TELEFONICA S A
Form 6-K
March 20, 2014
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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, 2014

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 87 00

(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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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 2013 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 20^{th}, 2014

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AUDIT REPORT, ANNUAL FINANCIAL STATEMENTS, AND MANAGEMENT REPORT OF TELEFÓNICA, S.A., ALL FOR THE YEAR ENDED DECEMBER 31, 2013

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Audit Report

TELEFÓNICA, S.A.

Financial Statements and Management Report

for the year ended

December 31, 2013

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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, 2013, 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 2013 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, 2013, 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 2013 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 2013 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.

/s/ Ignacio Viota del Corte
Ignacio Viota del Corte

March 19, 2014

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. A member firm of Ernst & Young Global Limited.

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TELEFÓNICA, S.A.

Annual financial statements and management report for the year ended December 31, 2013

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2013 Financial Statements

Telefónica, S.A.

Balance sheet at December 31

Millions of euros

	Notes	2013	2012
ASSETS			
NON-CURRENT ASSETS		**70,506**	**82,182**
Intangible assets	5	**58**	**64**
Software		12	15
Other intangible assets		46	49
Property, plant and equipment	6	**262**	**303**
Land and buildings		146	148
Plant and other PP&E items		90	115
Property, plant and equipment under construction and prepayments		26	40
Investment property	7	**399**	**410**
Land		65	65
Buildings		334	345
Non-current investments in Group companies and associates	8	**62,380**	**71,779**
Equity instruments		58,155	67,770
Loans to Group companies and associates		4,205	3,988
Other financial assets		20	21
Financial investments	9	**3,082**	**4,531**
Equity instruments		591	433
Loans to third parties			39
Derivatives	16	2,369	4,045
Other financial assets	9	122	14
Deferred tax assets	17	**4,325**	**5,095**
CURRENT ASSETS		**14,634**	**7,553**
Net assets held for sale		**2,302**	
Trade and other receivables	10	**1,122**	**1,065**
Current investments in Group companies and associates	8	**5,992**	**3,636**
Loans to Group companies and associates		5,956	3,608
Derivatives	16	10	2
Other financial assets		26	26
Investments	9	**445**	**390**
Loans to companies		45	9
Derivatives	16	337	282
Other financial assets		63	99
Accruals		**5**	**12**
Cash and cash equivalents		**4,768**	**2,450**

TOTAL ASSETS	**85,140**	**89,735**

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

Millions of euros

	Notes	2013	2012
Equity and liabilities			
EQUITY		**22,827**	**22,978**
CAPITAL AND RESERVES		23,658	24,383
Share capital	11	**4,551**	**4,551**
Share premium	11	**460**	**460**
Reserves	11	**18,528**	**19,529**
Legal		984	984
Other reserves		17,544	18,545
Treasury shares and own equity instruments	11	**(545)**	**(788)**
Profit for the year	3	**664**	**631**
UNREALIZED GAINS (LOSSES) RESERVE	11	(831)	(1,405)
Available-for-sale financial assets		49	(34)
Hedging instruments		(880)	(1,371)
NON-CURRENT LIABILITIES		**47,154**	**50,029**
Non-current provisions		**213**	**187**
Other provisions		213	187
Non-current borrowings	12	**9,096**	**13,274**
Bonds and other marketable debt securities	13	177	828
Bank borrowings	14	6,079	9,232
Derivatives	16	2,677	3,130
Finance leases		75	75
Other debts		88	9
Non-current borrowings from Group companies and associates	15	**37,583**	**36,069**
Deferred tax liabilities	17	**262**	**499**
CURRENT LIABILITIES		**15,159**	**16,728**
Current provisions		**12**	**8**
Current borrowings	12	**1,869**	**2,097**
Bonds and other marketable debt securities	13	943	828
Bank borrowings	14	831	1,145
Derivatives	16	95	124
Current borrowings from Group companies and associates	15	**12,982**	**14,181**
Trade and other payables	18	**286**	**439**
Accruals		**10**	**3**
TOTAL EQUITY AND LIABILITIES		**85,140**	**89,735**

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

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2013 Financial Statements

Telefónica, S.A.

Income statements for the years ended December 31

Millions of euros	**Notes**	**2013**	**2012**
Revenue	19	**11,003**	**5,817**
Rendering of services to Group companies and associates		687	687
Rendering of services to non-group companies		3	3
Dividends from Group companies and associates		10,078	4,852
Interest income on loans to Group companies and associates		235	275
Impairment and gains (losses) on disposal of financial instruments		**(7,990)**	**(5,311)**
Impairment losses and other losses	8	(7,998)	(5,312)
Gains (losses) on disposal and other gains and losses		8	1
Other operating income	19	**84**	**120**
Non-core and other current operating revenue - Group companies and associates		62	95
Non-core and other current operating revenue - non-group companies		22	25
Employees benefits expense	19	**(154)**	**(141)**
Wages, salaries and others		(135)	(130)
Social security costs		(19)	(11)
Other operational expense		**(343)**	**(500)**
External services - Group companies and associates	19	(104)	(99)
External services - non-group companies	19	(225)	(389)
Taxes other than income tax		(14)	(12)
Depreciation and amortization	5, 6 and 7	**(76)**	**(63)**
Gains (losses) on disposal of fixed assets			**(1)**
OPERATING PROFIT		**2,524**	**(79)**
Finance revenue	19	**179**	**213**
From equity investments of third parties		7	17
From marketable securities and other financial instruments of third parties		172	196
Finance costs	19	**(2,712)**	**(2,268)**
Borrowings from Group companies and associates		(1,971)	(2,042)
Third-party borrowings		(741)	(226)
Change in fair value of financial instruments		**(38)**	**(59)**
Trading portfolio and other securities		6	(4)
Gain (loss) on available-for-sale financial assets recognized in the period	9 and 11	(44)	(55)
Exchange rate gains (losses)	19	**82**	**41**
Impairment and gains (losses) on disposal of financial instruments with third-parties		**(2)**	**(53)**
NET FINANCIAL EXPENSE		**(2,491)**	**(2,126)**
PROFIT BEFORE TAX	21	**33**	**(2,205)**
Income tax	17	**631**	**2,836**

PROFIT FOR THE YEAR	**664**	**631**

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

Telefónica, S.A.

Statements of changes in equity for the years ended December 31

A) Statement of recognized income and expense

Millions of euros	Notes	2013	2012
Profit of the period		**664**	**631**
Total income and expense recognized directly in equity	11	**463**	**(950)**
From measurement of available-for-sale financial assets		74	(46)
From cash flow hedges		588	(1,310)
Income tax impact		(199)	406
Total amounts transferred to income statement	11	**111**	**160**
From measurement of available-for-sale financial assets		44	55
From cash flow hedges		114	173
Income tax impact		(47)	(68)
TOTAL RECOGNIZED INCOME AND EXPENSE		**1,238**	**(159)**

The accompanying Notes 1 to 23 and Appendices I and II 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, 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)
Transactions with treasury shares or own equity instruments (net)			(353)	(349)				(702)
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**
Total recognized income and expense					664		574	1,238
Transactions with shareholders and owners			(1,680)	243				(1,437)
Capital decreases								
Dividends paid			(1,588)					(1,588)
Transactions with treasury shares or own equity instruments (net)			(92)	243				151
Other movements			48					48
Appropriation of prior year profit (loss)			631		(631)			
Balance at December 31, 2013	**4,551**	**460**	**18,528**	**(545)**	**664**		**(831)**	**22,827**

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

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2013 Financial Statements

Telefónica, S.A.

Cash flow statements for the years ended December 31

Millions of euros	**Notes**	**2013**	**2012**
A) CASH FLOWS FROM OPERATING ACTIVITIES		**6,224**	**1,981**
Profit before tax		**33**	**(2,205)**
Adjustments to profit:		**226**	**2,519**
Depreciation and amortization	5,6 and 7	76	63
Impairment of investments in Group companies and associates	8	7,998	5,312
Change in long term provisions		(18)	145
Gains on the sale of financial assets		(8)	(1)
Losses on disposal of property, plant and equipment			1
Dividends from Group companies and associates	19	(10,078)	(4,852)
Interest income on loans to Group companies and associates	19	(235)	(275)
Net financial expense		2,491	2,126
Change in working capital		**(52)**	**(165)**
Trade and other receivables		(7)	45
Other current assets		11	(35)
Trade and other payables		(76)	(73)
Other current liabilities		20	(102)
Other cash flows from operating activities	21	**6,017**	**1,832**
Net interest paid		(1,664)	(2,007)
Dividends received		6,428	3,337
Income tax receipts		1,253	502
B) CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		**(147)**	**1,372**
Payments on investments	21	(2,938)	(6,779)
Proceeds from disposals	21	2,791	8,151
C) CASH FLOWS USED IN FINANCING ACTIVITIES		**(3,736)**	**(1,663)**
Payments on equity instruments		(244)	(590)
Proceeds from financial liabilities	21	(1,904)	1,763
Debt issues		10,127	10,964
Repayment and redemption of debt		(12,031)	(9,201)
Dividends paid	11	(1,588)	(2,836)
D) NET FOREIGN EXCHANGE DIFFERENCE		**(23)**	**(5)**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**2,318**	**1,685**
Cash and cash equivalents at January 1		2,450	765
Cash and cash equivalents at December 31		4,768	2,450

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

TELEFÓNICA, S.A.

Annual financial statements for the ended December 31, 2013

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 offers both fix and mobile telecommunications with the aim to turn the challenges of the new digital business into reality and being one of the most important players. The objective of the Telefónica Group is positioning as a Company with an active role in the digital business taking advantage of the opportunities of its size and industrial and strategic alliances.

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 Spanish GAAP in force approved by Royal Decree 1514/2007, on November 16 (PGC 2007), modified by Royal Decree 1159/2010, dated September 17, 2010 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 2013.

The accompanying financial statements for the year ended December 31, 2013 were prepared by the Company s Board of Directors at its meeting on February 26, 2014 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 2012 and 2013 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) Materiality

These financial statements do not include any information or disclosures that, not requiring presentation due to their qualitative significance, have been determined as immaterial or of no relevance pursuant to the concepts of *materiality* or *relevance* defined in the PGC 2007 conceptual framework.

d) 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.

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 valuation 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.

Note 3: Proposed appropriation of profit

Telefónica, S.A. obtained 664 million euros of profit in 2013. Accordingly, the Company s Board of Directors will submit the following proposed appropriation of 2013 profit for approval at the Shareholders Meeting:

Millions of euros	
Proposed appropriation:	
Profit for the year	664
Distribution to:	
Goodwill reserve (Note 11.c)	2
Voluntary reserves	662

Note 4. Recognition and measurement accounting policies

As stated in Note 2, the Company s financial statements have been prepared in accordance with the accounting principles and standards contained in the Código de Comercio, which are further developed in the Plan General de Contabilidad currently in force (PGC 2007), as well as any commercial regulation in force at the reporting date.

Accordingly, only the most significant accounting policies used in preparing the accompanying financial statements are set out below, in light of the nature of the Company s activities as a holding.

a) Intangible assets

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

Intangible assets are amortized on a straight-line basis over their useful lives. The most significant items included in this caption are computer software licenses, which are generally amortized on a straight-line basis over three years.

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.

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

Investment property is measured and depreciated using the same criteria described for land and buildings for own use.

c) Impairment of non-current assets

Non-current assets are assessed at each reporting date for indicators of impairment. Where such indicators 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.

Telefónica bases the calculation of impairment on the business plans of the various companies to which the assets are allocated. The projected cash flows, based on strategic business plans, cover a period of five years. Starting with the sixth year, an expected constant growth rate is applied.

d) 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.

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 other categories of financial assets defined in the PGC 2007 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.

Derivative financial instruments and hedge accounting

When Telefónica chooses not to apply hedge accounting criteria but economic hedging, gains or losses resulting from changes in the fair value of derivatives are taken directly to the income statement.

e) 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.

f) Related party transactions

In mergers and spin-offs of businesses involving the parent company and its direct or indirect subsidiary, in cases of non-monetary contributions of businesses between Group companies, and in cases of dividends, 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 NOFCAC. Lastly, the Company may also opt to use the values resulting from a reconciliation to the NOFCAC. Any accounting difference is taken to reserves.

g) 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.

h) 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 2013 and 2012 are as follows:

Millions of euros **Item**	**2013**	**2012**
Total assets	118,862	129,773
Equity:		
Attributable to equity holders of the parent	21,185	20,461
Attributable to minority interests	6,297	7,200
Revenue from operations	57,061	62,356
Profit for the year:		
Attributable to equity holders of the parent	4,593	3,928
Attributable to minority interests	376	475

Note 5. Intangible assets

The movements in the items composing intangible assets and the related accumulated amortization in 2013 and 2012 are as follows:

2013

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	**331**	**7**	**(78)**	**1**	**261**
Software	184	4	(69)	1	120
Other intangible assets	147	3	(9)		141
ACCUMULATED AMORTIZATION	**(267)**	**(13)**	**77**		**(203)**
Software	(169)	(8)	69		(108)
Other intangible assets	(98)	(5)	8		(95)
Net carrying amount	**64**	**(6)**	**(1)**	**1**	**58**

2012

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	**320**	**15**	**(7)**	**3**	**331**
Software	173	11	(2)	2	184
Other intangible assets	147	4	(5)	1	147
ACCUMULATED AMORTIZATION	**(252)**	**(17)**	**2**		**(267)**
Software	(162)	(8)	1		(169)
Other intangible assets	(90)	(9)	1		(98)
Net carrying amount	**68**	**(2)**	**(5)**	**3**	**64**

At December 31, 2013 and 2012 commitments exist to acquire intangible assets amounting to 0.1 and 1 million euros, respectively.

At December 31, 2013 and 2012, the Company had 157 million euros and 223 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 2013 and 2012 are as follows:

2013

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	**592**	**11**	**(35)**	**(1)**	**567**
Land and buildings	227		(17)	18	228
Plant and other PP&E items	325	4	(18)	2	313
Property, plant and equipment under construction and prepayments	40	7		(21)	26
ACCUMULATED DEPRECIATION	**(289)**	**(52)**	**36**		**(305)**
Buildings	(79)	(21)	18		(82)
Plant and other PP&E items	(210)	(31)	18		(223)
Net carrying amount	**303**	**(41)**	**1**	**(1)**	**262**

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**

Firm commitments to acquire property, plant and equipment at December 31, 2013 and 2012 amounted to 0.7 million euros and 1 million euros, respectively.

At December 31, 2013 and 2012, the Company had 47 million euros and 42 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 76 million euros and 78 million euros at the 2013 and 2012 year-ends, respectively. Also included is the net carrying amount of the remaining assets (mainly plant and property) of 63 and 88 million euros at December 31, 2013 and 2012, 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 2013 and 2012 and the related accumulated depreciation are as follows:

2013

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	**470**				**470**
Land	65				65
Buildings	405				405
ACCUMULATED DEPRECIATION	**(60)**	**(11)**			**(71)**
Buildings	(60)	(11)			(71)
Net carrying amount	**410**	**(11)**			**399**

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**

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. The maturity calendar of the future minimum payments is as follows:

Millions of euros	Future minimum payments 2013	2012
Up to one year	5	5
Between one and five years	21	21
Over 5 years	44	49

Total	**70**	**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.

In 2013, the Company has buildings with a total area of 330,044 square meters leased to several Telefónica Group and other companies, equivalent to an occupancy rate of 92.72% of the buildings it has earmarked for lease. In 2012, it had a total of 332,291 square meters leased, equivalent to an occupancy rate of 93.45% of the buildings earmarked for lease.

Total income from leased buildings in 2013 (see Note 19.1) amounted to 52 million euros (50 million euros in 2012). Future minimum rentals receivable under non-cancellable leases are as follows:

Millions of euros	**2013 Future minimum recoveries**	**2012 Future minimum recoveries**
Up to one year	51	51
Between one and five years	30	83
Over 5 years	1	
Total	**82**	**134**

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

The main contracts of operating leases in which Telefónica, S.A. acts as lessee and there is no sub-lease 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 2013 and 2012 are as follows:

2013

Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange losses	Dividends	Hedges of a net investment	Closing balance	Fair value
Equity instruments (Net) (1)	67,770	(6,275)	(142)	(2,553)		(575)	(70)	58,155	133,297
Equity instruments (Cost)	82,532	1,723	(195)	(3,308)		(575)	(70)	80,107	
Impairment losses	(14,762)	(7,998)	53	755				(21,952)	
Loans to Group companies and associates	3,988	2,146	(1,664)	(269)	4			4,205	4,281
Other financial assets	21		(1)					20	20
Total non-current investment in Group companies and associates	**71,779**	**(4,129)**	**(1,807)**	**(2,822)**	**4**	**(575)**	**(70)**	**62,380**	**137,598**
Loans to Group companies and associates	3,608	5,774	(3,692)	269	(3)			5,956	5,956
Derivates	2	44	(36)					10	10
Other financial assets	26							26	26
Total current investments in Group companies and associates	**3,636**	**5,818**	**(3,728)**	**269**	**(3)**			**5,992**	**5,992**

(1) Fair value at December 31, 2013 of Group companies and associates quoted in an active market (Telefónica Brasil, S.A.) 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

Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange losses	Dividends	Hedges of a net investment	Closing balance	Fair value
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**
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.

The most significant transactions occurred in 2013 and 2012 as well as their accounting impacts are described below:

2013

On April 29, 2013, Telefónica, S.A. signed an agreement with Corporación Multi Inversiones (CMI) to incorporate jointly a Spanish company to manage the Group s investments in Guatemala, El Salvador, Nicaragua and Panama.

The resulting company, Telefónica Centroamérica Inversiones, S.L. (TCI) was incorporated through the initial contribution by Telefónica, S.A. of its entire shareholdings in Guatemala and El Salvador, along with 31.85% of its interest in Telefónica Móviles Panamá, S.A. at its net carrying amount equivalent to 633 million euros. The new company was incorporated and the corresponding contributions made on June 7, 2013 (see Note 8.4.).

On August 2, 2013 and having obtained the necessary regulatory authorisations, TCI s capital was increased in 500 million US dollars (equivalent to 377 million euros on the payment date), subscribed in full by TLK Investments, C.V. (a company part of the CMI group), thereby completing the operation. Consequently, TLK Investments, C.V. holds a 40% interest in TCI and Telefónica, S.A. the remaining 60%. On the same date, Telefónica, S.A. sold the remainder of its stake in Telefónica Móviles Panamá, S.A. (24.5%) for 83 million euros.

On November 5, 2013, Telefónica announced that it had reached an agreement to sell 65.9% of the capital of Telefónica Czech Republic,a.s. (Telefónica Czech Republic) to PPF Group N.V.I. (PPF) for, approximately, 306 Czech crowns/share (around 2,467 million euros at the agreement date). This consideration is to be settled in two tranches:

(i) 2,063 million euros in cash on completion of the sale; and

(ii) 404 million euros in cash as a deferred payment over four years.

Subsequent to the transaction, Telefónica will hold a stake of 4.9% in Telefónica Czech Republic. This transaction is described in Note 20 c.

At the date of the agreement, Telefónica, S.A. measured its stake in Telefónica Czech Republic at its total market value, recognising a provision for its investment portfolio of 643 million euros under the *Impairment losses and gains (losses) on disposal of financial instruments* heading of the income statement.

The agreed price for the stake being sold, updated at year end exchange rates, has been reclassified to the *Non-current assets held for sale* (see Note 20 c.) until the pertinent authorisations were received from the regulators (which had not been received at reporting date, see Note 22). The market value of the 4.9% stake that it is retained totaling 178 million euros has been reclassified to the Equity instruments heading under non-current financial assets (see Note 9.3). The aforementioned reclassifications are presented under Transfers in the table of movements for 2013.

On September 24, 2013, Telefónica and the other shareholders of the Italian company Telco, S.p.A. (which holds a 22.4% stake with voting rights of Telecom Italia, S.p.A.) reached an agreement whereby Telefónica, S.A. subscribed and paid out a share capital increase in Telco, S.p.A., through a cash contribution of 324 million euros, in exchange for shares with voting rights in Telco, S.p.A.. As a result of this capital increase, the interest held by Telefónica in the voting share capital of Telco, S.p.A. remains unchanged (i.e. 46.18 %, as Telefónica currently holds), although its interest in the total share capital of Telco, S.p.A. is increased to 66% (See Note 20.c.). This amount is recognised as Additions of equity instruments in the accompanying table of movements.

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. 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.

