

* These credit facilities have a repayment schedule

14.3 Maturities of balances at December 31, 2012 and 2011 are as follows:

December 31, 2012

Millions of euros

Items	Maturity 2013	2014	2015	2016	2017	Subsequent years	Closing balance
Loans with financial entities	1,145	2,097	4,518	2,056	408	153	10,377
Derivative financial liabilities (Note 16)	124	171	342	246	371	2,000	3,254
Total	**1,269**	**2,268**	**4,860**	**2,302**	**779**	**2,153**	**13,631**

December 31, 2011							
Millions of euros	Maturity						
Items	2012	2013	2014	2015	2016	Subsequent years	Closing balance
Loans with financial entities	742	930	1,836	2,989	2,245	1,046	9,788
Derivative financial liabilities (Note 16)	204	61	106	287	192	1,387	2,237
Total	**946**	**991**	**1,942**	**3,276**	**2,437**	**2,433**	**12,025**

14.4 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 Telefónica Europe, B.V., totaling up to 18,500 million pounds sterling entered into on October 31, 2005. As a result of the refinancing deal in 2012, Telefónica S.A. signed a syndicated loan of 729 million pounds sterling (Tranche D2) available 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 December 31, 2012.

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 June 28, 2010, Telefónica, S.A. obtained a syndicated line of credit with a group of national and international banks for up to a maximum of 8,000 million euros. The line of credit has two tranches: the first for up to 5,000 million euros and a term of three years and the second, for up to 3,000 million euros, which is structured as a revolving credit facility with a five-year term. On May 12, 2011 Telefónica, S.A. signed an amendment whereby it was agreed that of the 5,000 million euros that would initially mature in July 2013, 2,000 million euros would be extended for another year, i.e. until July 2014, and another 2,000 million for a further three years, i.e. until July 2016. At December 31, 2012 the outstanding balance drawn down on this line of credit amounted to 8,000 million euros (8,000 million euros at December 31, 2011).

On May 3, 2011, Telefónica, S.A. arranged long-term financing for an amount of 376 million US dollars at fixed rates guaranteed by the export credit agencies of Finland (Finnvera). This line of credit 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, 184 million US dollars of the first and second tranches were paid, although as this financing has a repayment schedule, 6 million US dollars of the first tranche was repaid in 2012. At December 31, 2012, the outstanding principal amount of this credit facility was 178 million US dollars (equivalent to 135 million euros).

On February 12, 2010, Telefónica, S.A. signed a long-term line of credit of 472 million US dollars at a fixed rate and guaranteed by the Swedish Export Credits Guarantee Board (EKN). This credit facility is divided into three tranches: a tranche of 232 million US dollars maturing on November 30, 2018, another of 164 million US dollars maturing on April 30, 2019, and a third of 76 million US dollars maturing on November 30, 2019. During the year, it repaid 71 million US dollars of the third tranche, although since this facility has a repayment schedule, during 2012 55 million US dollars were repaid of the first and second tranche. The outstanding balance on this line of credit amounted to 351 million US dollars (equivalent to 266 million euros) at December 31, 2012 (335 million dollars at December 31, 2011).

On April 21, 2006, Telefónica S.A. arranged a 700 million euros syndicated loan, denominated in euros and bearing interest linked to Euribor. In 2012 and 2011, there were no movements in this loan, which will be repaid in two equal installments, in April 2015 and 2017, respectively.

In addition, Telefónica signed three equity swap contracts with different financial entities in June 2010. These swaps are based on the share price of Portugal Telecom and are settled net, thereby obtaining the same economic returns. The amount received from these contracts is recognized as current interest-bearing debt. During 2012, two of these contracts was fully cancelled, and third partially cancelled by reducing the nominal value of these swaps by 21 million shares in total, whereby the outstanding balance is 22 million euros.

14.5 Average interest on loans and borrowings

The average interest rate in 2012 on loans and borrowings denominated in euros was 2.918% and on foreign-currency loans and receivables it was 2.341%.