<u>Other movements</u>

Movement in Transfers in both 2013 and 2012 mainly includes the reclassification between long-term and current loans 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 101 million euros in 2013 (30 million euros in 2012), O2 Europe Ltd. totaling 286 million euros (no dividend distribution in 2012) and Panamá Cellular Holdings, B.V. totaling 186 million euros.

In 2013 and 2012, Telefónica, S.A. bought and sold the following shareholdings:

a) Acquisitions of investments and capital increases (Additions):

Millions of euros

Companies	**2013**	**2012**
Telfin Ireland, Ltd.		1,081
Telfisa Global, B.V.	7	703
Telefónica Chile Holdings, B.V.		405
Telco, S.p.A.	324	277

Telefónica Móviles México, S.A. de C.V.	1,170	97
Telefónica de Costa Rica, S.A.	38	74
Other companies	184	236
Total	**1,723**	**2,873**

2013

On February 11, June 19 and August 29, 2013, Telefónica Móviles México, S.A. de C.V. increased its share capital by 2,173 million Mexican pesos (127 million euros), 2,435 million Mexican pesos (143 million euros) and 3,000 million Mexican pesos (170 million euros), which was fully subscribed by Telefónica, S.A.

On April 19, 2013, Telefónica, S.A. authorised the capitalisation of part of the loans it had extended to its subsidiary Telefónica Móviles México, S.A. de C.V. amounting to 11,697 million Mexican pesos (730 million euros).

The agreement reached to increase the stake in Telco, S.p.A. is described in this Note.

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.

On November 22, 2012, Telfin Ireland, Ltd increased its capital again by 76 million euros, subscribed by the Company. The object of this transaction was funding the financing need of the European affiliates.

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 fulfill payment obligation and requirements.

b) Disposals of investments and capital decreases:

Millions of euros

Companies	**2013**	**2012**
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 Panamá, S.A.	130	
Other companies	65	85
Total Subsidiaries:	**195**	**7,421**

2013

The disposal of Telefónica Móviles Panamá, S.A. forms part of the partial sale described at the start of this Note.

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.

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, 2013.

As a result of these estimations and the effect of the net investment hedge in 2013, an impairment provision of 7,998 million euros was recognized (5,312 million euros in 2012). This amount derives mainly from the following companies:

(a) write down recognized for Telefónica Europe, plc. (2,423 million euros in 2013 and 3,682 million euros in 2012), less 70 million euros for the effect of the net investment hedge (82 million euros in 2012).

(b) write down of 2,948 million euros for Telefónica Brasil, S.A. (69 million euros in 2012) and 915 million euros for Sao Paulo Telecomunicaçoes, S.A. (34 million euros in 2012).

(c) write down of 359 million euros for Telco, S.p.A. (1,305 million euros in 2012), the owner of a stake in Telecom Italia. After the adjustment registered, the investment in Telecom Italia, S.p.A. through Telco, S.p.A. is valued at 1 euro per share (1.2 euros per share at December 31, 2012).

(d) write down recognised by Telefónica Czech Republic of 643 million euros explained at the beginning of this Note.

(e) write down of 211 million euros for Telefónica México, S.A. de C.V. (32 million euros in 2012).

The write down of Telefónica Europe, plc. is mainly due to the net impact of the fluctuation in the pound sterling exchange rate (decrease of 2.15%), the impact of the 1,309 million-euro dividend distribution in 2013 and, as a minor effect, the changes in the present value of the expected turnover of the subsidiary. The estimate of Gross Domestic Product (GDP) growth in United Kingdom, prepared by International Monetary Fund and analysts, has been downgraded by 0.3% since the one elaborated 18 months ago. This change in expectations, as well as the higher competitive pressure, has been reflected in the decrease of Operating Income before Depreciation and Amortization (OIBDA) used to calculate future cash flows. The decrease in average OIBDA margin used in 2013 compared to 2012 has been 4.4. p.p.

The write down of the stake in Telefónica Brasil, S.A. and Sao Paulo Telecomunicaçoes, S.A. results from the fluctuation in the Brazilian real exchange rate (decrease of 16.5%), changes in the present value of the expected turnover of the subsidiary, and the 655 million-euro dividend distribution, including dividends received from Sao Paulo Telecommunicaçoes. The effect of the changes in the macroeconomic scenario has been significantly important in Brazil. The estimate of GDP growth in the country, prepared by International Monetary Fund and analysts, has been downgraded by half since the one elaborated 18 months ago (estimate of 5.7% at the end of 2013 since 11.3% in June 2012). This change in expectations has been reflected in the decrease of Operating Income before Depreciation and Amortization (OIBDA) used to calculate future cash flows. The decrease in average OIBDA margin used in 2013 compared to 2012 has been 2.75 p.p.

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

8.4. Transactions protected for tax purposes

Transactions carried out in 2013 that qualify for special tax treatment, as defined in Articles 83 or 94, as applicable, of Chapter VIII of Title VII of Legislative Royal Decree 4/2004 of March 5 approving the Revised Spanish Corporate Income Tax Law, are detailed in the following paragraphs. Transactions qualify for special tax treatment carried out in prior years are disclosed in the financial statements for those years.

On May 23, 2013, Telefónica, S.A. performed a share with the Dutch company Guatemala Cellular Holdings, B.V., involving contributing to the latter its 99.99% shareholding in the Guatemalan company TCG Holdings, S.A. This transaction is treated as a share exchange for tax purposes pursuant to Art. 83.3 of Legislative Royal Decree 4/2004 of March 5.

The carrying amount of the shares delivered was 237 million euros, the same as the value recognized for the shares received by way of payment.

On June 7, 2013, Telefónica, S.A. incorporated Telefónica Centroamérica Inversiones, S. L, through a non-monetary contribution of the following shareholdings: a) 99.99% of Telefónica El Salvador Holding, Sociedad Anónima de Capital Variable from El Salvador, whose carrying amount recognized in the financial statements was 161 million euros; b) 92.83% of Guatemala Cellular Holdings, B.V. from Holland, whose carrying amount totaled 302 million euros, and; c) 31.85% of the Panamanian company Telefónica Móviles Panamá, S.A., the carrying amount of which was 170 million euros. The carrying amount of the shares received by way of payment was 633 million euros.

This transaction is treated for tax purposes as a contribution in kind as per Art. 94 of Legislative Royal Decree 4/2004 of March 5.

These transactions form part of the restructuring of the Telefónica Group in Central America, whose purpose is, inter alia, to streamline and reorganize the investment in this region by centralizing assets in a holding company which unlocks synergies, makes better use of investments, etc. in partnership with a third party, CMI.

On July 26, 2013, exercising the powers conferred on them by shareholders in the Extraordinary Meeting, the representatives of the sole stakeholder of Telefónica de España, S.A.U., Telefónica Soluciones Sectoriales, S.A.U. and

Telefónica Cable, S.A.U., resolved to approve the takeover of Telefónica Soluciones Sectoriales, S.A.U. and Telefónica Cable, S.A.U. by Telefónica de España, S.A.U., and the subsequent winding-up of Telefónica Soluciones Sectoriales, S.A.U. and Telefónica Cable, S.A.U., and transfer en bloc of their assets and liabilities to Telefónica de España, S.A.U., which will also acquire all their rights and obligations by universal succession.

The takeover merger deed was filed in the Madrid Companies Register on October 2, 2013, with economic effect on January 1, 2013. All the disclosures specified in article 93 of the revised Spanish Income Tax Law are included in the notes to the financial statements of Telefónica de España, S.A.U., as the absorbing company.

8.5. The breakdown and maturity of loans to Group companies and associates in 2013 and 2012 are follows:

2013

Millions of euros

Company	2014	2015	2016	2017	2018	2019 and subsequent years	Final balance, current and non-current
Telefónica Móviles España, S.A.U.	130		638		400		1,168
Telefónica Móviles México, S.A. de C.V.	171	648					819
Telefónica de Contenidos, S.A.U.		419					419
Telefónica de España, S.A.U.	200			165			365
Telefónica Global Technology, S.A.U.	1	1	68			139	209
Telco, S.p.A.	33	1,225					1,258
Telefónica Emisiones, S.A.U.	223	122					345
Compañía de Inversiones y Teleservicios, S.A.U.	449						449
Telefónica Internacional, S.A.U.	4,530						4,530
Other companies	219	31	219			130	599
Total	**5,956**	**2,446**	**925**	**165**	**400**	**269**	**10,161**

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
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
Otras	135	39	46	6	6	51	283

Total	**3,608**	**3,558**	**182**	**20**	**20**	**208**	**7,596**

The main loans granted to Group and associated companies are described below:

The financing extended to Telefónica Móviles España, S.A.U. in 2013 consists of two loans for 638 million euros and 400 million euros, with maturity date in 2016 and 2018, respectively, and formalised in 2013 to enable this company to meet its payment obligations. These credits have 4 million euros of accrued interest receivable.

The financing awarded to this subsidiary in 2012 comprised three loans of 81 million euros, 95 million euros and 462 million euros formalised in 2012, whose purpose was to provide the subsidiary with the funds required to pay for the spectrum capacity acquired. These loans matured in 2013 and were cancelled; recognised as disposals in the table of movements for 2013.

Moreover, 126 million euros of taxes are receivable from this subsidiary for its tax expense declared in the consolidated tax return (333 million euros in 2012).

At December 31, 2013, the debt with Telefónica Móviles México, S.A. de C.V. amounts to 11,696.57 million Mexican pesos, equivalent to 648 million euros (23,393 million Mexican pesos, equivalent to 1,367 million euros in 2012). This consideration is recognised as non-current pursuant to the expected collection date at the reporting date. In 2013, half the nominal debt outstanding at the 2012 year end was capitalised, totaling 730 million euros and this movement has been recognised under Disposals in the table of movements for 2013. This transaction is described in section a) of this Note.

At December 31, 2013, accrued interest receivable totals 171 million euros (82 million euros in 2012), which forms part of the current balance receivable.

At December 31, 2013, the debt with Telefónica de Contenidos, S.A.U. is broken down as follows:

a) A 340 million-euro participating loan awarded in 2013 and maturity date in February 2015, all of which has been drawn down. This loan replaces a previous participating loan of 1,142 million euros which has been settled in 2013. Interest on this loan is calculated according to the performance of Telefónica de Contenidos, S.A.U. At December 31, 2013, no accrued interest is receivable (70 million euros in 2012), which forms part of the current balance receivable.

b) A 79 million-euro participating loan extended in 2005 and maturing in 2015; and

c) There are no tax receivables from this subsidiary, in connection with the consolidated tax group in 2013 (this balance was 2 million euros in 2012).

The 2013 balance for Telefónica de España, S.A.U. consists of a 165 million euros line of credit granted to the subsidiary in 2013. There is also a balance of 200 million euros comprising tax receivables from the subsidiary for its tax expense declared in the consolidated tax return (384 million euros in 2012).

At December 31, 2013, the debt with Telefónica Global Technology, S.A.U. (TGT) comprises the following:

a) A credit facility signed on January 19, 2010 for 19 million euros with an outstanding balance at December 31, 2013 of 5 million euros (10 million euros in 2012).

b) A number of long-term financing agreements under participating loans which bear interest based on the business performance of the company, with an outstanding balance at December 31, 2013 of 207 million euros (168 million euros in 2012). This amount includes a contract amounting to 53 million euros signed in 2013, 40 million euros of which had been drawn down at the 2013 year end.

On April 24, 2013, Telco, S.p.A. s Board of Directors approved the issue of bonds totalling 1,750 million euros and maturing on February 28, 2015. Telefónica, S.A. and the other stakeholders resolved to subscribe their respective allocations on a pro-rata basis, with Telefónica, S.A. s contribution amounting to 808 million euros. This new issue enabled Telco, S.p.A. to cancel the bonds issued on May 28, 2012 for the same amount, without Telefónica, S.A. and the other stakeholders having to make any cash outlays.

Pursuant to the agreement reached by Telefónica and the other stakeholders of Telco, S.p.A., on September 24, 2013, Telefónica, S.A. acquired 23.8% of the non-convertible bonds described above from the remaining stakeholders in exchange for 39,021,411 treasury shares, representing 0.9% of its share capital. (see Note 11.1.a.). This amount of 417 million euros is recognised as Additions of loans to Group companies and associates in the accompanying table of movements.

Accrued interest receivable at December 31, 2013 amounted to 33 million euros, which forms part of current receivables (19 million euros in 2012).

The buying back policy of Telefónica Emisiones S.A.U. bonds continued during 2013, reaching a total of 333 million euros (508 million euros at the 2012 year end). Accrued interest receivable amounts to 12 million euros at the 2013 year end (13 million euros at the 2012 year end).

In 2013, the shareholders of Compañía de Inversiones y Teleservicios, S.A.U. agreed in a general meeting to distribute a dividend of 440 million euros against unrestricted reserves. This consideration is recognised as a current receivable at year end, and falls due in the near term.

In 2013, the shareholders of Telefónica Internacional, S.A.U. agreed in a general meeting to distribute a dividend of 4,500 million euros against unrestricted reserves, which had yet to be collected at the end of the reporting period and matures in the near term.

In December 2012, the shareholders of Telefónica Internacional, S.A.U. agreed in a general meeting to distribute a dividend of 1,500 million euros, collected in 2013, against unrestricted reserves. This amount is recognized under current receivables in the table of movements for 2012.

The Company has also extended 355 million euros (814 million euros in 2012) 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). The most significant amounts have already been disclosed through this Note. All these amounts fall due in the short term.

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 827 million euros (665 million euros in 2012).

Total accrued interest receivable at December 31, 2013 included under Current loans to group companies and associates amounted to 222 million euros (191 million euros in 2012).

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 2014, 2015 and 2016 (see Note 19.3).

Note 9. Financial investments

9.1. The breakdown of Financial investments at December 31, 2013 and 2012 is as follows:

2013

	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	**591**	**1,699**	**778**	**3,068**	**699**	**2,369**		**13**	**1**	**14**	**14**	**3,082**	**3,082**
Equity instruments	591			591	591							591	591
Derivatives (Note 16)		1,591	778	2,369		2,369						2,369	2,369
Loans to third parties and other financial assets		108		108	108			13	1	14	14	122	122
Current financial investments		**323**	**14**	**337**		**337**		**45**	**63**	**108**	**108**	**445**	**445**
Loans to third parties								45	63	108	108	108	108
Derivatives (Note 16)		323	14	337		337						337	337
Total financial investments	**591**	**2,022**	**792**	**3,405**	**699**	**2,706**		**58**	**64**	**122**	**122**	**3,527**	**3,527**

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2012

	Assets at fair value				Measurement hierarchy			Assets at amortized cost					
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**

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, 2013 and 2012 (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, 2013 and 2012 are as follows:

December 31, 2013

Millions of euros	Opening balance	Additions	Disposals	Other movements	Fair value adjustments	Closing balance
Banco Bilbao Vizcaya Argentaria, S.A.	316			(10)	76	382
Telefónica Czech Republic, a.s.				178	(12)	166
Portugal Telecom, SGPS, S.A.	84		(84)			
Other companies	33				10	43
Total	**433**		**(84)**	**168**	**74**	**591**

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**

As a consequence of the transaction described in Note 8.1, the Company reclassified to this caption the remaining 4.9% investment in Telefónica Czech Republic, a.s. for an amount of 178 million euros. The change in value due to exchange-rate fluctuations and market share prices has been recognised with a counterpart in equity, net of its tax effect.

In 2010, Telefónica entered into three equity swap contracts for Portugal Telecom, SGPS, S.A. shares with a number of financial institutions. In 2013 and 2012, 23 million shares and 21 million shares were sold, respectively, fully canceling all the three contracts. These transactions are shown under Disposals in the tables above while the impact on the income statement amounts to 33 million euros (34 million euros in 2012), recognized under Gain (loss) on available-for-sale financial assets recognized in the period .

At 2013 year end, the Company has analysed the fair value of its investment in Banco Bilbao Vizcaya Argentaria, S.A. As a result of this review, the participation has been revalued in 76 million euros. This impact, net of tax effect, is registered in the Equity of the Company (Note 11.2.). The effect, recorded both in 2013 and 2012 under other movements , relates to the sale of rights to scrip dividends that the bank distributed in both years.

At December 31, 2013 Telefónica, S.A. s investment in Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) represents 0.76% 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. The 21 million euro loss on these transactions was 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, 2013 and 2012 is as follows:

Millions of euros	2013	2012
Other non-current financial assets		
Loans to third parties		39
Guarantees given	13	13
Other non-current financial assets	109	1
Other current financial assets:		
Loans to third parties	45	9
Other financial investments	63	99
Total	**230**	**161**

9.4.1 Loans to third parties

Non-current loans to third parties included in 2012 the cost of the financial instrument arranged 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). In 2013 the concept has been transferred to Current loans to third parties.

9.4.2. Other non-current financial assets

In November 2013, Telefónica, S.A. acquired on the market a bond convertible into Telecom Italia, S.p.A. shares, with a nominal value of 103 million euros. At year end, the bond was priced at 105% its nominal value, and the 5 million-euro impact of this difference was recognised in the profit and loss account under Fair value of financial instruments .

Note 10. Trade and other receivables

The breakdown of Trade and other receivables at December 31, 2013 and 2012 is as follows:

Millions of euros	**2013**	**2012**
Trade receivables	20	22
Trade receivables from Group companies and associates	425	413
Other receivables	16	19
Employee benefits payable	1	1
Tax receivables (Note 17)	660	610
Total	**1,122**	**1,065**

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 2013 and 2012 include balances in foreign currency equivalent to 242 million and 134 million euros, respectively. In December 2013, there were receivables in US dollars equivalent to 218 million euros (105 million euros in 2012) and Czech crowns equivalent to 24 million euros (29 million euros in 2012).

These balances gave rise to exchange losses in the income statement of approximately 11 million euros in 2013 (3 million euros of exchange losses in 2012).

Note 11. Equity

11.1 Capital and reserves

a) Share capital

At December 31, 2013, 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.

On May 25, 2012, the deed of capital reduction through the cancellation of 84,209,363 treasury shares previously acquired by Telefónica, S.A. was executed. As a result, 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 Retained earnings .

On June 8, 2012, a share capital increase of 71,237,464 euros was involved, during which 71,237,464 ordinary shares with a par value of 1 euro each were issued, 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.

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, 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, of any 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, 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).

In addition, at the May 31, 2013 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 issuable 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, 2013, the Board of Directors had not exercised these powers, being approved the programs to issue corporate promissory notes for 2014 in January of this same year.

At December 31, 2013 and 2012, Telefónica, S.A. held the following treasury shares:

		Euros per share			
	Number of shares	Acquisition price	Trading price	Market value (1)	%
Treasury shares at 13/12/31	29,411,832	11.69	11.84	348	0.64627%

(1) Millions of euros

		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

The movement in treasury shares of Telefónica, S.A. in 2013 and 2012 is as follows:

	Number of shares
Treasury shares at 11/12/31	**84,209,363**
Acquisitions	126,489,372
Delivery GESP share plan	(2,071,606)
Disposals	(76,569,957)
Share redemption	(84,209,363)
Treasury shares at 12/12/31	**47,847,809**
Acquisitions	113,154,549
Disposals	(131,590,526)
Treasury shares at 13/12/31	**29,411,832**

Furthermore, at December 31, 2012, one Telefónica, S.A. share was held by Telefónica Móviles Argentina, S.A. This share has been sold during 2013.

Acquisitions

The amount paid to acquire treasury shares in 2013 and 2012 was 1,216 million euros and 1,346 million euros, respectively.

Disposals

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 2013 and 2012 amounted to 1,423 million euros and 801 million euros, respectively. The main transactions during 2013 and 2012 were as follows:

On March 26, 2013 Telefónica, S.A. reached an agreement with qualified and professional investors whereby the Company disposed of all the treasury shares it held (90,067,896 shares) at a price of 10.80 euros per share.

On September 24, 2013 Telefónica, S.A. acquired the remaining shareholders of Telco, S.p.A. 23.8% of the non-convertible bonds issued in 2013 by Telco, S.p.A. The payment of this transaction consisted of the transmission of 39,021,411 treasury shares of the Company (Note 8.5.)

In addition to these disposals, on July 27, 2012, 2,071,606 shares were delivered to Group employees when the first phase of the Global Employee Share Plan (the GESP) matured.

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.

Other equity instruments

At December 31, 2013, Telefónica held 134 million call options on treasury shares subject to physical delivery at a fix price (178 million options on treasury shares at December 31, 2012) which are presented as a reduction in equity under the caption treasury share instruments . They are valued at the amount of premium paid, and upon maturity if the call options are exercised the premium is reclassified as treasury shares together with the price paid. If they are not exercised upon maturity their value is recognized directly in reserves.

The Company also has a derivative on Telefónica shares, to be settled by offset, which has increased from 28 million shares in 2012 to 30 million shares in 2013, and is recognized under Derivatives (financial liabilities, current) on the balance sheet. In 2012, the fair value of this derivative was recognized under Derivatives (financial assets, 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, 2013, 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 2013, an amount of 7 million euros corresponding to revaluations reserves subsequently considered unrestricted has been reclassified to Other reserves (10 million euros in 2012). The balance of this reserve at December 31, 2013 and 2012 was 109 million euros and 116 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, 2013 and 2012 was 582 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 2 million euros for goodwill amortization. The balance of this reserve at December 31, 2013 was 9 million euros. The proposed appropriation of 2013 profit (see Note 3) includes an allocation of 2 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 2013

Approval was given at the General Shareholders Meeting of May 31, 2013 to pay a gross 0.35 dividend per outstanding share carrying dividend rights, with a charge to unrestricted reserves. The dividend was paid on November 6, 2013 and the total amount paid was 1,588 million euros.

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 were 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 were delivered to the shareholders who held the rights thereto.

11.2 Unrealized gains (losses) reserve

The movements in the items composing Unrealized gains (losses) reserve in 2013 and 2012 are as follows:

2013

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)	(34)	74	(22)	44	(13)	49
Cash flow hedges (Note 16)	(1,371)	588	(177)	114	(34)	(880)
Total	**(1,405)**	**662**	**(199)**	**158**	**(47)**	**(831)**

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)**

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Note 12. Financial liabilities

The breakdown of Financial liabilities at December 31, 2013 and 2012 is as follows:

2013

	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	**1,223**	**1,454**	**2,677**		**2,677**		**44,002**	**48,226**	**46,679**	**50,903**
Payable to Group companies and associates							37,583	41,748	37,583	41,748
Bank borrowings							6,079	6,167	6,079	6,167
Bonds and other marketable debt securities							177	148	177	148
Derivatives (Note 16)	1,223	1,454	2,677		2,677				2,677	2,677
Other financial liabilities							163	163	163	163
Current financial liabilities	**91**	**4**	**95**		**95**		**14,756**	**14,724**	**14,851**	**14,819**
Payable to Group companies and associates							12,982	13,000	12,982	13,000
Bank borrowings							831	763	831	763
Bonds and other marketable debt securities							943	961	943	961
Derivatives (Note 16)	91	4	95		95				95	95
Other financial liabilities										
Total financial liabilities	**1,314**	**1,458**	**2,772**		**2,772**		**58,758**	**62,950**	**61,530**	**65,722**

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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										
	1,754	**1,500**	**3,254**		**3,254**		**62,367**	**65,527**	**65,621**	**68,781**

Total financial liabilities	

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.

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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, 2013 and 2012 are as follows:

2013

Millions of euros	Non-convertible debentures and bonds	Other marketable debt securities	Total
Opening balance	**1,328**	**328**	**1,656**
Additions		34	34
Depreciation and amortization	(583)		(583)
Revaluation and other movements	16	(3)	13
Closing balance	**761**	**359**	**1,120**
Details of maturities:			
Non-current	177		177
Current	584	359	943

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

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Maturities of the nominal amounts of debenture and bond issues at December 31, 2013 and 2012 are as follows:

2013

Millions of euros			**Maturity**						
Name	**Interest rate**	**% interest rate**	**2014 (1)**	**2015**	**2016**	**2017**	**2018**	**Subsequent years**	**TOTAL**
DEBENTURES AND BONDS:									
JULY 99	ZERO COUPON (**)	6.39%						73	73
MARCH 00	FLOATING	2.065%(*)		50					50
NOVEMBER 12	FIX	4.18%	582						582
Total issues			**582**	**50**				**73**	**705**

(*) 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) The figures include a maturity of 582 million with an option of with an option of early repayment and no contractual obligation to be repaid.

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.

13.2. The detail of the maturities and redemption values of zero-coupon debentures and bonds at December 31, 2013 and 2012 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, 2013, 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	100,000 euros	1, 2, 3, 6, 12, 18 and 25 months	Competitive auctions
500 million; can be increased to 2,000 million	Tailored	100,000 euros	Between 7 and 750 days	Specific transactions

At December 31, 2013 the outstanding balance on this promissory note program was 361 million euros (332 million euros in 2012).

13.4 The average interest rate during 2013 on debentures and bonds outstanding during the year was 4.61% (4.56% in 2012) and the average interest rate on corporate promissory notes was 1.38% (2.37% in 2012).

Note 14. Interest-bearing debt and derivates

14.1 The balances at December 31, 2013 and 2012 are as follows:

December 31, 2013

Millions of euros			
Item	Current	Non-current	Total
Loans with financial entities	831	6,079	6,910
Derivative financial liabilities (Note 16)	95	2,677	2,772
Total	**926**	**8,756**	**9,682**

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**

14.2 The nominal values of the main interest-bearing debts at December 31, 2013 and 2012 are as follows:

Description	**Value Date**	**Marturity Date**	**Currency**	**Limit 12/31/13 (millions)**	**Balance (million of euros)**
Syndicated facility *	04/21/06	04/21/17	EUR	700	700
ECA structured facility *	02/12/10	11/30/19	USD	296	215
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
ECA structured facility *	05/03/11	07/30/21	USD	341	247
Bilateral Loan	02/27/12	02/27/15	EUR	200	200
Syndicated loan Tranche D2	03/02/12	12/14/15	EUR	923	923
Vendor Loan *	02/21/13	02/21/16	EUR	206	206
Vendor Loan*	02/22/13	01/31/23	USD	1,001	336

* Facilities with amortization schedule.

** 1,400 million euros under Tranche A2 were refinanced with forward start facilities dated 02/22/2013 (available from 07/28/2014).

Description	Value Date	Marturity Date	Currency	Limit 12/31/12 (millions)	Balance (million of euros)
Syndicated loan**	04/21/06	04/21/17	EUR	700	700
ECAS structured facility**	02/12/10	11/30/19	USD	351	266
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**	05/03/11	07/30/21	USD	370	135
Bilateral loan	02/27/12	02/27/15	EUR	200	200
Syndicated loan Tranche D2*	12/14/12	12/14/15	EUR	923	923

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

** These credit facilities have a repayment schedule

14.3 Maturities of balances at December 31, 2013 and 2012 are as follows:

December 31, 2013

Millions of euros	**Maturity**						
Items	**2014**	**2015**	**2016**	**2017**	**2018**	**Subsequent years**	**Closing balance**
Loans with financial entities	831	1,228	2,317	1,360	1,064	110	6,910
Derivative financial liabilities (Note 16)	95	215	290	290	562	1,320	2,772
Total	**926**	**1,443**	**2,607**	**1,650**	**1,626**	**1,430**	**9,682**

December 31, 2012

Millions of euros	**Maturity**						
Items	**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**

14.4 On February 21, 2013, Telefónica, S.A. entered into a financing agreement for the purchase of goods and services to providers in an aggregate principal amount of 206 million euros maturing in 2016. At December 31, 2013, this facility has been drawn in full.

On February 22, 2013, Telefónica, S.A. refinanced 1,400 million euros of tranche A2 (originally amounting to 2,000 million euros and scheduled to mature on July 28, 2014) of the 8,000 million euros syndicated loan, originally dated on July 28, 2010. This refinancing was divided in two tranches: a syndicated credit facility amounting to 700 million euros maturing in 2017 (tranche A2A) and another syndicated credit facility amounting to 700 million euros maturing in 2018 (tranche A2B).

On February 22, 2013, Telefónica, S.A. signed a financing agreement for the purchase of goods and services to providers for 1,001 million US dollars (approximately 726 million euros) with an outstanding balance at December 31, 2013 amounting to 463 million US dollars (equivalent to 336 million euros) which matures on 2023.

On July 28, 2013 tranche A1 of Telefónica, S.A. syndicated loan agreement arranged on July 28, 2010 fell due. At December 31, 2012 the outstanding balance was 1,000 million euros and was repaid during 2013.

On August 1, 2013, Telefónica, S.A. entered into a long-term credit facility for an aggregate amount of 734 million US dollars (equivalent to 532 million euros) at a fixed rate with the guarantee of the Finnish Export Credits Guarantee Board (Finnvera) which matures in 2023. No amounts had been drawn down on this credit facility at December 31, 2013.

During 2013, Telefónica, S.A. has reduced the principal amount outstanding under tranche B of its 8,000 million euros syndicated credit facility dated July 28, 2010 by 3,000 million euros. At December 31, 2013, this tranche B was fully available.

During 2013, Telefónica, S.A. drew down an aggregate principal amount of 192 million US dollars (approximately 139 million euros) of the financing agreement signed on May 3, 2011 with the guarantee of Finnish export agency (Finnvera). At December 31, 2013, the outstanding nominal principal on this financing agreement was 341 million US dollars (approximately 247 million euros).

14.5 Average interest on loans and borrowings

The average interest rate in 2013 on loans and borrowings denominated in euros was 1.323% and 2.51% for foreign-currency loans and receivables.

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

14.6 Unused credit facilities

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

At December 31, 2013 and 2012, Telefónica had undrawn credit facilities amounting to 8,873 million euros and 5,255 million euros, respectively.

Financing arranged by Telefónica, S.A. at December 31, 2013 and 2012 is not subject to compliance with any financial covenants.

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Note 15. Payable to group companies and associates

15.1 The breakdown at December 31, 2013 and 2012 is as follows:

December 31, 2013

Millions of euros	**Non-current**	**Current**	**Total**
Loans	37,273	12,622	49,895
Trade payables to Group companies and associates	53	164	217
Derivatives (Note 16)		16	16
Payable to subsidiaries due to taxation on a consolidated basis	257	180	437
Total	**37,583**	**12,982**	**50,565**

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**

The maturity of these loans at the 2013 and 2012 year ends is as follows:

December 31, 2013

Company (Millions of euros)	2014	2015	2016	2017	2018	2018 and subsequent years	Final balance, current and non-current
Telefónica Emisiones, S.A.U.	4,987	2,966	5,971	3,999	3,576	14,431	35,930
Telefónica Europe, B.V.	1,095	797		160	1,116	3,707	6,875
Telfisa Global, B.V.	3,455						3,455
Telefónica Finanzas, S.A.U.	3,085	475	75				3,635
Total	**12,622**	**4,238**	**6,046**	**4,159**	**4,692**	**18,138**	**49,895**

December 31, 2012

Company (Millions of euros)	2013	2014	2015	2016	2017	2017 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
Others							
Total	**13,779**	**4,357**	**4,728**	**6,371**	**4,192**	**16,109**	**49,536**

Financing raised by Telefónica, S.A. through its subsidiary Telefónica Europe, B.V. at December 31, 2013 was 6,875 million euros (5,263 million euros at the 2012 year end). This financing entails a number of loans paying market interest rates calculated on a Euribor plus spread basis, with an average interest rate in 2013 of 3.90% (3.52% in 2012), bonds amounting 1,406 million euros (2,947 million euros in 2012), undated deeply subordinated securities amounting 2,466 million euros and commercial paper amounting 919 million euros (768 million euros in 2012).

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

On September 18, 2013, Telefónica Europe, B.V. issued undated deeply subordinated reset rate guaranteed securities, with the subordinated guarantee of Telefónica, S.A., one of them for an aggregate nominal amount of 1,125 million euros subject to a call option exercisable by the Issuer from the fifth anniversary of the issuance date and the other for an aggregate nominal amount of 625 million euros subject to a call option exercisable by the Issuer from the eighth anniversary of the issuance date. The main terms and conditions of the loan granted to Telefónica, S.A., with the proceeds received from each of the issuances are as follows:

The issuance price was established at 100% of the face value of the loan, in an amount of 1,750 million euros, with long term maturity. For the purpose of calculation on interest rate, this loan is divided into two tranches. The first tranche, related with the amortizing securities nominal amount from the fifth anniversary of the issuance date (1,125 million euros), will accrue interest at an annual rate of 6.532% as from the issuance date (inclusive) up to September 18, 2018. From September 18, 2018 (inclusive), the loan will accrue a fixed interest rate equal to the applicable 5 year swap rate plus a margin of: (i) 5.07% per year as from September 18, 2018 up to September 18, 2023 (not inclusive); (ii) 5.320% per year as from September 18, 2023 up to September 18, 2038 (not inclusive); and (iii) 6.070% per year as from September 18, 2038 (inclusive).

The second tranche, related with to the amortizing securities nominal amount from the eighth anniversary of the issuance date (625 million euros), will accrue interest at an annual rate of 7.657% as from the issuance date (inclusive) up to September 18, 2021. From September 18, 2021 (inclusive), the loan will accrue a fixed interest rate equal to the applicable 8 year swap rate plus a margin of: (i) 5.618% per year as from September 18, 2021 up to September 18, 2023 (not inclusive); (ii) 5.868% per year as from September 18, 2023 up to September 18, 2041 (not inclusive); and (iii) 6.618% per year as from September 18, 2041 (inclusive).

On November 26, 2013, Telefónica Europe, B.V. issued undated deeply subordinated reset rate guaranteed securities, with the subordinated guarantee of Telefónica, S.A., for an aggregate nominal amount of pound sterling 600 million (approximately 720 million euros) and subject to a call option exercisable by the Issuer from the seventh anniversary of the issuance date. The main terms and conditions of the loan granted to Telefónica, S.A., with the proceeds received from each of this issuance is as follows:

The issuance price was established at 100% of the face value of the loan, in an amount of 600 million pounds sterling (approximately 720 million euros), with long-term maturity. This loan will accrue interest at an annual rate of 6.782% as from the issuance date (inclusive) up to November 26, 2020. From November 26, 2020 (inclusive), it will accrue a fixed rate of interest equal to the applicable 5 year swap rate resettable every five years plus a margin of: (i) 4.490% per year as from November 26, 2020 up to November 26, 2025 (not inclusive); (ii) 4.740% per year as from November 26, 2025 up to November 26, 2040 (not inclusive); and (iii) 5.490% per year as from November 26, 2040 (inclusive).

On December 13, 2013, the Tranche E of the syndicated loan facility arranged by Telefónica Europe, B.V. on October 31, 2005 matured as scheduled. The outstanding balance upon maturity was 100 million pounds sterling (approximately 120 million euros). On the same date, there was a merge of the following syndicated loan facilities: i) Tranche E1 for 756 million euros available as from March 2, 2012 and maturing on March 2, 2017; and ii) Tranche E2 for 1,469 million pounds sterling (this syndicated loan facility was redenominated into euros on December 13, 2013) available as from December 13, 2013 and maturing on March 2, 2017. As a result of this, there was a new tranche E2 for 2,523 million euros. At December 31, 2013 the outstanding balance of this new tranche was 120 million euros.

During 2013, Telefónica Europe, B.V. drew down an aggregate principal amount of 844 million US dollars (approximately 612 million euros) of the financing agreement with suppliers signed on August 28, 2012 for 1,200 million US dollars maturing in 2023.

Financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2013 was 35,930 million euros (36,677 million euros in 2012). This financing is arranged as loans from these companies on the same terms as those of the issuance programs. The average interest rate in 2013 was 5.09% (5.16% in 2012). 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 2013 mainly by tapping the European and US capital markets, issuing the following bonds totaling 4,883 million euros (5,148 million euros in 2012):

Description	Issue date	Maturity date	Amount (nominal)	Currency of issue	Coupon
EMTN bonds	01/22/13	01/23/23	1,500,000,000	EUR	3.987%
	03/27/13	03/26/21	1,000,000,000	EUR	3.961%
	05/29/13	05/29/19	750,000,000	EUR	2.736%

	10/23/13	10/23/20	225,000,000	CHF	2.595%
SHELF bond	04/29/13	04/27/18	1,250,000,000	USD	3.192%
	04/29/13	04/27/23	750,000,000	USD	4.570%

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, 2013 and 2012 as a result of fair value interest rate and exchange rate hedges.

Meanwhile, at December 31, 2013, 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 3,635 million euros (5,774 million euros at December 31, 2012) 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 3,455 million euros in 2013 and 1,822 million euros in 2012.

Loans to Group companies under current assets include accrued interest receivable at December 31, 2013 of 1,281 million euros (878 million euros in 2012).

15.2 The balance of Payable to subsidiaries due to taxation on a consolidated basis was 437 million euros and 506 million euros at December 31, 2013 and 2012, 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 104 million euros (322 million euros in 2012), Telefónica Móviles España, S.A.U. for 116 million euros (123 million euros in 2012) and Latin American Cellular Holdings, S.L for 154 million euros. This company has been aggregated to the Tax Group in 2013 and therefore had not amounts in 2012.

Note 16. Derivate financial instruments and risk management policies

a) Derivative financial instruments

During 2013, 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, 2013, the total outstanding balance of derivatives transactions was 139,000 million euros (121,514 million euros in 2012), of which 109,390 million euros related to interest rate risk and 29,610 million euros to foreign currency risk. In 2012, 96,532 million euros related to interest rate risk and 24,982 million euros to foreign currency risk.

It should be noted that at December 31, 2013, Telefónica, S.A. had transactions with financial institutions to hedge exchange rate risk for other Telefónica Group companies amounting to 1,429 million euros (507 million euros in 2012). At year-end 2013 and 2012, 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, 2013, their notional amounts at year end and the expected maturity schedule is as follows:

2013

Millions of euros		**Telefónica receives**		**Telefónica pays**	
Type of risk	**Value in Euros**	**Carrying**	**Currency**	**Carrying**	**Currency**
Euro interest rate swaps	**81,956**				
Fixed to fixed	95	95	EUR	95	EUR
Fixed to floating	37,829	37,862	EUR	37,829	EUR
Floating to fixed	43,982	43,982	EUR	43,982	EUR
Floating to floating	50	50	EUR	50	EUR
Foreign currency interest rate swaps	**25,254**				
Fixed to floating					
GBPGBP	4,966	4,140	GBP	4,140	GBP
JPYJPY	117	17,000	JPY	17,000	JPY
USDUSD	15,362	21,186	USD	21,186	USD
CHFCHF	509	625	CHF	625	CHF
CZKCZK	46	1,250	CZK	1,250	CZK
Floating to fixed					
GBPGBP	2,629	2,192	GBP	2,192	GBP
USDUSD	1,579	2,177	USD	2,177	USD
CZKCZK	46	1,250	CZK	1,250	CZK
Exchange rate swaps	**14,941**				
Fixed to fixed					
EURBRL	278	354	EUR	896	BRL
EURCLP	53	50	EUR	37,800	CLP
EURCZK	570	631	EUR	15,641	CZK
Fixed to floating					
JPYEUR	95	15,000	JPY	95	EUR
Floating to floating					
EURCZK	150	162	EUR	4,114	CZK
EURGBP	485	588	EUR	405	GBP
GBPEUR	829	700	GBP	829	EUR
JPYEUR	167	17,000	JPY	167	EUR
USDEUR	11,799	15,738	USD	11,799	EUR
CHFEUR	515	625	CHF	515	EUR
Forwards	**12,319**				
CLPEUR	54	40,200	CLP	54	EUR
BRLEUR	5	19	BRL	5	EUR

EURBRL	149	147	EUR	481	BRL
EURCZK	952	952	EUR	26,100	CZK
EURGBP	3,520	3,493	EUR	2,935	GBP
EURMXN	173	174	EUR	3,119	MXN
EURUSD	2,175	2,214	EUR	2,999	USD
GBPEUR	3,640	3,068	GBP	3,640	EUR
GBPUSD	45	38	GBP	61	USD
EURCLP	5	5	EUR	3,332	CLP
USDBRL	13	18	USD	43	BRL
USDCLP	4	5	USD	2,643	CLP
USDCOP	1	1	USD	2,896	COP
USDEUR	1,565	2,113	USD	1,565	EUR
USDGBP	15	20	USD	12	GBP
USDPEN	1	2	USD	5	PEN
EURPEN	1	1	EUR	5	PEN
EURCOP	1	1	EUR	2,260	COP
Subtotal	**134,470**				