The average interest rate in 2011 on loans and borrowings denominated in euros was 2.376% and on foreign-currency loans and receivables it was 3.354%.

14.6 Unused credit facilities

The balances of loans and borrowings relate only to amounts drawn down.

At December 31, 2012 and 2011, Telefónica had undrawn credit facilities amounting to 5,255 million euros and 6,764 million euros, respectively.

Financing arranged by Telefónica, S.A. at December 31, 2012 and 2011 is not subject to compliance with any financial covenants.

Note 15. Payable to group companies and associates

15.1 The breakdown at December 31, 2012 and 2011 is as follows:

December 31, 2012			
Millions of euros	**Non-current**	**Current**	**Total**
Loans	35,757	13,779	49,536
Trade payables to Group companies and associates	56	132	188
Derivatives (Note 16)		20	20
Payable to subsidiaries due to taxation on a consolidated basis	256	250	506
Total	**36,069**	**14,181**	**50,250**

December 31, 2011			
Millions of euros	**Non-current**	**Current**	**Total**
Loans	34,855	16,993	51,848
Trade payables to Group companies and associates		129	129
Derivatives (Note 16)		14	14
Payable to subsidiaries due to taxation on a consolidated basis	526	4	530
Total	**35,381**	**17,140**	**52,521**

The maturity of these loans at the 2012 and 2011 year ends is as follows:

December 31, 2012							
Company (Millions of euros)	2013	2014	2015	2016	2017	2018 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	4,263	4,357	3,458	6,296	4,036	14,267	36,677
Telefónica Europe, B.V.	2,470		795		156	1,842	5,263
Telfisa Global, B.V.	1,822						1,822
Telefónica Finanzas, S.A.U.	5,224		475	75			5,774
Total	13,779	4,357	4,728	6,371	4,192	16,109	49,536

December 31, 2011							
Company (Millions of euros)	2012	2013	2014	2015	2016	2017 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	1,343	3,445	4,370	3,504	6,315	13,101	32,078
Telefónica Europe, B.V.	6,478	1,957	14			1,599	10,048
Telfisa Global, B.V.	2,332						2,332
Telefónica Finanzas, S.A.U.	6,830			476	74		7,380
Others	10						10
Total	16,993	5,402	4,384	3,980	6,389	14,700	51,848

The carrying amount of financing raised by Telefónica, S.A. through its subsidiary Telefónica Europe, B.V. at December 31, 2012 was 5,263 million euros (10,048 million euros at the 2011 year end). This financing entails a number of loans paying market rates of interest calculated on a Euribor plus spread basis, with an average interest rate in 2012 of 3.52% (3.52% in 2011), bonds amounting to 2,947 million euros (3,266 million euros in 2011) and commercial paper amounting to 768 million euros (1,596 million euros in 2011).

The main source of this financing was the funds obtained through the following transactions:

1. 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 Telefónica Europe, BV., totaling up to 18,500 million pounds sterling entered into on October 31, 2005. As a result, Telefónica Europe, BV entered into: a) a syndicated loan contract 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) a 756 million euros syndicated loan (tranche E1) available as from March 2, 2012, maturing on March 2, 2017, on which no amounts had been drawn down at 2012 year end; and (c) a syndicated loan of 1,469 million pounds sterling (tranche E2), available as from December 13, 2013 and maturing on March 2, 2017.

2. On January 5, 2012, Telefónica Europe, B.V. signed a financing agreement with China Development Bank (CDB) amounting to 375 million US dollars (approximately 284 million euros) maturing in 2022, which had been fully drawn down at 2012. This financing has a repayment schedule of fifteen six-monthly installments payable as from April 15, 2015.

3. The syndicated multicurrency loan arranged between Telefónica Europe, B.V. and a group of financial institutions for an amount of up to 18,500 million pounds sterling on October 31, 2005 to fund the acquisition of O2, Plc. The outstanding balance on this loan at December 31, 2012 is 100 million pounds sterling, equivalent to 123 million euros (2,965 million euros at December 31, 2011).