Millions of euros			
Notional amounts of structured products with options	**Value in euros**	**Notional**	**Currency**
Interest rate options Caps & Floors	**2,180**		
Caps&Floors	**2,180**	**2,180**	**EUR**
USD	30	42	USD
EUR	1,250	1,250	EUR
GBP	900	544	GBP
Currency options	**2,350**		
EURUSD	797	797	EUR
USDEUR	1,553	3,422	USD
Subtotal	**4,530**		
TOTAL	**139,000**		

The breakdown by average maturity is as follows:

Millions of euros					
Hedged underlying item	**Notional**	**Up to 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**Over 5 years**
With underlying instrument					
Promissory notes	**540**	**281**		**59**	**200**
Loans	**19,935**	**696**	**4,983**	**6,367**	**7,889**
in national currency	10,100		3,200	3,050	3,850
in foreign currencies	9,835	696	1,783	3,317	4,039
Debentures and bonds MtM	**78,758**	**4,058**	**22,830**	**17,409**	**34,461**
in national currency	35,629	2,605	6,638	12,139	14,247
in foreign currencies	43,129	1,453	16,192	5,270	20,214
Other underlying*	**39,767**	**19,555**	**4,410**	**8,597**	**7,205**
Swaps	1,050	375	628	47	
Currency options	3,360	1,010	78	2,272	
Forward	10,674	10,674			
IRS	24,683	7,496	3,704	6,278	7,205
Total	**139,000**	**24,590**	**32,223**	**32,432**	**49,755**

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

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

2012

Millions of euros		Telefónica receives		Telefónica 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
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**				

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Millions of euros

Notional amounts of structured products with options	Value in Euros	Notional	Currency
Interest rate options Caps & Floors	**2,211**		
Caps&Floors	**2,211**	**2,211**	**EUR**
USD	42	54	USD
EUR	1,250	1,250	EUR
GBP	919	750	GBP
Currency options	**3,753**		
GBP/EUR	640	522	GBP
USD/EUR	3,113	4,107	USD
Subtotal	**5,964**		
TOTAL	**121,514**		

The breakdown by average maturity is as follows:

Millions of euros

Hedged underlying item	Notional	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
With underlying instrument					
Promissory notes	**540**		**280**	**60**	**200**
Loans	**18,005**	**2,592**	**3,555**	**1,480**	**10,378**
in national currency	13,170	1,900	2,750	850	7,670
in foreign currencies	4,835	692	805	630	2,708
Debentures and bonds MtM	**73,604**	**11,474**	**12,171**	**21,736**	**28,223**
in national currency	29,475	6,315	6,701	7,839	8,620
in foreign currencies	44,129	5,159	5,470	13,897	19,603
Without underlying*	**29,365**	**16,617**	**4,472**	**5,054**	**3,222**
Swaps	1,212	164	457	591	
Currency options	3,754	2,035	161	1,438	120
Forward	7,772	7,772			
IRS	16,627	6,646	3,854	3,025	3,102
Total	**121,514**	**30,683**	**20,478**	**28,330**	**42,023**

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

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

The fair value of Telefónica, S.A. s derivatives portfolio with external counterparties at December 31, 2013 was equivalent to a net liability of 66 million euros (net asset of 1,073 million euros in 2012).

b) Risk management policy

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

The main market risks affecting Telefónica are as follows:

Exchange rate risk

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

Interest rate risk

Interest rate risk arises primarily in connection with changes in interest rates affecting (i) financial expenses on floating rate debt (or short-term debt likely to be renewed), due to changes in interest rates and (ii) the value of non-current liabilities at fixed interest rates.

Share price risk

Share price risk arises primarily from changes in the value of the equity investments (that may be bought, sold or otherwise involved in transactions), from changes in the value of derivatives associated with such investments, from changes in the value of treasury shares and from equity derivatives.

Other risks

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

Finally, Telefónica is exposed to country risk (which overlaps with market and liquidity risks). This refers to the possible decline in the value of assets, cash flows generated or cash flows returned to the parent company as a result of political, economic or social instability in the countries where Telefónica, S.A. operates, especially in Latin America.

Risk management

Telefónica, S.A. actively manages these risks through the use of derivatives (primarily on exchange rates, interest rates and share prices) and by incurring debt in local currencies, where appropriate, with a view to stabilizing cash flows, the income statement and investments. In this way, Telefónica attempts to protect its solvency, facilitate financial planning and take advantage of investment opportunities.

Telefónica manages its exchange rate risk and interest rate risk in terms of net debt and net financial debt as calculated by them. Telefónica believes that these parameters are more appropriate to understanding its debt position. Net debt and net financial debt take into account the impact of the Group s cash balance and cash equivalents including derivatives positions with a positive value linked to liabilities. Neither net debt nor net financial debt as calculated by Telefónica should be considered an alternative to gross financial debt (the sum of current and non-current interest-bearing debt) as a measure of liquidity.

Exchange rate risk

The fundamental objective of the exchange rate risk management policy is that, in event of depreciation in foreign currencies relative to the euro, any potential losses in the value of the cash flows generated by the businesses in such currencies, caused by depreciation in exchange rates of a foreign currency relative to the euro, are offset (to some extent) by savings from the reduction in the euro value of debt denominated in such currencies and/or synthetic debt in such currencies. The degree of exchange rate hedging employed varies depending on the type of investment.

Telefónica aims to protect itself against declines in Latin American currencies relative to the euro affecting our asset values through, so it occasionally takes out dollar-denominated debt, incurred either in Spain (where such debt is associated with an investment as long as it is considered to be an effective hedge) or in the country itself, where the market for local currency financing or hedges may be inadequate or non-existent.

At December 31, 2013, pound sterling-denominated net debt was approximately 2.31 times the value of our 2013 operating income before depreciation and amortization (OIBDA) from the Telefónica Europe business unit in the United Kingdom. Telefónica s aim is to maintain a similar proportion of pound sterling-denominated net debt to OIBDA as the Telefónica net debt to OIBDA ratio, on a consolidated basis, in order to help them to reduce its sensitivity to changes in the pound sterling to euro exchange rate. Debt denominated in pound sterling as of December 31, 2013 amounts to 3,342 million euros, higher than 2,629 million as of December 31, 2012.

Until the agreement for the sale of Telefónica Czech Republic, a.s., the risk-management objective to protect the investment in the Czech Republic was similar to that described for the investment in the UK, where the amount of Czech crown-denominated debt is proportional to the OIBDA of the Telefónica Europe business unit in the Czech Republic. Czech crown-denominated net debt at December 31, 2013 was 2.65 times OIBDA in Czech crown (2.1 times in 2012) on a consolidated basis and 3.85 times (2.97 times in 2012) on a proportional basis. This ratio is substantially higher than the objective of 2 times OIBDA because once the sale of the company was decided and agreed (as described in Note 8), the objective was changed in order to reflect the new situation ot this asset in the Group portfolio. Accordingly the price in CZK of this sale was totally hedged.

Exchange rate risk is managed by seeking to minimize the negative impact of any remaining exchange rate exposure on the income statement, regardless of whether there are open positions. Such open position exposure can arise for any of three reasons: (i) a thin market for local derivatives or difficulty in sourcing local currency finance which makes it impossible to arrange a low-cost hedge (as in Argentina and Venezuela), (ii) financing through intra-group loans, where the accounting treatment of exchange rate risk is different from that for financing through capital contributions, and (iii) as the result of a deliberate policy decision, to avoid the high cost of hedges that are not warranted by expectations or high risk of depreciation.

As Telefónica s direct exposure is counterbalanced by the positions held in subsidiaries, the Company analyses its foreign currency risk exposure at the Group level. To illustrate the sensitivity of exchange gains or losses to variability in exchange rates, assuming the exchange rate position affecting the income statement at the end of 2013 were constant during 2014 and Latin American currencies depreciated against the dollar and the rest of the currencies against the euro by 10%, Telefónica estimates that consolidated exchange losses recorded for 2014 would be a negative 42 million euros. For Telefónica, S.A., assuming only financing arranged with external counterparties, the same change would lead to a decrease in finance costs of 78 million euros. Nonetheless, Telefónica manages its exposure on a dynamic basis to mitigate their impact.

Interest rate risk

The Telefónica Group s financial expenses are exposed to changes in interest rates. In 2013, the rates applied to the largest amount of short-term debt were mainly based on the Euribor, the Czech crown Pribor, the Brazilian SELIC, the dollar Libor and the Colombian UVR. Telefónica manages its interest rate risk by entering into derivative financial instruments, primarily swaps and interest rate options.

Telefónica analyzes its exposure to changes in interest rates at the Telefónica Group level. The table illustrates the sensitivity of finance costs and the balance sheet to variability in interest rates at Group and Telefónica, S.A. level.

To calculate the sensitivity of the income statement, a 100 basis point rise in interest rates in all currencies in which there are financial positions at December 31, 2013 has been assumed, as well as a 100 basis point decrease in all currencies (EUR, GBP, USD, etc.) in order to avoid negative rates. The constant position equivalent to that prevailing at the end of 2012 has also been assumed.

To calculate the sensitivity of equity to variability in interest rates, a 100 basis point increase in interest rates in all currencies and terms in which there are financial positions at December 31, 2013 was assumed, as well as a 100 basis point decrease in all currencies and terms (except those below 1% in order to avoid negative rates). Cash flow hedge positions were also considered as they are the only positions where changes in market value due to interest-rate fluctuations are recognized in equity.

In both cases, only transactions with external counterparties have been considered.

	Impacto en Resultado Consolidado (*)	Impacto PyG Telefónica, S.A. (*)	Impacto en Patrimonio Consolidado	Impacto en Patrimonio Telefónica, S.A.
+100bp	(118)	(45)	741	741
-100bp	55	29	(632)	(632)

(*) Impact on results of 100 bp change in all currencies, except the pound sterling, the dollar, the euro and the czech crown.

Share price risk

The Telefónica Group is exposed to changes in the value of equity investments that may be bought, sold or otherwise involved in transactions, from changes in the value of derivatives associated with such investments, from treasury shares and from equity derivatives.

According to the Telefónica, S.A. share option plan, Performance & Investment Plan (PIP) (see Note 19) the shares to be delivered to employees under such plan may be either the parent company treasury shares, acquired by them or any of its Group companies; or newly-issued shares. The possibility of delivering shares to beneficiaries of the plan in the future, in accordance with relative total shareholders return, implies a risk since there could be an obligation to hand over a maximum number of shares at the end of each phase, whose acquisition (in the event of acquisition in the market) in the future could imply a higher cash outflow than required on the start date of each phase if the share price is above the corresponding price on the phase start date. In the event that new shares are issued for delivery to the beneficiaries of the plan, there would be a dilutive effect for ordinary shareholders as a result of the higher number of shares delivered under such plan outstanding.

To reduce the risk associated with variations in share price under these plans, Telefónica has acquired instruments that replicate the risk profile of some of these plans as explained in Note 19.

The second Global Employee Share Plan was launched in 2012 as approved in the 2011 Ordinary General Shareholders Meeting (see details of the plan in Note 19).

In addition, the Group may use part of the treasury shares of Telefónica, S.A. held at year end to cover shares deliverable under the PIP or Global Employee Share Plan. The net asset value of the treasury shares could increase or decrease depending on variations in Telefónica, S.A. s share price.

Liquidity risk

The Telefónica Group seeks to match the schedule for its debt maturity payments to its capacity to generate cash flows to meet these maturities, while allowing for some flexibility. In practice, this has been translated into two key principles:

1. The Telefónica Group s average maturity of net financial debt is intended to stay above 6 years, or be restored above that threshold in a reasonable period of time if it eventually falls below it. This principle is considered as a guideline when managing debt and access to credit markets, but not a rigid requirement. When calculating the average maturity for the net financial debt and part of the undrawn credit lines can be considered as offsetting the shorter debt maturities, and extension options on some financing facilities may be considered as exercised, for calculation purposes.

2. The Telefónica Group must be able to pay all commitments over the next 12 months without accessing new borrowing or tapping the capital markets (although drawing upon firm credit lines arranged with banks), assuming budget projections are met.

Country risk

The Telefónica Group managed or mitigated country risk by pursuing two lines of action (in addition to its normal business practices):

Partly matching assets to liabilities (those not guaranteed by the parent company) in the Telefónica Group s Latin American companies such that any potential asset impairment would be accompanied by a reduction in liabilities; and,

Repatriating funds generated in Latin America that are not required for the pursuit of new, profitable business development opportunities in the region.

Credit risk

As a general rule, the Telefónica Group trades in derivatives with creditworthy counterparties. Therefore, Telefónica, S.A. generally trades with credit entities whose senior debt ratings are of at least A . In Spain, where most of the Group s derivatives portfolio is held, there are netting agreements with financial institutions, with debtor or creditor positions offset in case of bankruptcy, limiting the risk to the net position. In addition, since Lehman went bankrupt, the credit ratings of rating agencies have proved to be less effective as a credit risk management tool. Therefore, the 5-year CDS (Credit Default Swap) of credit institutions has been added. This way, the CDS of all the counterparties with which Telefónica S.A. operates is monitored at all times in order to assess the maximum allowable CDS for operating at any given time. Transactions are generally only carried out with counterparties whose CDS is below the threshold.

For other subsidiaries, particularly those in Latin America, given the stable sovereign rating provides a ceiling and is below A, trades are with local financial entities whose rating by local standards is considered to be of high creditworthiness.

Meanwhile, with credit risk arising from cash and cash equivalents, the Telefónica Group places its cash surpluses in high quality and highly liquid money-market assets. These placements are regulated by a general framework, revised annually. Counterparties are chosen according to criteria of liquidity, solvency and diversification based on the conditions of the market and countries where the Group operates. The general framework sets: (i) the maximum amounts to be invested by counterparty based on its rating (long-term debt rating); (ii) the maximum tenor of the investment, set at 180 days; and (iii) the instruments in which the surpluses may be invested (money-market instruments).

The Telefónica Group considers credit risk management as a key element to achieve its business and customer base sustainable growth targets in a manner that is consistent with Telefónica Corporate Risk Management Policy.

This management approach relies on the continuous monitoring of the risk assumed and the resources necessary to optimize the risk-reward balance to grant the adequate separation between the risk ownership areas and risk management areas. Customer-financing products and those debtors that could cause a material impact on the Group s financial statements are subject to specific management practices to mitigate exposure to credit risk, according to the segment and risk profile of the customer.

Uniform policies, procedures, delegation of authority and management practices are established in all Group companies, taking into account benchmark risk management techniques but adapted to the local characteristics of each market. This commercial credit risk management model is embedded into the Group s decision-making processes, both from a strategic and, especially, day-to-day operating perspective, where credit risk assessment guides the available products and services for the different customer profiles.

Telefónica s maximum exposure to credit risk is initially represented by the carrying amounts of the assets (see Notes 8 and 9) and the guarantees given by Telefónica.

Telefónica, S.A. provides operating guarantees granted by external counterparties, which are offered during its normal commercial activity. At December 31, 2013, these guarantees amounted to approximately 114 million euros.

Capital management

Telefónica s corporate finance department, which is in charge of Telefónica s capital management, takes into consideration several factors when determining Telefónica s capital structure, with the aim of ensuring sustainability of the business and maximizing the value to shareholders.

Telefónica monitors its cost of capital with a goal of optimizing its capital structure. In order to do this, Telefónica monitors the financial markets and updates to standard industry approaches for calculating weighted average cost of capital, or WACC. Telefónica also uses a net financial debt ratio below 2.35x OIBDA in the medium term (excluding items of a non-recurring or exceptional nature), enabling to obtain and maintain the desired credit rating over the medium term, and with which the Telefónica Group can match the potential cash flow generation with the alternative uses that could arise at all times.

These general principles are refined by other considerations and the application of specific variables, such as country risk in the broadest sense, or the volatility in cash flow generation, when determining the Telefónica Group s financial structure.

Telefónica s derivatives policy emphasizes the following points:

- Derivatives based on a clearly identified underlying.
- Matching of the underlying to one side of the derivative.
- Matching the company contracting the derivative and the company that owns the underlying.
- Ability to measure the derivative s fair value using the valuation systems available to the Telefónica Group.
- Sale of options only when there is an underlying exposure.

Hedge accounting

Hedges can be of three types:

- Fair value hedges
- Cash flow hedges, which can be set at any value of the risk to be hedged (primarily interest rate and foreign currency) or for a defined range through options.
- Hedges of net investment in a foreign operation.

Hedges can comprise a combination of different derivatives. There is no reason to suppose management of accounting hedges will be static, with an unchanging hedging relationship lasting right through to maturity. Hedging relationships may change to allow appropriate management that serves our stated principles of stabilizing cash flows, stabilizing net financial income/expense and protecting our share capital. The designation of hedges may therefore be cancelled, before maturity, because of a change in the underlying, a change in perceived risk on the underlying or a change in market view. Derivatives included in these hedges may be reassigned to new hedges where they meet the effectiveness test and the new hedge is well documented. To gauge the efficiency of transactions defined as accounting hedges, we analyze the extent to which the changes in the fair value or in the cash flows attributable to the hedged item would offset the changes in fair value or cash flows attributable to the hedged risk using a linear regression model for both forward- and backward-looking analysis.

Risk management guidelines are issued by the Corporate Finance Department. This department may allow exceptions to this policy where these can be justified, normally when the market is too thin for the volume of transactions required or on clearly limited and small risks.

In 2013 the Company recognized a loss of 0.15 million euros for the ineffective part of cash flow hedges (0.25 million euros in 2012).

The breakdown of the Company s derivatives with counterparties not belonging to the Telefónica Group at December 31, 2013 and 2012 by type of hedge, their fair value at year end and the expected maturity schedule is as follows:

2013

Millions of euros		**Notional amount maturities (*)**				
Derivatives	**Fair value (**)**	**2013**	**2014**	**2015**	**Subsequent years**	**Total**
Interest rate hedges	**438**	**(3,460)**	**2,155**	**1,053**	**(1,590)**	**(1,842)**
Cash flow hedges	752	(3,230)	2,150		8,420	7,340
Fair value hedges	(314)	(230)	5	1,053	(10,010)	(9,182)
Exchange rate hedges	**361**	**70**	**1,564**	**3,157**	**4,726**	**9,517**
Cash flow hedges	361	70	1,564	3,157	4,726	9,517
Interest and exchange rate hedges	**(22)**	**(405)**	**(221)**	**549**	**2,812**	**2,735**
Cash flow hedges	(22)	(405)	(221)	549	2,812	2,735
Hedge of net investment	**(111)**	**(273)**		**(588)**		**(861)**
Derivatives not designated as hedges	**(600)**	**374**	**(225)**	**(1,273)**	**(1,989)**	**(3,113)**
Interest rate	(356)	2,354	(141)	(710)	(1,941)	(438)
Exchange rate	(244)	(1,980)	(84)	(563)	(48)	(2,675)

(*) For interest rate hedges, the positive amount is in terms of fixed payment. For foreign currency hedges, a positive amount means payment in functional vs. foreign currency.

(**) Positive amounts indicate payables.

2012

Millions of euros		**Notional amount maturities (*)**				
Derivatives	**Fair value (**)**	**2012**	**2013**	**2014**	**Subsequent years**	**Total**
Interest rate hedges	**341**	**(932)**	**(836)**	**2,555**	**3,601**	**4,388**
Cash flow hedges	1,389	(936)	(350)	2,550	7,730	8,994
Fair value hedges	(1,048)	4	(486)	5	(4,129)	(4,606)
Exchange rate hedges	**(487)**	**1,456**	**(153)**	**1,564**	**6,364**	**9,231**
Cash flow hedges	(487)	1,456	(153)	1,564	6,364	9,231
Interest and exchange rate hedges	**(251)**	**(69)**	**72**	**72**	**2,437**	**2,512**
Cash flow hedges	(251)	(69)	72	72	2,437	2,512
Hedge of net investment	**(115)**	**(822)**	**(230)**	**(162)**	**(989)**	**(2,203)**
Derivatives not designated as hedges	**(561)**	**10,588**	**(63)**	**(467)**	**(1,628)**	**8,430**

Interest rate	(389)	8,612	(13)	(545)	(2,133)	5,921
Exchange rate	(172)	1,976	(50)	78	505	2,509

(*) For interest rate hedges, the positive amount is in terms of fixed payment. For foreign currency hedges, a positive amount means payment in functional vs. foreign currency.

(**) Positive amounts indicate payables.

Note 17. Income tax

Pursuant to a Ministerial Order dated December 27, 1989, since 1990 Telefónica, S.A. has filed consolidated tax returns with certain Group companies. The consolidated tax group in 2013 comprised 51 companies; with respect to the previous year, Latin American Cellular Holding, S.L. was included and Telefónica Cable, S.A and Telefónica Soluciones Sectoriales, S.A. ceased forming part of the Tax Group, as a result of the merger with Telefónica de España S.A.U. in 2013.

Tax balances are as follows:

Millions of euros	**2013**	**2012**
Tax receivables:	**4,985**	**5,705**
Deferred tax assets:	**4,325**	**5,095**
Deferred income tax (income)	3,115	3,634
Long-term tax loss carryforwards	1,203	1,170
Deductions	7	291
Current tax receivables (Note 10):	**660**	**610**
Withholdings	21	1
Corporate income tax payable	617	584
VAT and Canary Islands general indirect tax refundable	22	25
Tax payable:	**304**	**618**
Deferred tax liabilities:	**262**	**499**
Current payables to public administrations (Note 18):	**42**	**119**
Personnel income tax withholdings	4	3
Corporate income tax payable	13	89
Withholding on investment income, VAT and other	24	26
Social security	1	1

The tax group had unused tax loss carryforwards at December 31, 2013 amounting to 9,785 million euros. These losses must be applied within 18 years, according to the following estimated schedule.

2012/12/31	**Total**	**Less than 1 year**	**More than 1 year**
Tax loss carryforwards	**9,785**	342	9,443

Following completion in 2012 of the inspection by the tax authorities (see Note 17.3), and considering the rulings on the tax assessments signed in disagreement by the Company, the Company restated its tax credits based on the business plans of the companies in the tax group and the best estimate of taxable income, over a period of time that is in line with the situation. Consequently, tax credits of 458 million euros at year-end 2012 were recognized.

In 2013, tax credits of the Tax Group have been analyzed with the same criteria used in the previous year. As a consequence of this review, a 190 million euros negative income tax has been registered.

Total tax credits based on the taxable income recognized in the balance sheet at December 2013 therefore amount to 1.203 million euros (1,170 million euros in 2012).

As of December 2013, non-registered taxable income amounts to 5,775 million euros.

During 2013, Telefónica, S.A., as head of the Telefónica tax group, made payments on account of 2013 income tax amounting to 436 million euros (247 million euros in 2012).

17.1 Movement in deferred tax assets and liabilities

The balances and movements in Deferred tax assets and Deferred tax liabilities for Telefónica, S.A. at December 31, 2013 and 2012 are as follows:

2013

Millions of euros	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	**1,170**	**3,634**	**291**	**5,095**	**499**
Arising in the year	190	744	9	943	41
Reversal		(1,215)		(1,215)	(268)
Transfers to the tax group s net position	(157)	(48)	(293)	(498)	(29)
Other movements					19
Closing balance	**1,203**	**3,115**	**7**	**4,325**	**262**

2012

Millions of euros	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	**723**	**1,765**	**117**	**2,605**	**474**
Arising in the year	458	1,936	2	2,396	166
Reversal	(11)	(34)		(45)	(156)
Transfers to the tax group s net position		(33)	172	139	
Other movements					15
Closing balance	**1,170**	**3,634**	**291**	**5,095**	**499**

The main items for which Telefónica, S.A. recognizes temporary differences in assets and liabilities are the effects of impairment losses on some of its assets, principally investments in subsidiaries (see Note 8).

Law 16/2013 of October 29, 2013, modifies the tax treatment of impairment losses on investments, which are no longer deductible as from January 1, 2013 and it includes new conditions which must be taken into account in order to calculate the tax value of investments. The reversal movements of the charts above are according to these considerations.

Deferred tax assets include the amount the Company expects to regain in a period shorter than estipulated in the tax regulation.

Deferred tax liabilities include 47 million euros corresponding to the tax amortization of goodwill generated on acquiring stakes in the Brazilian subsidiaries of Brasilcel, N.V. No impact has been recognized in profit and loss, pending the final decisions on the court and administrative proceedings relating to this matter, which at year-end remained open.

In accordance with article 12.3 of the revised Spanish Income Tax Law (TRLIS), revoked by Law 16/2013 of October 29, as well as with transitional provision 29 of that law, a negative adjustment of 790 million euros was provisionally included in the Company s taxable income declared at 2012 year end, in connection with the decline in value of investees. At December 31, 2012, inclusion of 3,861 million euros was pending for reversal of the adjustment in future periods.

In 2012, the negative variation in equity of investees for which a provision was made amounts to 589 million euros, primarily in respect of the Brazilian and Mexican companies.

17.2 Reconciliation of accounting profit to taxable income and income tax expense to income tax payable.

The calculation of the income tax expense and income tax payable for 2013 and 2012 is as follows.

Millions of euros	**2013**	**2012**
Accounting profit before tax	33	(2,205)
Permanent differences	(4,787)	(5,017)
Temporary differences:	3,243	4,619
Arising in the year	2,690	4,782
Arising in prior years	553	(163)
Tax result	**(1,511)**	**(2,603)**
Gross tax payable	(454)	(781)
Tax credits capitalized	(9)	(2)
Corporate income tax refundable	**(462)**	**(783)**
Temporary differences for tax valuation	(973)	(1,386)
Other effects	778	(714)
Corporate income tax accrued in Spain	(657)	(2,883)
Foreign taxes	27	48
Income tax	**(631)**	**(2,836)**
Current income tax	(429)	(851)
Deferred income tax	(202)	(1,985)

The permanent differences relate mainly to changes in investment in Group Companies write-down provisions recorded by the Tax Group companies included in the consolidated corporate income tax return, dividends received and investment write downs with no deferred asset registered.

In addition, they include as a permanent difference the decrease in income tax expense derived from the tax amortization of financial goodwill for foreign shareholding acquisitions made before December 21, 2007. In 2013, this adjustment came to 28 million euros. This impact has been lessened as a result of the entry into force of Law 9/2011 of August 19, 2011 and Law 16/2013 of October 29, 2013, which reduced the deductible portion of goodwill amortization under article 12.5 TRLIS (Corporate Income Tax Act) from 5% to 1% for 2011, 2012, 2013, 2014 and 2015. The effect is temporary: the 4% not amortized over those five years (20% in total) will be recovered by extending the deduction period from the original 20 years to 25 years.

Temporary differences mainly refer to adjustment made to Tax result due to accruals or reversals of non-deductible investment write downs.

In 2013 and 2012, the Company capitalized 9 million euros and 2 million euros, respectively, of deductions. The cumulative amount at year end principally reflects tax deductions for export activities and donations to non-profit organizations (approximately 7 million euros). In 2013, 324 million euros deductions were offset during the year as the final declaration of 2013 (See Note 17.1.).

The caption other effects includes mainly the effects related to the above mentioned Law 16/2013 of October 29, 2013 and the register of tax credits.

17.3 Tax inspections and tax-related lawsuits

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

Also in 2012, the tax inspections for all taxes for the years 2005 to 2007 were completed, with the Company signing consent forms for an income tax payment of 135 million euros and non-consent forms for the items which the Company contests. The tax assessment for which a non-consent form was signed did not require payment of any tax because it only proposed a reduction in unused tax loss carryforwards. An appeal was filed with the Large Taxpayers Central Office of the Spanish State Tax Agency requesting this tax assessment to be reversed, although no decision on the appeal has been issued to date.

At 2013 year end, it is not expected that the final outcome of these assessments and lawsuits, in progress or pending will require any additional significant liabilities to be recognized in Telefónica, S.A. s financial statements.

In July 2013, new inspections of various companies in the 24/90 tax group, of which Telefónica, S.A. is the parent, were initiated. The taxes and periods subject to review are corporate income tax for the years 2008 to 2011, VAT, tax withholdings and payments on account in respect of personal income tax, tax on investment income, property tax and non-resident income tax for the second half of 2009 and the years 2010 and 2011. It is not expected that these inspections in progress will result in the need of recognizing any additional significant liabilities in Telefónica s financial statements.

Note 18. Trade and other payables

The breakdown of Trade and other payables is as follows:

Million of euros	2013	2012
Suppliers	131	162
Other payables	113	158
Current income tax liabilities (Note 17)	13	89
Other payables to public administrations (Note 17)	29	30
Total	**286**	**439**

Trade payables

In performance of Telefónica s irrevocable undertaking of 2010 to give Fundación Telefónica a total of 280 million euros, in 2013 the Company made cash payments in the amount of 53 million euros (62 million in 2012).

Information on deferred payments to third parties. (Third additional provision, Information requirement of Law 15/2010 of 5 July).

Telefónica, S.A. has adapted its internal processes and payment schedules to the provisions of Law 15/2010, establishing measures against late payment in commercial transactions. Engagement conditions with commercial suppliers in 2013 and 2012 included payment periods of up to 60 and 75 days, respectively, as laid down in said law.

For reasons of efficiency and in line with general practice in the business, the Company has set payment schedules, whereby payments are made on set days. Invoices falling due between two payment days are settled on the following payment date in the schedule. This is not deemed to be a deferred payment.

Information on contracts entered into after Law 15/2010 took effect that exceed the maximum period established in this law is shown in the table below.

Payments to Spanish suppliers in 2013 and 2012 surpassing the legal limit were due to circumstances or incidents beyond the payment policies, mainly the closing of agreements with suppliers over the delivery of goods or the rendering of services, or occasional processing issues.

2013

Millions of euros	Amount	%
Payments made on time	298	98

Other	8	2
Total payments to commercial suppliers	**306**	**100**
Weighted average maturity exceeded (days)	17	
Deferrals at year-end that exceed the limit	2	

2012

Millions of euros	**Amount**	**%**
Payments made on time	332	95
Other	17	5
Total payments to commercial suppliers	**349**	**100**
Weighted average maturity exceeded (days)	32	
Deferrals at year-end that exceed the limit	4	

At the date of authorization for issue of these financial statements, Telefónica had processed the outstanding payments, except in cases where an agreement with suppliers was being handled.

Note 19. Revenue and expenses

19.1 Revenue

a) Rendering of services

Telefónica, S.A. has contracts for the right to use the Telefónica brand with Group companies which use the license. The amount each subsidiary must recognize as a cost for use of the license is stipulated in the contract as a percentage of income obtained by the licensor. In 2013 and 2012, Rendering of services to Group companies and associates included 609 million euros and 603 million euros, respectively, for this item.

Telefónica, S.A. has signed contracts to provide management support services to Telefónica de España, S.A.U, Telefónica Móviles España, S.A.U., Telefónica O2 Holding, Ltd. and Telefónica Internacional, S.A.U. Revenue received for this concept in 2013 and 2012 amounted to 16 million euros and 23 million euros, in each case, recognized under Rendering of services to Group companies and associates .

Revenues also include property rental income amounting to 52 and 50 million euros in 2013 and 2012, respectively, mainly from the lease of office space in Distrito Telefónica to several Telefónica Group companies (see Note 7).

b) Dividends from Group companies and associates

The detail of the main amounts recognized in 2013 and 2012 is as follows:

Millions of euros	**2013**	**2012**
Telefónica Internacional, S.A.U.	4,500	1,500
Telefónica de España, S.A.U.	1,600	221
Telefónica Europe, plc.	1,309	575
Telefónica Móviles España, S.A.U.	1,081	1,435
Telefónica Brasil, S.A. (previously Telecommunicaçoes de Sao Paulo)	495	307
Compañía Inversiones y Teleservicios, S.A.U.	440	10
Sao Paulo Telecommunicaçoes	160	44
Telefónica Czech Republic, a.s.	158	213
Telefónica Móviles Argentina, S.A. y Telefónica Móviles Argentina Holding, S.A.	89	140
Telefónica Gestión de Servicios Compartidos España, S.A.U.	55	
Inversiones Telefónica Móviles Holding, Ltd. (Chile)		189
Ohter companies	191	218
Total	**10,078**	**4,852**

c) Interest income on loans to Group companies and associates

This heading includes the return obtained on loans made to subsidiaries to carry out their business (see Note 8.5). The breakdown of the main amounts is as follows:

Millions of euros	2013	2012
Telefónica Móviles México, S.A. de C.V.	100	104
Telefónica de España, S.A.U.		34
Telefónica de Contenidos, S.A.U.	56	75
Other companies	79	62
Total	**235**	**275**

19.2 Non-core and other current operating revenues Group companies relates to revenues on centralized services that Telefónica, S.A., as head of the Group, provides to its subsidiaries. Telefónica, S.A. bears the full cost of these services and then charges each individual subsidiary for the applicable portion.

19.3 Personnel expenses and employee benefits

The breakdown of Personnel expenses is as follows:

Millions of euros	2013	2013
Wages, salaries and other personnel expenses	135	130
Pension plans	(1)	(6)
Social security costs	20	17
Total	**154**	**141**

In 2013, Wages, salaries and other personnel expenses includes 11 million euros of compensation payable during the year (8 million euros in 2012).

Telefónica has reached an agreement with its staff to provide an Occupational Pension Plan pursuant to Legislative Royal Decree 1/2002, of November 29, approving the revised Pension Plans and Funds Law. The features of this plan are as follows:

Defined contribution of 4.51% of the participating employees base salary. The defined contributions of employees transferred to Telefónica from other Group companies with different defined contributions (e.g.

6.87% in the case of Telefónica de España, S.A.U.) will be maintained.

Mandatory contribution by participants of a minimum of 2.2% of their base salary.

Individual and financial capitalization systems.

This fund was outsourced to Telefónica subsidiary, Fonditel Entidad Gestora de Fondos de Pensiones, S.A., which has added the pension fund assets to its Fonditel B fund.

At December 31, 2013, 1,833 employees had signed up for the plan (1,709 employees in 2012). This figure includes both employees contributing and those who have ceased to contribute to the plan, as provided for in Royal Decree 304/2004 approving the regulations for Pension Plans and Funds. The cost for the Company amounted to 4 million euros in 2013 (3 million euros in 2012).

In 2006, a Pension Plan for Senior Executives, wholly funded by the Company, was created and complements the previous plan and involves additional defined contributions at a certain percentage of the executive s fixed remuneration, based on professional category, plus some extraordinary contributions depending on the circumstances of each executive, payable in accordance with the terms of the plan.

Telefónica, S.A. has recorded costs related to the contributions to this executive plan of 8 million euros in both 2013 and 2012.

In 2013 and 2012, some executives left this Pension Plan for Senior Executives, leading to the recovery of the cost of the contributions corresponding to these executives amounting to 12 million euros and 17 million euros, respectively.

No provision was made for this plan as it has been fully externalized.

The share-based payment plans are the following:

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

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

June 30, 2012 marked the maturity date of the fourth phase of the plan. This phase had a maximun of 6,356,597shares (of which 1,552,382 shares corresponded to Telefónica, S.A. executives) assigned on July 1st, 2009 with a fair value of 8.41 euros per share. As of maturity date, the requirements of the plan had not been fulfilled and therefore no shares were awarded.

For this same phase of the plan, Telefónica, S.A. acquired an instrument from a financial institution with the same features of the plan. The cost of the financial instrument was 36 million euros, equivalent to 8.41 euros per option. The instrument was cancelled with a charge to distributable reserves when this phase of the plan expired.

June 30, 2013 marked the maturity date of the fifth and last phase of the plan, and no shares have been awarded, pursuant to the general requirements of the plan. This phase had the following maximum number of shares assigned:

	Number of shares	Unit fair value	End date
5rd phase July 1, 2010	5,025,657	9.08	June 30, 2013

Of this amount, the maximum number of shares corresponding to Telefónica, S.A. managers and executives was 1,249,407.

The amount incurred in 2013 related to this concept has been 2 million euros (13 million euros in 2012) with a counterpart of Equity, net of tax effects.

Long-term incentive plan based on Telefónica, S.A. shares: Performance and Investment Plan

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

Under this Plan, a certain number of shares of Telefónica, S.A. will be delivered to participants selected by the Company who have opted to take part in the scheme and meet the requirements and conditions stipulated to this end. The plan includes an additional condition regarding compliance by all or part of the Participants with a target investment and holding period of Telefónica, S.A. shares through each phase (Co-Investment).

The term of the plan is five years and it is divided into three phases.

The three allocations of shares under this plan were made on July 1, 2011, July 1,2012 and July 1, 2013, respectively. The maximum number of shares assigned (including the amount of co-investment) under the plan for the three phases is as follows:

	No. of shares assigned	No. of shares assigned at 12/31/12	Unit fair value	End date
1st phase July 1, 2011	5,545,628	4,984,670	8.28	June 30, 2014
2nd phase July 1, 2012	7,347,282	6,868,684	5.87	June 30, 2015
3rd phase July 1, 2013	7,020,473	7,004,547	6.40	June 30, 2016

From the total number of shares assigned, 1,713,318, 2,349,916 and 2,212,215 shares were assigned to employees of Telefónica, S.A. in phases 1,2 and 3, respectively.

For the first phase of the Plan, Telefónica, S.A. acquired an instrument from a financial institution with the same features of the plan (see Note 9.4.1).

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

In addition to PSP and PIP share plans, during 2011 to 2013 period there have been two other incentive plans based on Telefónica, S.A. shares. The expense incurred under these plans is not significant either considered on a standalone basis or considering both plans together. These shared-base plans are two editions of Global Employee Share Plan which was available for all the employees of the Telefónica Group, with some exceptions. The first edition ended in 2011 and the second will finish in 2014.

19.4 Average number of employees in 2013 and 2012 and number of employees at year-end:

2013

	Employees at 13/31/12			Average no. of employees in 2013		
Professional category	**Females**	**Males**	**Total**	**Females**	**Males**	**Total**
General managers and chairmen		1	1		1	1
Directors	58	103	161	55	101	156
Managers	96	108	204	87	100	187
Project Managers	140	132	272	132	125	257
University graduates and experts	88	69	157	83	63	146
Administration, clerks, advisors	151	8	159	145	10	155
Total	**533**	**421**	**954**	**502**	**400**	**902**

2012

Professional category	Employees at 12/31/12 Females	Males	Total	Average no. of employees in 2012 Females	Males	Total
General managers and chairmen		1	1		4	4
Directors	44	74	118	43	94	137
Managers	69	69	138	76	90	166
Project Managers	108	99	207	112	110	222
University graduates and experts	65	53	118	70	51	121
Administration, clerks, advisors	122	12	134	126	14	140
Total	**408**	**308**	**716**	**427**	**363**	**790**

The increase in 2013 headcount is due to the concentration in the Headquarters of some activities that had previously been developed in the different regions of the Telefónica Group.

19.5 External services.

The items composing Finance revenue are as follows:

Millions of euros	2013	2012
Rent	11	11
Independent professional services	169	148
Marketing and advertising	80	87
Other expenses	69	242
Total	**329**	**488**

On December 19, 2007, Telefónica, S.A. signed a rental contract with a view to establishing the headquarters of the Telefónica Corporate University . The contract included construction and refurbishment of certain facilities by the lessor. On October 31, 2008, some of the facilities were partially accepted and thus the lease period commenced. The lease period is for 15 years (until 2023), renewable for another five.

Future minimum rentals payable under non-cancellable operating leases without penalization at December 31, 2013 and 2012 are as follows:

Millions of euros	Total	Up to 1 year	From 1 to 3 years	From 3 to 5 years	Over 5 years
Future minimum rentals 2013	**53**	5	10	11	27
Future minimum rentals 2012	**52**	5	9	10	28

19.6 Finance revenue

The items composing Finance revenue are as follows:

Millions of euros	2013	2012
Dividends from other companies	7	17
Other finance revenue	172	196
Total	**179**	**213**

19.7 Finance costs

The breakdown of Finance costs is as follows:

Millions of euros	2013	2012
Interest on borrowings from Group companies and associates	1,971	2,042
Finance costs payable to third parties and gains (losses) on interest rates of financial hedges	741	226
Total	**2,712**	**2,268**

The breakdown by Group company of debt interest expenses is as follows:

Millions of euros	2013	2012
Telefónica Europe, B.V.	238	388
Telefónica Emisiones, S.A.U.	1,712	1,607
Other companies	21	47
Total	**1,971**	**2,042**

Other companies includes financial costs with Telefónica Finanzas, S.A.U. and Telfisa Global, B.V. related to current payables for specific cash needs.

The amount included as Finance costs payable to third parties and gain (losses) on interest rarte of financial hedges refers to fair value effects in the valuation of derivative instruments described in Note 16.