4. On October 31, 2012, the Group launched an offer to acquire preferred stock of Telefónica Finance USA, LLC. (see Note 11). As a result of this offer, on November 29, 2012, the Company purchased 1,941,235 preference shares, whereby the balance outstanding at December 31, 2012 amounted to 59 million euros (2,000 million euros at December 31, 2011).

The carrying amount of financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2012 was 36,677 million euros (32,078 million euros in 2011). This financing is arranged as loans from these companies on the same terms as those of the issuance programs. The average interest rate in 2012 was 5.16% (5.06% in 2011). The financing arranged includes, as a related cost, the fees or premiums taken to the income statement for the period corresponding to the financing based on the corresponding effective interest rates. Telefónica Emisiones, S.A.U. raised financing in 2012 mainly by tapping the European and US capital markets, issuing the following bonds totaling 5,148 million euros (4,495 million euros in 2011):

Description	Issue date	Maturity date	Amount (nominal)	Issue currency	Coupon
EMTN bonds	2012/02/07	2017/02/07	120,000,000	EUR	4.750%
	2012/02/21	2018/02/21	1,500,000,000	EUR	4.797%
	2012/03/12	2020/03/12	700,000,000	GBP	5.597%
	2012/03/30	2017/03/30	1,250,000,000	CZK	3.934%
	2012/07/11	2018/07/11	10,000,000,000	JPY	4.250%
	2012/09/19	2017/09/05	1,000,000,000	EUR	5.811%
	2012/10/19	2020/01/20	1,200,000,000	EUR	4.710%
	2012/12/14	2018/12/14	250,000,000	CHF	2.718%
	2012/12/14	2022/12/14	150,000,000	CHF	3.450%

Part of the amount owed by Telefónica, S.A. to Telefónica Emisiones, S.A.U. and to Telefónica Europe, B.V. includes restatements to amortized cost at December 31, 2012 and 2011 as a result of fair value interest rate and exchange rate hedges.

Meanwhile, at December 31, 2012, Telefónica, S.A. had raised financing from Telefónica Finanzas, S.A.U., in charge of the integrated cash management of the companies comprising the Telefónica Group in Spain, amounting to 5,774 million euros (7,380 million euros at December 31, 2011) in a series of loans bearing interest at market rates.

Telfisa Global, B.V. centralizes and handles cash management and flows for the Telefónica Group in Latin America, the United States and Europe. The balance payable to this subsidiary is formalized through several Deposit Agreements accruing interest at market rates and amounting to 1,822 million euros in 2012 and 2,332 million euros in 2011.

Loans to Group companies under current assets include accrued interest receivable at December 31, 2012 of 878 million euros (829 million euros in 2011).

15.2 The balance of Payable to subsidiaries due to taxation on a consolidated basis was 506 million euros and 530 million euros at December 31, 2012 and 2011, respectively. This basically includes payables to Group companies for their contribution of taxable income (tax losses) to the tax group headed by Telefónica, S.A. (see Note 17). The current- or non-current classification is based on the Company s projection of maturities.

The main amounts are those relating to Telefónica Internacional, S.A.U. for 322 million euros (283 million euros in 2011), Telefónica Móviles España, S.A.U. for 123 million euros (130 million euros in 2011) and Telefónica de España, S.A.U. (no balance in 2012 and 32 million euros in 2011).

Note 16. Derivate financial instruments and risk management policies

a) Derivative financial instruments

During 2012, the Group continued to use derivatives to limit interest and exchange rate risk on otherwise unhedged positions, and to adapt its debt structure to market conditions.

At December 31, 2012, the total outstanding balance of derivatives transactions was 121,514 million euros (141,155 million euros in 2011), of which 96,532 million euros related to interest rate risk and 24,982 million euros to foreign currency risk. In 2011, 119,772 million euros related to interest rate risk and 21,383 million euros to foreign currency risk.