19.8 Exchange differences:

The breakdown of exchange losses recognized in the income statement is as follows:

Millions of euros	**2013**	**2012**
On current operations	37	16
On loans and borrowings	813	414
On derivatives	769	927
On other items	8	15
Total	**1,627**	**1,372**

The breakdown of exchange gains recognized in the income statement is as follows:

Millions of euros	**2013**	**2012**
On current operations	22	35
On loans and borrowings	270	173
On derivatives	1,197	1,073
On other items	56	50
Total	**1,545**	**1,331**

The change in exchange gains and losses is basically due to the fluctuations in the main currencies the Company works with which have been significantly weakened against euro in 2013: Brazilian real weakening by 16.54% (9.98% in 2012), Czech crown weakening by 8.33% (strengthening by 2.62% in 2012), US dollar weakening by 4.33% (strenghtening of 1.93% in 2012), and the pound sterling weakening by 2.11% (strenghtening by 2.35% in 2012). These impacts are offset by the hedges contracted to mitigate exchange rate fluctuations.

Note 20. Other information

a) Financial guarantees

At December 31, 2013, Telefónica, S.A. had provided financial guarantees for its subsidiaries and investees to secure their transactions with third parties amounting to 42,535 million euros (40,812 million euros at 2012 year-end). These guarantees are measured as indicated in Note 4.g).

Millions of euros **Nominal Amount**	**2013**	**2012**
Debentures and bonds	38,780	37,719
Loans and other payables	2,776	2,266
Other marketable debt securities	979	827
Total	**42,535**	**40,812**

The debentures and bonds in circulation at December 31, 2013 issued by Telefónica Emisiones, S.A.U., Telefónica Europe, B.V. and Telefónica Finanzas México, S.A. de C.V. were guaranteed by Telefónica, S.A. The nominal amount guaranteed was equivalent to 38,780 million euros at December 31, 2013 (37,719 million euros at December 31, 2012). During 2013, Telefónica Emisiones, S.A.U. issued debt instruments on capital markets for an equivalent of 4,883 million euros (5,148 million euros in 2012); while Telefónica Europe, B.V. issued three undated subordinated securities by an equivalent to 2,466 million euros and Telefónica Emisiones, S.A.U. bonds by an amount equivalent to 3,354 million euros (618 million euros in 2012) and Telefónica Europe, B.V. by 1,500 million euros.

The main loans and other debts guaranteed by Telefónica, S.A. at December 31, 2013 are: a line of credit entered into with China Development Bank on January 5, 2012 by Telefónica Europe, B.V., whose outstanding principal at December 31, 2013 was 375 million US dollars (equivalent to 272 million euros); a syndicated loan granted on March 2, 2012 to Telefónica Europe, B.V. by various institutions, whose outstanding principal at December 31, 2012 was equivalent to 801 million euros (same amount in 2012); and credit facilities obtained by Telefónica Finanzas, S.A. from the European Investment Bank, whose outstanding principal at December 31, 2013 was equivalent to 707 million euros (766 million euros at December 31, 2012). On December 13, 2013, there was a merge of the following syndicated loan facilities: i) Tranche E1 for 756 million euros available as from March 2, 2012 and maturing on March 2, 2017; and ii) Tranche E2 for 1,469 million pounds sterling (this syndicated loan facility was redenominated into euros on December 13, 2013) available as from December 13, 2013 and maturing on March 2, 2017. As a result of this redenomination and conversion there was a new tranche E1 for 2,522 million euros with an outstanding balance at December 31, 2013 amounted to 100 million pounds sterling (equivalent to 123 million euros). During 2013, 1,500 million euros bond issued on October 31, 2004 by Telefónica Europe, B.V. fell due and approximately 52 million euros was complied by Telefónica Finanzas, S.A.U. according to the repayment schedule of the financings.

Other marketable debt securities includes the guarantee of Telefónica, S.A. relating to the commercial paper issue program of Telefónica Europe, B.V. The outstanding balance of commercial paper in circulation issued through this program at December 31, 2013 was 720 million euros (769million euros at December 31, 2012). This caption also includes the remaining guarantee for preferred shares issued by Telefónica Finance USA, LLC, the redemption value of which amounts to 59 million euros (59 million euros at December 31, 2012).

Telefónica, S.A. provides operating guarantees granted by external counterparties, which are offered during its normal commercial activity. At December 31, 2012, these guarantees amounted to approximately 114 million euros.

b) Litigation

Telefónica and its Group companies are party to several lawsuits or proceedings that are currently in progress in the law courts and administrative and arbitration bodies of the various countries in which the Telefónica Group is present.

Considering the reports of the Company s legal advisors regarding these proceedings, it is reasonable to assume that this litigation or cases will not materially affect the financial position or solvency of Telefónica Group, regardless of the outcome.

Among unresolved cases or those underway in 2013 (see Note 17 for details of tax-related cases), the following are of special note:

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

On September 26, 2006, Telefónica was notified of the claim filed by former shareholders of Terra Networks, S.A. (Campoaguas, S.L., Panabeni, S.L. and others) alleging breach of contract in respect of the terms and conditions set forth in the Prospectus of the Initial Public Offering of shares of Terra Networks, S.A. dated October 29, 1999. The court rejected this claim and ordered the plaintiffs to pay court costs by a ruling issued on September 21, 2009. The plaintiffs appealed this ruling on December 4, 2009 and Telefónica was notified of such appeal on June 16, 2010. Telefónica opposed to the appeal in January 2011. On April 23, 2013, Telefónica was notified a ruling of the Madrid Regional Court dismissing in its entirety the appeal filed by the plaintiffs against the first instance ruling handed down in 2009, confirming the rulings of the decision under appeal and ordering appellants to pay court costs. The ruling became firm on May 29, 2013, with no further appeals possible.

Appeal against the European Commission Ruling of July 4, 2007 against Telefónica de España s broadband pricing policy

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

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

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

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

On September 26, 2013 the Attorney General presented its conclusions to the Court stating of a possible breach of the principle of non-discrimination with respect to the sanction and a defective application of the principle of full jurisdiction by the General Court, requesting the return of the lawsuit to the instance.

Appeal against the Decision of the European Commission dated January 23, 2013 to sanction Telefónica for the infringement of Article 101 of the Treaty on the functioning of the European Union

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

On January 23, 2013, the EC passed a ruling on the formal proceedings. The ruling imposed a fine on Telefónica of 67 million euros, as the EC ruled that Telefónica and Portugal Telecom committed an infraction as stipulated in Article 101 of the Treaty on the Functioning of the European Union (TFUE) for having entered into the agreement set forth in Clause Nine of the sale and purchase agreement of Portugal Telecom s ownership interest of Brasilcel, N.V.

On April 9, 2013, Telefónica filed an appeal for annulment of this ruling with the European Union General Court. On August 6, 2013, the General Court notified Telefónica of the response issued by the European Commission, in which the EC reaffirmed the main arguments of its ruling and, specially, that Clause Nine is a competition restriction. On September 30, 2013, Telefónica filed its reply. On December 18, 2013, the European Commission filed its appeal.

c) Commitments

Atento

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

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

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

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

Agreement for the acquisition of E-Plus

Telefónica and its German listed subsidiary Telefónica Deutschland Holding AG (hereinafter, Telefónica Deutschland), entered into an agreement on July 23 (amended on August 26, 2013) with the Dutch company Koninklijke KPN NV (hereinafter, KPN) under which Telefónica Deutschland committed itself to acquire the shares of the German subsidiary of KPN, E-Plus Mobilfunk GmbH & Co. KG (hereinafter, E-Plus), receiving KPN, as consideration, 24.9% of Telefónica Deutschland and 3,700 million euros.

Telefónica committed to subsequently acquire from KPN, 4.4% of Telefónica Deutschland for a total amount of 1,300 million euros, consequently, after the aforementioned acquisition, KPN s stake in Telefónica Deutschland would be reduced to 20.5%.

Telefónica also committed to subscribe the proportional corresponding share in the capital increase approved by Telefónica Deutschland in the Extraordinary General Meeting held on February, 11, 2014, to finance the cash consideration of the transaction.

The closing of this transaction is subject to certain conditions of which only the relevant authorization from the Competition Authority remains.

Agreement with the shareholders of Telco, S.p.A

On September 24, 2013, Telefónica and the remaining shareholders of the Italian company Telco, S.p.A. (which holds a capital stake of 22.4% of the voting share capital of Telecom Italia, S.p.A.) reached an Agreement by virtue of which:

Telefónica subscribed for and paid out a capital increase in Telco, S.p.A., through the contribution of 324 million euros in cash, receiving in return non-voting shares of Telco, S.p.A. As a result of this capital increase, the interest held by Telefónica in the voting share capital of Telco, S.p.A. remained unchanged (i.e. 46.18%), although its interest in the total share capital of Telco, S.p.A. has increased to 66%. The current governance structure at Telco, S.p.A. remained unaffected, including the obligation by Telefónica of abstaining from participating or influencing in any decisions which could affect the markets in which both, Telefónica and Telecom Italia, S.p.A., are present.

Subject to receiving any required anti-trust and telecommunications approvals (including in Brazil and Argentina), Telefónica will subscribe for and pay out a second capital increase in Telco, S.p.A., through the contribution of 117 million euros in cash and will receive in return non-voting shares of Telco, S.p.A. As a result of this second capital increase, the interest of Telefónica in the voting share capital of Telco, S.p.A. will remain unchanged (i.e. 46.18%), although its interest in the total share capital will be then increased to 70%.

Starting from January 1, 2014, subject to receiving any required anti-trust and telecommunications approvals (including in Brazil and Argentina), Telefónica may convert all or a portion of its non-voting shares in Telco, S.p.A. into voting shares in Telco, S.p.A., representing no more than 64.9% of the voting share capital of Telco, S.p.A.

The Italian shareholders of Telco, S.p.A. have granted Telefónica a call option to acquire all of their shares in Telco, S.p.A., whose exercise is subject to receiving any required anti-trust and telecommunications approvals (including in Brazil and Argentina). The call option may be exercised by Telefónica starting from January 1, 2014 while the Shareholders Agreement remains in effect, except (i) between June 1, 2014 and June 30, 2014 and between January 15, 2015 and February 15, 2015, and (ii) during certain periods, if the Italian shareholders of Telco, S.p.A. request the demerger of Telco, S.p.A.

At of the date of the authorization of these financial statements the approvals that are necessary for the implementation of the transactions contemplated in the Agreement dated September 24, 2013, and subscribed between Telefónica and the remaining shareholders of the Italian company Telco S.p.A. have not been obtained yet.

On December 4, 2013, the Brazilian Antitrust Regulator, Conselho Administrativo de Defesa Econômica (CADE) announced, the two following decisions:

1. To approve, with the restrictions mentioned below, the acquisition by Telefónica of the entire participation held by Portugal Telecom, SGPS S.A., and PT Móveis - Serviços de Telecomunicações, SGPS, S.A., (the PT Companies) in Brasilcel N.V., which controlled the Brazilian mobile company, Vivo Participações S.A.

It must be noted that such transaction was approved by ANATEL (Brazilian Telecommunications Regulation Authority) and the closing (which did not require CADES´s prior approval at the time), occurred immediately after such ANATEL´s approval, on September 27, 2010.

The above mentioned decision has been granted by CADE conditional on:

(a) The entry of a new shareholder in Vivo, sharing with Telefónica the control of Vivo in conditions identical to those that were applicable to the PT Companies when they had a participation in Brasilcel N.V., or

(b) That Telefónica ceases to have any direct or indirect financial interest in TIM Participações S.A.

2. To impose on Telefónica a fine of 15 million Brazilian Reais, for having allegedly breached the spirit and the goal of the agreement signed between Telefónica and CADE (as a condition to the approval of

Telefónica´s original acquisition of an interest in Telecom Italia in 2007), due to the subscription of non-voting shares of Telco on a recent capital increases. This decision also requires Telefónica to divest such non-voting shares of Telco S.p.A

The timing for the accomplishment of the conditions and obligations imposed by CADE on both decisions was classified by CADE as confidential and reserved information.

On December 13, 2013, Telefónica S.A. announced, in relation to the two Decisions adopted by CADE on its December 4, 2013 session, that the company considers that the remedies imposed were unreasonable and therefore, is further analyzing the possibility of initiating the appropriate legal actions.

In line with such course of action, and to reinforce our strong commitment with the previous obligations undertaken by Telefónica to remain separate from Telecom Italia´s brazilian businesses, Telefónica S.A, highlighted in the aforementioned announcement, that Mr. César Alierta Izuel and Mr. Julio Linares López have decided to resign, with immediate effect, from their positions as Directors of Telecom Italia; and Mr. Julio Linares has decided to resign, with immediate effect, from his position in the slate submitted by Telco S.p.A. for the potential re-election of the Board of Directors of Telecom Italia in the Shareholders Meeting of the aforementioned company, called for December 20, 2013.

For the same reasons, Telefónica S.A., indicated that, without prejudice of any of the rights recognized in Telco, S.p.A. Shareholder`s Agreement, has decided for the time being not to avail of its right to appoint two Directors in the Board of Directors of Telecom Italia.

Agreement for the sale of a stake in Telefónica Czech Republic, A.S

As explained in Note 8, on November 5th, 2013, Telefónica reached an agreement with PPF Group N.V. (hereinafter PPF) to sell 65.9% of Telefónica Czech Republic, a.s. (hereinafter Telefónica Czech Republic) for an amount of, approximately, 306 Czech Crowns per share in cash (approximately 2,467 million euros at the date of the agreement).

The agreement stated that aforementioned consideration was to be paid in two tranches:

(i) 2,063 million euros in cash up front at closing of the transaction; and

(ii) 404 million euros in cash as deferred payments over a 4 year period.

Additionally, Telefónica received an amount of 260 million euros corresponding to the distribution to shareholders approved by the General Shareholders Meeting of Telefónica Czech Republic, paid on November 11th, 2013.

As a result of this transaction, Telefónica will hold a 4.9% equity stake in Telefónica Czech Republic. In addition, Telefónica will remain as a Company s industrial and commercial partner for 4 years:

Telefónica Czech Republic will be renamed but will continue using the O2 brand for up to four years.

The Company will become part of Telefónica s Business Partners Program.

In connection with this transaction, PPF will launch a Mandatory Tender Offer. Telefónica will maintain its 4.9% but may dispose of the shares upon completion, subject to certain restrictions.

Furthermore, the agreement establishes a put/call option structure in relation to the Telefónica Czech Republic shares which Telefónica holds after 4 years. In addition, the agreement includes tag along/drags along clauses.

Transaction was completed on January 28, 2014, after obtaining the relevant regulatory authorization (See Note 22).

d) Directors and senior executives compensations and other benefits

Board of Directors compensation

The compensation of Telefónica members of the Board of Directors is governed by Article 35 of the Bylaws, which states that the compensation amount that the Company may pay to all of its Directors as remuneration and attendance fees shall be fixed by the shareholders at the General Shareholders Meeting. The Board of Directors shall determine the exact amount to be paid within such limit and the distribution thereof among the directors. This compensation, as established in said article of the Bylaws, is compatible with other professional or employment compensation accruing to the Directors by reason of any executive or advisory duties that they perform for the Company, other than the supervision and collective decision-making duties inherent in their capacity as Directors.

Accordingly, the shareholders, at the Annual General Shareholders Meeting held on April 11, 2003, set the maximum gross annual amount to be paid to the Board of Directors at 6 million euros, including a fixed payment and fees for attending meetings of the Board of Director s Advisory or Control Committees. Total compensation paid to Telefónica s Directors for discharging their duties in 2013 amounted to 3,516,669 euros in fixed compensation and attendance fees.

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

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

The tables below presents the fixed amounts established in 2013 for membership to Telefónica s Board of Directors, Executive Commission and Advisory or Control Committees and the attendance fees of the Advisory or Control Committees.

Compensation of members of the Board of Directors and Board Committees

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

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

Individual breakdown

Annex II provides a detail by individual, by compensation item, of the compensation and benefits paid by Telefónica, S.A. and other companies of the Telefónica Group to members of the Company s Board of Directors in 2013.

e) Detail of equity investments, positions held and duties performed in companies engaging in an activity that is similar or complementary to that of the Company

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

Name	Activity performed	Company	Position or functions	Stake (%) (*)
Mr. Isidro Fainé Casas	Telecommunications	Abertis Infraestructuras, S.A.	Vice Chairman 1º	< 0.01%
Mr. Isidro Fainé Casas	Telecommunications	Telecom Italia, S.p.A.		< 0.01% (**)
Mr. Carlos Colomer Casellas	Telecommunications	Abertis Infraestructuras, S.A.	Director	
Mr. Luiz Fernando Furlán	Telecommunications	Abertis Infraestructuras, S.A.	Advisory Board Member	

(*) Shareholding of less than 0.01% of share capital indicated by <0.01% .
(**) Shareholding of the total number of ordinary shares.
Information on Board member Chang Xiaobing, Executive Chairman of China Unicom (Hong Kong) Limited, is not included in this section given that:

In accordance with Article 33 of the Company s Bylaws, whereby (...) the following shall not be deemed to be in a situation of effective competition with the Company, even if they have the same or a similar or complementary corporate purpose: (...) companies with which Telefónica, S.A. maintains a strategic alliance , Mr. Xiaobing s interests are not in conflict with those of Telefónica, S.A.

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

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

Name	Company	Position or functions
Mr. César Alierta Izuel	China Unicom (Hong Kong) Limited	Director
Mr. Alfonso Ferrari Herrero	Telefónica Chile, S.A. Telefónica del Perú, S.A.A.	Acting Director Director
Mr. Francisco Javier de Paz Mancho	Telefónica Brasil, S.A. Telefónica de Argentina, S.A.	Director Director
Mr. José Fernando de Almansa Moreno-Barreda	Telefónica Brasil, S.A. Telefónica Móviles México, S.A. de C.V.	Director Director
Mr. Gonzalo Hinojosa Fernández de Angulo	Telefónica del Perú, S.A.A.	Director
Mr. Luiz Fernando Furlán	Telefónica Brasil, S.A.	Director
Ms. María Eva Castillo Sanz	Telefónica Czech Republic, a.s. Telefónica Europe, Plc. Telefónica Deutschland Holding, A.G. Tuenti Technologies, S.L.	Chairwoman of Supervisory Board (1) Chairwoman Chairwoman of Supervisory Board Chairwoman
Mr. Santiago Fernández Valbuena	Telefónica Internacional, S.A. Telefónica América, S.A. Telefónica Brasil, S.A. Telefónica Móviles México, S.A. de C.V. Colombia Telecomunicaciones, S.A., E.S.P. Telefónica Chile, S.A. Telefónica Capital, S.A.	Chairman Chairman Vice Chairman Vice Chairman Director Acting Director Sole Director
Mr. Chang Xiaobing	China United Network Communications Group Company Limited China United Network Communications Corporation Limited China Unicom (Hong Kong) Limited China United Network Communication Limited	Chairman Chairman Executive Chairman Chairman

(1)

On January 29, 2014, Ms. Eva Castillo Sanz resigned from the position of Chairwoman of the Supervisory Board of Telefónica Czech Republic, a.s.

f) Related-party transactions

Significant shareholders

The main transactions between Telefónica, S.A. and its significant shareholders always concluded at arm s length are as follows: The figures refer to Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and subsidiaries pertaining to its consolidated group and Caja de Ahorros y Pensiones de Barcelona, (la Caixa) and subsidiaries pertaining to its consolidated group: Their stake in Telefónica as of December 31, 2013 is 6.89% y 5.43%, respectively.

Millions of euros 2013	**BBVA**	**la Caixa**
Financial expenses	2	1
Receipt of services	3	2
Total expenses	**5**	**3**
Financial revenues	8	8
Dividends received (1)	14	
Total revenues	**22**	**8**
Financing transactions	1,568	1,671
Guarantees granted		
Time deposits	310	214
Dividends distributed	108	89
Derivatives (Nocional) (2)	12,268	1,200

(1) As of December 31, 2013 Telefónica holds 0.76% investment in BBVA (See Note 9.3.).
(2) See the policies of derivative instruments of the Group in Note 16.

Millions of euros 2012	**BBVA**	**la Caixa**
Financial expenses	5	5
Receipt of services	28	25
Total expenses	**33**	**30**
Financial revenues	4	2
Dividends received	16	

Total revenues	**20**	**2**
Financing transactions	449	385
Guarantees granted		10
Time deposits	622	618
Dividends distributed	286	135
Derivatives (Nocional)	12,905	2,661

Group companies and Associates

Telefónica, S.A. is a holding company for various investments in companies in Latin, Spain and the rest of Europe which do business in the telecommunications, media and entertainment sectors.

The balances and transactions between the Company and these subsidiaries (Group and Associated Companies) at December 31, 2013 and 2012 are detailed in the notes to these individual financial statements.