It should be noted that at December 31, 2012, Telefónica, S.A. had transactions with financial institutions to hedge exchange rate risk for other Telefónica Group companies amounting to 507 million euros (696 million euros in 2011). At year-end 2012 and 2011, the Company had no transactions to hedge interest rate risk for other Group companies. These external trades are matched by intra-group hedges with identical terms and maturities between Telefónica, S.A. and Group companies, and therefore involve no risk for the Company. External derivatives not backed by identical intragroup transactions consist of hedges on net investment and future acquisitions that, by their nature, cannot be transferred to Group companies and/or transactions to hedge financing raised by Telefónica, S.A. as parent company of the Telefónica Group, which are transferred to Group subsidiaries in the form of financing rather than via derivative transactions.

The breakdown of Telefónica, S.A. s interest rate and exchange rate derivatives at December 31, 2012, their notional amounts at year end and the expected maturity schedule is as follows:

Millions of euros	**2012**	**Telefonica receives**		**Telefonica pays**	
Type of risk	**Value in Euros**	**Carrying**	**Currency**	**Carrying**	**Currency**
Euro interest rate swaps	**72,164**				
Fixed to fixed	55	55	EUR	55	EUR
Fixed to floating	24,380	24,380	EUR	24,380	EUR
Floating to fixed	47,679	47,679	EUR	47,679	EUR
Floating to floating	50	50	EUR	50	EUR
Foreign currency interest rate swaps	**22,157**				
Fixed to floating					
CHFCHF	331	400	CHF	400	CHF
CZKCZK	50	1,250	CZK	1,250	CZK
GBPGBP	3,498	2,855	GBP	2,855	GBP
JPYJPY	150	17,000	JPY	17,000	JPY
USDUSD	14,364	18,951	USD	18,951	USD
Floating to fixed					
CZKCZK	50	1,250	CZK	1,250	CZK
GBPGBP	1,445	1,180	GBP	1,180	GBP
USDUSD	2,269	2,994	USD	2,994	USD
Exchange rate swaps	**13,719**				
Fixed to fixed					

EURBRL	203	222	EUR	546	BRL
EURCLP	60	50	EUR	37,800	CLP
EURCZK	622	631	EUR	15,641	CZK
Fixed to floating					
USDEUR	95	132	USD	95	EUR
Floating to floating					
CHFEUR	332	400	CHF	332	EUR

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EURCZK	327	322	EUR	8,228	CZK
EURGBP	496	588	EUR	405	GBP
GBPEUR	829	700	GBP	829	EUR
JPYEUR	167	17,000	JPY	167	EUR
USDEUR	10,588	14,196	USD	10,588	EUR
Forwards	**7,399**				
ARSUSD	14	110	ARS	19	USD
CLPEUR	64	40,428	CLP	64	EUR
CZKEUR	115	2,906	CZK	115	EUR
EURBRL	18	18	EUR	49	BRL
EURCOP	1	1	EUR	3,100	COP
EURCZK	541	550	EUR	13,612	CZK
EURGBP	1,345	1,356	EUR	1,098	GBP
EURPEN			EUR	1	PEN
EURMXN	80	81	EUR	1,361	MXN
EURUSD	2,092	2,137	EUR	2,760	USD
GBPEUR	1,904	1,539	GBP	1,904	EUR
GBPUSD	45	36	GBP	59	USD
USDARS	17	19	USD	110	ARS
USDBRL	27	34	USD	71	BRL
USDCLP	5	6	USD	2,964	CLP
USDCOP	1	2	USD	2,796	COP
USDEUR	1,101	1,443	USD	1,101	EUR
USDGBP	28	37	USD	23	GBP
USDPEN	1	1	USD	2	PEN
Spot	**111**				
CZKEUR	106	2,672	CZK	106	EUR
EURGBP	5	5	EUR	3	GBP
Subtotal	**115,550**				