Directors and senior executives

During the financial year to which these accompanying annual financial statements refer, the Directors and senior executives did not perform any transactions with Telefónica or any Telefónica Group company other than those in the Group s normal trading activity and business.

Compensation and other benefits paid to members of the Board of Directors and senior executives, as well as the detail of the equity interests and positions held and duties performed in companies engaging in an activity that is identical, similar or complementary to that of the Company are detailed in Note 20.d and Appendix II to these financial statements.

Certain Directors of Telefónica, S.A. s Board that are also Directors in the Board of Abertis Infraestructuras, S.A., which is the holding company of de Abertis Group (See Note 20.e.). In 2013, Telefónica has reached an agreement with Abertis, though its subsidiary Abertis Tower, S.A. Pursuant to this agreement, Telefónica Móviles España, S.A.U. has sold 690 mobile telephone towers with a profit of 70 million euros. In addition, Abertis Tower, S.A. has rented to Telefónica Móviles España, S.A.U. some space in the previouly mentioned infrastructures to locate its telecommunication equipments.

On December 28, 2012 Telefónica de Contenidos, S.A.U. (a subsidiary 100% of Telefónica, S.A.) signed an agreement with Abertis (though its subsidiary Abertis Telecom, S.A.) to sell 23,343 shares of Hispasat, S.A. for an amount of 68 milliion euros.

g) Auditors fees

The fees accrued in 2013 and 2012 to the various member firms of the EY international organization (previously Ernst & Young), to which Ernst & Young, S.L. (the auditors of Telefónica, S.A. in 2013 and 2012) belongs, amounted to 3.19 million euros and 3.15 million euros, respectively, broken down as follows.

Millions of euros	**2013**	**2012**
Audit services	2.90	2.53
Audit-related services	0.29	0.62
Total	**3.19**	**3.15**

Ernst &Young, S.L. has not provided the Company with tax advice or other services except as disclosed above.

h) Environmental matters

Telefónica has an integrated Green ICT and Environment strategy with three common goals. The first concerns environmental risk management, the second promoting internal eco-efficiency, and the third unlocking business opportunities to offer end-to-end telecommunications services that support a low-carbon economy.

The Group has an Environmental Policy covering all its companies, as well as a Global Environmental Management System to ensure compliance with local environmental laws and continuously improve management processes. The Climate Change and Energy Efficiency Office is also responsible for rolling out processes to boost energy efficiency and shrink the Group s carbon footprint.

i) Trade and other guarantees

The Company is required to issue trade guarantees and deposits for concession and spectrum tender bids and in the ordinary course of its business. No significant additional liabilities in the accompanying financial statements are expected to arise from guarantees and deposits issued (see Note 20 a.).

Note 21. Cash flow analysis

Cash flows from/(used in) operating activities

The net result before tax in 2013 amounted to 33 million euros (see the income statement), adjusted by items recognized in the income statement that did not require an inflow or outflow of cash in the year.

These adjustments relate mainly to:

Impairments to investments in Group companies, associates and other investments of 7,998 million euros (impairment in 2012 of 5,312 million euros).

Declared dividends as income in 2012 for 10,078 million euros (4,852 million euros in 2012), interest accrued on loans granted to subsidiaries of 235 million euros (275 million euros in 2012) and a net financial expense of 2,491 million euros (2,126 million euros in 2012), adjusted initially to include only movements related to cash inflows or outflows during the year under Other cash flows from operating activities.

Other cash flows from operating activities amounted to 6,017 million euros (1,832 million euros in 2012). The main items included are:

a) Net interest paid:

Payments of net interest and other financial expenses amounted to 1,664 million euros (2,007 million euros in 2012), including:

Net payments to external credit entities of 174 million euros (190 million euros in 2012), and

Interest and hedges paid to Group companies of 1,838 million euros (1,817 million euros in 2012). The main payments in 2013 were to Telefónica Emisiones, S.A.U., for 1,677 million euros, and to Telefónica Europe, B.V., for 273 million euros. The interest paid figure is partially offset by the interest received from Telefónica de Contenidos, S.A.U. amounting to 125 million euros.

b) Dividends received:

The main receipts relate to:

Millions of euros	**2013**	**2012**
Telefónica de España, S.A.U.	1,600	221
Telefónica Móviles España, S.A.U.	1,080	1,435
Telefónica Europe, plc.	1,309	574
Telefónica Czech Republic, a.s.	147	212
Telefónica Internacional, S.A.U.	1,500	
Telefónica Brasil, S.A. (Telesp)	398	347
Grupo Telefónica Móviles Argentina	89	112
Sao Paulo Telecommunicaçoes	141	51
Otros cobros de dividendos	164	385
Total	**6,428**	**3,337**

In addition to the dividends recognized as income in 2013 (see Note 19.1) and collected in the same period, this caption also includes dividends from 2012 collected in 2013.

c) Income tax collected: Telefónica, S.A. is the parent of its consolidated Tax Group (see Note 17) and therefore it is liable for filing income tax with the Spanish Treasury. It subsequently informs companies included in the Tax Group of the amounts payable by them. Payments of totaling 436 million euros were made in 2013 (247 million in 2012), as disclosed in Note 17. In this regard, the main amounts passed on to subsidiaries of the tax group were as follows:

Telefónica Móviles España, S.A.U.: collection of 648 million euros, corresponding to: 311 million euros for the 2012 income tax settlement, 326 million in payments of account of 2013 income tax and 11 million euros of the third payment of account of 2012 income tax that has been paid in 2013, net of the effect of 1998 to 2000 tax settlements. In 2012, rebilling amounted to 360 million euros mainly due to payments on account of the 2011 income tax settlement.

Telefónica de España, S.A.U.: collection of 931 million euros, corresponding to: 362 million euros for the 2012 income tax settlement, 531 million in payments of account of 2013 income tax and 38 million euros of the third payment of account of 2012 income tax that has been paid in 2013, net of the effect of 1998 to 2000 tax settlements. In 2012, rebilling amounted to 573 million euros corresponding to: 382 million euros for the 2011 income tax settlement, 25 million euros for the 2005 to 2007 tax settlements, and 166 million in payments of account of 2012 income tax.

Cash flows from/(used in) investing activities

Payments on investments under Cash flows from/(used in) investing activities included a total payment of 2,938 million euros (6,779 million euros in 2012). The main transactions to which these payments refer are as follows:

Capital increases: the main disbursements correspond to Telefónica México, S.A. de C.V. amounting to 440 million euros and Telco, S.p.A. amounting to 324 million euros. These capital increases, as well as other minor disbursements of this same concept are disclosed fully in Note 8.1.a.

1,038 million euro loans awarded and paid out in 2013 to Telefónica Móviles España, S.A.U., 158 million euro loan awarded and paid to Telefónica Digital Holding, S.A. and a credit awarded and paid to Telefónica de España, S.A.U. totaling 165 millon euros, all described in Note 8.5.

Buyback of debentures and bonds issued by Telefónica Emisiones, S.A.U. and Telefónica Europe, B.V. totaling 98 million euros.

Acquisition of a convertible debenture issued by Telecom Italia, S.p.A. amounting to 103 million euros as described in Note 9.4.2.

Proceeds from disposals totaling 2,791 million euros in 2013 (8,151 million euros in 2012) includes:

Repayment of contributions through share capital reductions or share premiums by O2 Europe Ltd amounting to 286 million euros, Panamá Cellular Holdings, B.V. with 186 million euros and Telefónica Czech Republic, a.s. with 100 million euros.

Repayments of a loan granted by Telefónica, S.A. to Telefónica de Contenidos, S.A.U. amounting to 1,142 million euros and maturity date in 2013. The loan was substituted by a credit amouting to 340 million euros. The funds have been received by the net amount and it has been shown as proceed from disposals (See Note 8.5.)

The proceed from the sale to Telefónica Centroamérica Inversiones, S.L. of the 24.5% investment in Telefónica Móviles Panamá, S.A. amounting to 83 million euros (Nota 8.1.).

Repayment in 2013 of a loan granted and paid to Telefónica Móviles España, S.A.U. in 2012 amounting to 638 million euros.

The proceeds from the maturity of debentures and bonds issued by Telefónica Emisiones, S.A.U. and Telefónica Europe, B.V. totaling 337 million euros.

In 2012, Proceeds from disposals primarily included repayment of loans granted by the Company to subsidiaries, the most significant amounts of which were received from Telefónica de España, S.A.U. (681 million euros). It was also included the repayment of contributions through share capital reductions or share premiums by subsidiaries: O2 Europe Ltd (5,729 million euros) and Telefónica de España, S.A.U. (731 million euros).

Cash flows from/(used in) financing activities

This caption includes the following items:

i. Payments for equity instruments of 244 million euros (590 million euros in 2012), relating to the net amount of treasury shares acquired in 2013.

ii. Proceeds from financial liabilities:

a) Debt issues: The main collections comprising this heading are as follows:

Millions of euros	2013	2012
8bn syndicated loan		915
Bilateral credit (Note 14.2)		200
EKN credit facility (Note 14.2)	407	200
Telefónica Emisiones, S.A.U. (Note 15)	4,352	5,148
Telefónica Europe, B.V. (Note 15)	3,078	2,604
Preferred shares TFinance (Note 14)		1,165
Telfisa Global, B.V. financing (Note 15)	1,633	
Commercial paper issued by Telefónica Europe, B.V.	153	
Commercial paper (Note 13)	31	244
Other collections	473	489
Total	**10,127**	**10,964**

b) Prepayments and redemption of debt: The main payments comprising this heading are as follows:

Millions of euros	2013	2012
Preferred shares bonds (Note 13)	582	
8bn syndicated loan (Note 14)	4,000	915
Telefónica Europe, B.V.	1,500	4,508
Telefónica Finanzas, S.A.U.	2,081	1,544
Telefónica Emisiones, S.A.U. (Note 15)	3,594	620
Telfisa Global, B.V. financing (Note 15)		510

Net movement in floating-rate credit facilities		423
Other payments	274	681
Total	**12,031**	**9,201**

The commercial paper transactions with Telefónica Europe, B.V. are stated at their net balance as recognized for the purposes of the cash flow statement, being high-turnover transactions where the interval between purchase and maturity never exceeds six months.

The financing obtained by the Company from Telefónica Finanzas, S.A.U. and Telfisa Global, B.V. relates to the Group s integrated cash management (see Note 15). These amounts are stated net in the cash flow statement as new issues or redemptions on the basis of whether or not at year-end they represent current investment of surplus cash or financed balances payable.

iii. Payments of dividends for 1,588 million euros (2,836 million euros in 2012) as described in Note 11.1. d).

Note 22. Events after the reporting period

The following events regarding the Company took place between the reporting date and the date of preparation of the accompanying financial statements:

Financing

On January 31, 2014, Telefónica Emisiones, S.A.U. redeemed 296 million pounds sterling (equivalent to 355 million euros) of its notes, issued on December 28, 2006. The notes were guaranteed by Telefónica S.A.

On February 3, 2014, Telefónica Emisiones, S.A.U. redeemed 2,000 million euros of its notes, issued on February 3, 2009. The notes were guaranteed by Telefónica S.A.

On February 7, 2014, Telefónica Emisiones, S.A.U. redeemed 1,500 million euros of its notes, issued on February 7, 2007. The notes were guaranteed by Telefónica S.A.

On February 7, 2014, Telefónica, S.A. made an early repayment for 923 million euros of its syndicated loan (Tranche D2) dated March 2, 2012 (scheduled to mature originally on December 14, 2015).

On February 7, 2014, Telefónica Europe, B.V. made an early repayment for 801 million euros of its syndicated loan (Tranche D1) dated March 2, 2012 (scheduled to mature originally on December 14, 2015).

On February 18, 2014, Telefónica, S.A. signed a 3,000 million euros syndicated revolving credit facility maturing on February 18, 2019. This agreement would enter into effect on February 25, 2014 cancelling the 3,000 million syndicated credit facility signed on July 28, 2010 (scheduled to mature originally in 2015).

Sale of Telefónica Czech Republic, a.s.

On January 28, 2014 Telefónica announced that, after obtaining the relevant regulatory approval, the transaction for the sale of a 65.9% stake of Telefónica Czech Republic, a.s. to PPF Group, N.V., has been completed (see Note 20.c. and 8.5.)

Telefónica new organization structure

On February 26, 2014, the Board of Directors of Telefónica, S.A. has approved the implementation of a new organizational structure completely focused on clients and that incorporates the digital offering as the main focus for commercial policies. The structure gives greater visibility to local operations, bringing them closer to the corporate decision-making centre, simplifying the global structure and strengthening the transverse areas to improve flexibility and agility in decision makings.

Within this framework, Telefónica has created the role of the Chief Commercial Digital Officer, who will be responsible for fostering revenue growth. On the cost side, the Company has strengthened the role of the Chief Global Resources Officer. Both Officers will report directly to the Chief Operating Officer (COO), as will the local business CEOs for Spain, Brazil, Germany and the United Kingdom, in addition to the Latin American Unit, now without Brazil.

The new model integrates the activities carried out to date by Telefónica Digital, Telefónica Europe and Telefónica Latam into the Global Corporate Centre, thus simplifying the organization.

Note 23. Additional note for English translation

These annual financial statements were originally prepared in Spanish and were authorized for issue by the Company s Directors in the meeting held on February 26, 2014. In the event of a discrepancy, the Spanish-language version prevails.

Appendix I: Details of subsidiaries and associates at December 31, 2013

MILLIONS OF EUROS	% OWNERSHIP					INCOME (LOSS)		
NAME AND CORPORATE PURPOSE	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	Gross carrying amount
Telefónica Europe plc (UNITED KINGDOM) Wireless communications services operator Wellington Street, Slough, SL1 1YP	100.00%		13	14.405	1,309	(12)	1,288	25,310
Telefónica Internacional, S.A.U. (SPAIN) Investment in the telecommunications industry abroad Gran Vía, 28 - 28013 Madrid	100.00%		2,839	3,022	4,500	(155)	797	8,132
Telefónica Móviles España, S.A.U. (SPAIN) Wireless communications services provider Plaza de la Independencia, 6 - Pta. 5 - 28001 Madrid	100.00%		423	498	1,081	1,393	994	5,775
Telfin Ireland Limited (IRELAND) Intragroup financing 28/29 Sir John Rogerson s Quay, Dublin 2	100.00%			4,726			130	4,491
O2 (Europe) Ltd. (UNITED KINGDOM) Holding company Wellington Street, Slough, SL1 1YP	100.00%		1,239	5,952		(1,458)	(1,177)	2,764
Telefónica Móviles México, S.A. de C.V. (MEXICO) (1) Holding company Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, México D.F. CP.05349	100.00%		4,313	(2,738)		(115)	(205)	4,061
Telefónica de España, S.A.U. (SPAIN) Telecommunications service provider in Spain Gran Vía, 28 - 28013 Madrid	100.00%		1,024	1,484	1,600	2,739	2,030	2,303
Telefónica de Contenidos , S.A.U. (SPAIN)	100.00%		1,865	(1,623)		86	25	2,242

Organization and operation of multimedia service-related activities and businesses Don Ramón de la Cruz, 84 4ª Pta.- 28006 Madrid							
Telefónica Datacorp, S.A.U. (SPAIN) Holding company Gran Via, 28 - 28013 Madrid	100.00%	700	136		(3)	(2)	1,343
Telfisa Global, B.V. (NETHERLANDS) Integrated cash management, consulting and financial support for Group companies Strawinskylaan 1259 ; tower D ; 12th floor 1077 XX - Amsterdam	100.00%		721		(3)	6	712
Ecuador Cellular Holdings, B.V. (NETHERLANDS) Holding company Strawinskylaan 3105, Atium 7th, Amsterdam	100.00%,		533	77		62	581
Telefónica Chile Holdings B.V. (NETHERLANDS) Holding company Herikerbergwebr 238, 1101CM 23393, 1100DW - Amsterdam Zuidoost (Netherlands)	100.00%		1,464				473
Compañía de Inversiones y Teleservicios, S.A. (SPAIN) Holding company C/ Santiago de Compostela, 94 - 28035 Madrid	100.00%	24	87	440		6	256
Panamá Cellular Holdings, B.V. (NETHERLANDS) Holding company Strawinskylaan 3105, Atium 7th, Amsterdam	100.00%		85		(93)	(83)	52

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NAME AND CORPORATE PURPOSE	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	Gross carrying amount
Teléfonica de Costa Rica TC, S.A. (COSTA RICA) Holding company Plaza Roble, Edificio Los Balcones 4to. Piso, San José	100.00%		239	(77)		(41)	(43)	239
Telefónica Global Technology, S.A. (SPAIN) Global management and operation of IT systems Gran Vía, 28 - 28013 Madrid	100.00%		16	95		(2)	(6)	178
Telefónica Capital, S.A. (SPAIN) Finance company Gran Via, 28 - 28013 Madrid	100.00%		7	126		(1)	3	110
Seguros de Vida y Pensiones Antares, S.A. (SPAIN) Life insurance, pensions and health insurance Ronda de la Comunicación, s/n Distrito Telefónica Edificio Oeste 1, planta 9- 28050 Madrid	100.00%		51	60	12	2	10	69
Telefónica Digital Holdings, S.L. (SPAIN) Holding company Ronda de la Comunicación, s/n Distrito Telefónica Edificio Central - 28050 Madrid	100.00%		9	102		(121)	(128)	149
Taetel, S.L. (SPAIN) Acquisition, ownership and disposal of shares and stakes in other companies Gran Via, 28 - 28013 Madrid	100.00%		28	12	1			28
Telefónica Gestión de Servicios Compartidos España, S.A. (SPAIN) Management and administrative services rendered Gran Via, 28 - 28013 Madrid	100.00%		8	(8)	55	10	28	24
Lotca Servicios Integrales, S.L. (SPAIN) Holding and operation of aircraft and aircraft leases Gran Via, 28 - 28013 Madrid	100.00%		17	(6)			(1)	17
Telefónica Ingeniería de Seguridad, S.A. (SPAIN) Security services and systems Condesa de Venadito, 1 - 28027 Madrid	100.00%		7			(8)	(9)	15

Comet, Compañía Española de Tecnología, S.A. (SPAIN) Promotion of business initiatives and holding of real estate assets Villanueva, 2 duplicado planta 1ª Oficina 23 - 28001 Madrid	100.00%	5	4				14
Telefónica Finanzas, S.A.U. (TELFISA) (SPAIN) Integrated cash management, consulting and financial support for Group companies Gran Vía, 30 - 4ª Plta. - 28013 Madrid	100.00%	3	58		(2)	11	13
Centro de Investigación y Experimentación de la Realidad Virtual, S.L. (SPAIN) Design of communications products Vía de Dos Castillas, 33 - Comp. Ática Ed. 1, 1ª Plta. Pozuelo de Alarcón - 28224 Madrid	100.00%						10
Telefónica International Wholesale Services II, S.L. (SPAIN) Telecommunications service provider and operator Ronda de la Comunicación, s/n 28050 Madrid	100.00%		(61)		(59)	(41)	9
Telefónica Investigación y Desarrollo, S.A.U. (TIDSA) (SPAIN) Telecommunications research activities and projects Telecomunicaciones Ronda de la Comunicación, s/n 28050 Madrid	100.00%	6	11	48	6	10	6

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MILLIONS OF EUROS	% OWNERSHIP					INCOME (LOSS)		
NAME AND CORPORATE PURPOSE	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	Gross carrying amount
Telefónica Luxembourg Holding S.à.r.L. (LUXEMBOURG) Holding company 26, rue Louvingny, L-1946- Luxembourg	100.00%		3	76				4
Venturini España, S.A. (SPAIN) Property leasing Avda. de la Industria, 17 Tres Cantos - 28760 Madrid	100.00%		3	2				4
Fisatel Mexico, S.A. de C.V. (MEXICO) Integrated cash management, consulting and financial support for Group companies Boulevard Manuel Avila Camacho, 24 - 16ª Plta. - Lomas de Chapultepec - 11000 Mexico D.F.	100.00%		57	(2)	2	(1)	1	57
Terra Networks Marocs S.A.R.L. Dormant Company 332 Boulevard Brahim Roudani, Casablanca	100.00%							
Telefónica Participaciones, S.A (SPAIN) Integrated cash management, consulting and financial support for Group Companies Gran Via, 28 - 28013 Madrid	100.00%							
Telefónica Emisiones, S.A.. (SPAIN) Integrated cash management, consulting and financial support for Group Companies Gran Via, 28 - 28013 Madrid	100.00%			5		(3)		
Telefónica Europe, B.V. (NETHERLANDS) Fund raising in capital markets Strawinskylaan 1259 ; tower D ; 12th floor 1077 XX Amsterdam	100.00%			5	2	(1)	1	
Telefónica Internacional USA Inc. (EE.UU.) Financial advisory services 1221 Brickell Avenue suite 600 - 33131 Miami Florida	100.00%			1				
Telefónica Global Applications, S.L. (SPAIN) Holding company	100.00%					(7)	(5)	

Ronda de la Comunicación, s/n 28050 Madrid								
Telefónica Latinoamérica Holding, S.L. (SPAIN) Holding company Ronda de la Comunicación, s/n Distrito Telefónica - 28050 Madrid	94.59%	5.41%	185	1,661			82	1,749
Telefónica International Wholesale Services, S.L. (SPAIN) International services provider Gran Via, 28 - 28013 Madrid	92.51%	7.49%	230	56		66	50	213
Corporation Real Time Team, S.L. (SPAIN) Internet design, advertising and consulting Claudio Coello, 32, 1º ext. Madrid	87.96%	12.04%						12
Telefónica Móviles Argentina Holding, S.A. (ARGENTINA) Holding company Ing Enrique Butty 240, piso 20-Capital Federal-Argentina	75.00%	25.00%	298	434	89	481	275	856

MILLIONS OF EUROS	% OWNERSHIP					INCOME (LOSS)		
NAME AND CORPORATE PURPOSE	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	Gross carrying amount
Telefónica International Wholesale Services America, S.A. (URUGUAY) Provision of high bandwidth communications services Luis A. de Herrera, 1248 Piso 4 Montevideo	74.36%	25.64%	562	(433)		(55)	(46)	325
Telefónica Centroamérica Inversiones, S.L (SPAIN) Holding company Distrito Telefónica. Avda. Ronda Comunicación, s/n. - 28050 Madrid	60.00%		1	1,010			(1)	638
Comtel Comunicaciones Telefónicas, S.A. (VENEZUELA) Holding company Torre Edicampo, Avda. Francisco de Miranda, Caracas 1010	65,14%	34,86%		(61)		(59)	(41)	
Telefónica América, S.A (SPAIN). Inversión, administración y gestión de empresas en el sector de las telecomunicaciones Distrito Telefónica. Avda. Ronda Comunicación, s/n. - 28050 Madrid	50.00%	50.00%						
Aliança Atlântica Holding B.V. (NETHERLANDS) Portfolio company Strawinskylaan 1725 1077 XX Amsterdan	50.00%	43.99%	40	2				22
Sao Paulo Telecomunicaciones Participaçoes, Ltda (BRAZIL) Holding company Rua Martiniano de Caravalho, 851 20º andar, parte, Sao Paolo	44.72%	55.28%	3,813	(208)	160	(13)	212	3,092
Telefónica Móviles del Uruguay, S.A. (URUGUAY) Wireless communications and services operator Constituyente 1467 Piso 23, Montevideo 11200	32.00%	68.00%	10	292		85	88	13
Telefónica Brasil, S.A. (BRAZIL) (1)(*)	24.68%	49.28%	15,217	(1,506)	495	1,702	1,297	9,823

Wireline telephony operator in Sao Paulo Sao Paulo								
Colombia Telecomunicaciones, S.A. ESP (COLOMBIA) (1) Wireless operator Calle 100, Nº 7-33, Piso 15, Bogotá,Colombia	18.51%	51.49%	485	(1,300)		136	(113)	272
Pléyade Peninsular, Correduría de Seguros y Reaseguros del grupo Telefónica, S.A. (SPAIN) Distribution, promotion or preparation of insurance contracts,operating as a broker Distrito Telefónica, Avda. Ronda de la Comunicación, s/n Edificio Oeste 1 28050 Madrid	16.67%	83.33%			1	5	5	
Telefónica Móviles Argentina, S.A. (SPAIN) Wireless communications and services operator Ing Enrique Butty 240, piso 20-Capital Federal-Argentina	15.40%	84.60%	N/D	N/D	N/D	N/D	N/D	139
Telefónica Gestión de Servicios Compartidos, S.A. (ARGENTINA) Management and administrative services rendered Av. Ing. Huergo 723 PB - Buenos Aires	4,99%	95,00%		2		4	3	
Inversiones Telefónica Móviles Holding, Ltd. (CHILE)) Holding company Miraflores, 130 - 12º - Santiago de Chile	3,11%	96,89%	461	(22)		(1)	130	89

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MILLIONS OF EUROS	% OWNERSHIP					INCOME (LOSS)		
NAME AND CORPORATE PURPOSE	Direct	Indirect	Capital	Reserves	Dividends	From operations	For the year	Gross carrying amount
Telefónica de Argentina, S.A. (1) (ARGENTINA) Telecommunications service provider Av. Ingeniero Huergo, 723, PB - Buenos Aires	1.80%	98.20%	185	215		118	58	23
Telefónica Venezolana, C.A. (VENEZUELA) (1) Wireless operator Av. Francisco de Miranda, Edif Parque Cristal, Caracas 1060	0.09%	99.91%	587	1,029		1,100	585	123
Telefónica Factoring España, S.A. (SPAIN) Factoring Pedro Teixeira, 8 - 28020 Madrid	50.00%		5	2		9	9	3
Telco, S.p.A. (ITALY) Holding company Galleria del Corso, 2 - Milan	66,00%		1,785	(726)		(1)	(182)	2,916
Telefónica Factoring México, S.A. de C.V. SOFOM ENR (MEXICO) Factoring México D.F.	40.50%	9.50%	2				1	1
Telefónica Factoring Perú, S.A.C. (PERÚ) Factoring Ciudad de Lima	40.50%	9.50%	1	1			1	1
Telefónica Factoring Colombia, S.A. (COLOMBIA) Factoring Bogotá	40.50%	9.50%	1	1		2	1	1
Telefónica Factoring Chile, S.A. (CHILE) Factoring Ciudad y Comuna de Santiago.	40.50%	9.50%				1	1	
Telefónica Factoring Do Brasil, Ltd. (BRASIL) Factoring Avda. Paulista, 1106 Sao Paulo	40.00%	10.00%	1	(1)		(3)	10	1
Jubii Europe N.V. (NETHERLANDS) (*)	32.10%		N/D	N/D		N/D	N/D	13

Internet portal - In liquidation Richard Holkade 36, 2033 PZ Haarlem PAISES BAJOS							
Torre de Collçerola, S.A. (SPAIN) Operation of telecommunicatios mast and technical assistance and consulting services. Ctra. Vallvidrera-Tibidabo, s/nº - 08017 Barcelona	30.40%		6				2
Other investments	N/D	N/D	N/D	N/D	206	N/D	339
Total group companies and associates					**10,078**		**80,107**

(1) Consolidated data.
(*) Companies listed on international stock exchanges at December 31, 2013.

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Appendix II Board of Director s Compensation

TELEFÓNICA, S.A.

(Euros)

Director	Wage / Compensation[1]	Fixed payment[2]	Attendance fees[3]	Short term variable compensation[4]	Fixed payments Board Committees[5]	Other items[6]	Total
Mr. César Alierta Izuel	2,230,800	240,000		3,497,448	80,000	204,655	6,252,903
Mr. Isidro Fainé Casas		200,000			80,000	8,000	288,000
Mr. José María Abril Pérez		200,000	8,000		95,867		303,867
Mr. Julio Linares López		200,000	7,000		19,600		226,600
Mr. José María Alvarez-Pallete López	1,923,100			1,626,713		128,330	3,678,143
Mr. Fernando de Almansa Moreno-Barreda		120,000	17,000		38,267	8,000	183,267
Ms. Eva Castillo Sanz	1,264,000			323,647		49,741	1,637,388
Mr. Carlos Colomer Casellas		120,000	25,000		139,733	8,000	292,733
Mr. Peter Erskine		120,000	29,000		124,800		273,800
Mr. Santiago Fernández Valbuena							
Mr. Alfonso Ferrari Herrero		120,000	44,000		163,067	8,000	335,067
Mr. Luiz Fernando Furlán		120,000			4,667		124,667
Mr. Gonzalo Hinojosa Fernández de Angulo		120,000	44,000		159,334	8,000	331,334
Mr. Pablo Isla Álvarez de Tejera		120,000	9,000		35,467		164,467
Mr. Antonio Massanell Lavilla		120,000	17,000		56,000	8,000	201,000
Mr. Ignacio Moreno Martínez		120,000	9,000		19,600		148,600
Mr. Javier de Paz Mancho		120,000	13,000		118,267		251,267
Mr. Chang Xiaobing		120,000					120,000

1 **Wage**: Non-variable compensation accrued by the Director for discharging executive duties.
2 **Fixed Payment:** Cash compensation with a predefined payment frequency, accruable or not over time and accrued by the Director for membership to the Board of Directors, irrespective of affective attendance by the Director at Board Meetings.
3 **Attendance fees**: Amounts payable for attendance to meetings of the Advisory or Control Committees, and the various Regional Advisory Committees in Spain (Valencia, Andalusia and Catalonia)
4 **Short-term variable compensation**: Variable amount linked to the performance or achievement of individual or group objectives (quantitative or qualitative) for a period equal to or up to a year, corresponding to 2012 and paid in 2013. It is stated Ms. Eva Castillo Sanz was appointed Chairwoman of Telefónica Europe on September 17, 2012, date of commencement, therefore, of her executive duties within Telefónica Group. Concerning the bonus referred to 2013, to be paid during 2014, the Executive Directors will perceive the following amounts: Mr. César Alierta Izuel 3,050,000 Euros, Mr. José María Álvarez-Pallete López 2,900,000 Euros and Mrs. Eva Castillo Sanz 1,463,712 Euros.
5 **Fixed Payment Board Committees**: Cash compensation with a predefined payment frequency, accruable or not over time and accrued by the Director for membership to the Executive Committee or Advisory or Control Committees of Telefónica, S.A., irrespective of effective attendance to meetings of said Committees.
6 **Other items**: Includes, inter alia*,* amounts paid for membership of the Regional Advisory Committees in Spain (Valencia, Andalusia and Catalonia) and other in- kind compensation (such as general medical insurance and dental coverage), paid by Telefónica, S.A .

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In addition, to detail the amounts included in the preceding table, the following table presents the specific compensation paid to Directors of Telefónica for membership of the various Advisory or Control Committees in 2013, including both fixed payments and fees for attending meetings:

TELEFÓNICA, S.A. ADVISORY OR CONTROL COMMITEES

(Euros)

Director	Audit and Control	Nomination, Compensation and Corporate Governance	Human Resources, Reputation and Corporate Responsibility[1]	Regulation	Service Quality and Customer Service	International Affaires[1]	Innovation	Strategy	Institutional Affaires[1]	TOTAL 2013
Mr. César Alierta Izuel										
Mr. Isidro Fainé Casas										
Mr. José María Abril Pérez						5,667	18,200			23,867
Mr. Julio Linares López								9,533	17,067	26,600
Mr. José María Álvarez-Pallete López										
Mr. José Fernando de Almansa Moreno-Barreda				14,200		10,334		20,200	10,533	55,267
Ms. Eva Castillo Sanz										
Mr. Carlos Colomer Casellas	19,933	18,200			13,200		33,400			84,733
Mr. Peter Erskine		22,200					20,200	31,400		73,800
Mr. Santiago Fernández Valbuena										
Mr. Alfonso Ferrari Herrero	21,200	33,400	6,667	14,200	14,200	5,667		20,200	11,533	127,067

Mr. Luiz Fernando Furlán						4,667				4,667
Mr. Gonzalo Hinojosa Fernández de Angulo	24,933	22,200	6,667	17,933	13,200	5,667		21,200	11,533	123,334
Mr. Pablo Isla Álvarez de Tejera		20,200	4,667	14,933	4,667					44,467
Mr. Antonio Massanell Lavilla	19,200		4,667		25,400		15,200		8,533	73,000
Mr. Ignacio Moreno Martínez	10,533			9,533	8,533					28,600
Mr. Francisco Javier de Paz Mancho			11,333	14,200	8,533	5,667			11,533	51,267
Mr. Chang Xiaobing										

1 The Human Resources, Reputation and Corporate Responsibility Committee and International Affairs Committee were disbanded on May 31, 2013. The Institutional Affairs Committee was established on the same date.

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

OTHER TELEFÓNICA GROUP COMPANIES

(Euros)

Director	Wage / Compensation[1]	Fixed payment[2]	Attendance fees[3]	Short term variable compensation[4]	Fixed payments Board Committees[5]	Other items[6]	Total
Mr. César Alierta Izuel							
Mr. Isidro Fainé Casas							
Mr. José María Abril Pérez							
Mr. Julio Linares López						300,000	300,000
Mr. José María Álvarez-Pallete López							
Mr. José Fernando de Almansa Moreno-Barreda		163,427				120,000	283,427
Ms. Eva Castillo Sanz		38,353					38,353
Mr. Carlos Colomer Casellas						70,000	70,000
Mr. Peter Erskine						74,202	74,202
Mr. Santiago Fernández Valbuena	1,287,446			1,360,418		198,267	2,846,131
Mr. Alfonso Ferrari Herrero		75,531				120,000	195,531
Mr. Luiz Fernando Furlán		95,324				160,000	255,324
Mr. Gonzalo Hinojosa Fernández de Angulo		21,876				90,000	111,876
Mr. Pablo Isla Álvarez de Tejera							
Mr. Antonio Massanell Lavilla						60,000	60,000
Mr. Ignacio Moreno Martínez							
Mr. Francisco Javier de Paz Mancho		128,248				120,000	248,248
Mr. Chang Xiaobing							

1 **Wage**: Non-variable compensation accrued by the Director for discharging executive duties of any Telefónica Group company.

2 **Fixed Payment:** Cash compensation with a predefined payment frequency, accruable or not over time and accrued by the Director for membership to the Board of Directors, irrespective of affective attendance by the Director at Board Meetings of any Telefónica Group company.

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

4 **Short-term variable compensation (bonus)**: Variable amount linked to the performance or achievement of individual or group objectives (quantitative or qualitative) and commensurate with other compensation or any other reference in euros for a period of up to a year referred to 2012 and paid during 2013 by any Telefónica Group Company. Concerning the bonus referred to 2013, the amount that will perceive the Executive Director Mr. Santiago Fernández Valbuena is 1,441,424 Euros.

5 **Fixed Payment Board Committees**: Cash compensation with a predefined payment frequency, accruable or not over time and accrued by the Director for membership to the Executive Committee or Advisory or Control Committees of Telefónica, S.A., irrespective of effective attendance to meetings of said Committees.

6 **Other items**: Includes, *inter alia,* amounts paid for membership of Regional and Business Advisory Committees (Europe, Latam and Digital) and other in- kind compensation (such as general medical insurance and dental coverage), paid by any Telefónica Group Company.

Furthermore, as explained in the Compensation policy section, Executive Directors receive a series of employee benefits. The following table presents a breakdown of contributions made in 2013 by the Company to long-term savings schemes (Pension Plans and Pension Plan for Senior Executives):

LONG-TERM SAVINGS SCHEMES

(Euros)

Director	Contributions 2013 by the Company
Mr. César Alierta Izuel	1,023,193
Mr. José María Álvarez-Pallete López	550,436
Ms. Eva Castillo Sanz	393,796
Mr. Santiago Fernández Valbuena	142,559

The following table presents a breakdown of the long-term savings schemes, comprising contributions to Pension Plans and the Pension Plan:

(Euros)

Director	Contributions to Pension Plans	Contributions to Benefits Plan[1]
Mr. César Alierta Izuel	8,402	1,014,791
Mr. José María Álvarez-Pallete López	9,468	540,968
Ms. Eva Castillo Sanz	8,402	385,394
Mr. Santiago Fernández Valbuena	115,031	27,528

1 Contributions to the Pension Plan for Executives set up in 2006, funded exclusively by the Company to complement the existing Pension Plan. It entails defined contributions equivalent to a certain percentage of the Director´s fixed remuneration in accordance with their professional category within the Telefónica Group´s organization.

Life insurance premiums paid in 2013 are as follow:

LIFE INSURANCE PREMIUMS

(Euros)

Director	Life insurance premiums
Mr. César Alierta Izuel	103,858

Mr. José María Álvarez-Pallete López	39,842
Ms. Eva Castillo Sanz	19,802
Mr. Santiago Fernández Valbuena	3,028

Regarding share-based payment plans (those exclusively for Executive Directors), there were two long-term variable compensation plans in place in 2013:

The Performance Share Plan (PSP) approved at the General Shareholders Meeting of June 21, 2006, whose fifth and final phase began in 2010 and ended in July 2013.

It is hereby stated that regarding the fifth phase of this Plan (2010-2013), the general terms for the delivery of shares were not met. Therefore, no shares were delivered to Executive Directors.

The so-called Performance & Investment Plan (PIP) approved at the General Shareholders Meeting of May 18, 2011 whose first phase began in 2011 and will end in July 2014, second phase began in 2012 and will end in July 2015, and third phase began in 2013 and will end in July 2016. It is hereby stated that the number of shares assigned and the maximum possible number of shares to be received by the Directors of Telefónica for discharging executive duties in each phase, if the co-investment requirement established in the Plan and the maximum target TSR established for each phase are met, are as follows:

First phase / 2011-2014

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

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

Second phase / 2012-2015

Directors	Theoretical shares assigned	Maximum number of shares*
Mr. César Alierta Izuel	324,417	506,901
Mr. Julio Linares López(1)	13,878	21,686
Mr. José María Álvarez-Pallete López	188,131	293,955
Ms. Eva Castillo Sanz	95,864	149,787
Mr. Santiago Fernández Valbuena	103,223	161,287

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

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

Third phase / 2013-2016

Directors	Theoretical shares assigned	Maximum number of shares*
Mr. César Alierta Izuel	324,000	506,250
Mr. José María Álvarez-Pallete López	192,000	300,000
Ms. Eva Castillo Sanz	104,000	162,500
Mr. Santiago Fernández Valbuena	104,000	162,500

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

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

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

During the first phase of this Plan (2010-2012), Directors participating, as they discharged executive duties in the Group, acquired a total of 604 shares (including free shares received under the general terms and conditions of the Plan).

Later, for the second phase of the Plan (2012-2014), approved at the General Shareholders Meeting of May 18, 2011, the Executive Directors that decides to take part contributing the maximum (i.e. 100 euros a month, over 12 months), had acquired a total of 328 shares.

It should be noted that the external Directors do not receive and did not receive in 2013 any compensation in the form of pensions or life insurance, nor do they participate in the share-based payment plans linked to Telefónica s share price.

In addition, the Company does not grant and did not grant in 2013 any advances, loans or credits to the Directors, or to its top executives, thus complying with the requirements of the U.S.A. Sarbanes-Oxley Act, which is applicable to Telefónica as a listed company in that market.

Senior executives compensation

Meanwhile, the Executives considered as Senior Executives [(1)] of the Company in 2013, excluding those that are also members of the Board of Directors, received a total, in 2013, of 9,709,715 euros.

In addition, the contributions by the Telefónica Group in 2013 with respect to the Benefits Plan for Senior Executives described in Note on Revenue and Expenses for these Executives amounted to 1,179,905 euros. Contribution to the Pension Plan amounted to 411,287 euros and compensation in kind (including life and other insurance premiums such us general medical and dental insurance) to 118,031 euros.

Also, it is hereby stated that regarding the fifth phase of the Performance Share Plan (PSP) (2010-2013), the general terms for the delivery of shares were not met. Therefore, no shares were delivered to the Executives.

Regarding the above mentioned Performance and Investment Plan (PIP) approved at the General Shareholders Meeting of May 18, 2011, a total of 422,344 shares were assigned to the Executives considered Senior Executives of the Company in the first phase (2011-2014), 623,589 shares in the second phase (2012-2015), and 650,000 shares in the third phase (2013-2016).

Finally, regarding the first phase of the Global Employee Share Plan (GESP) (2010-2012), Executives participating acquired a total of 872 shares (including free shares received under the general terms and conditions of the Plan). Regarding the second phase of the Global Employee Share Plan (GESP) (2012-2014), the Executives taking part and contributing the maximum (i.e. 100 euros a month, over 12 months), have acquire a total of 443 shares.

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

Management report 2013 (1)

Business Model

The Telefónica Group is one of the world s leading mobile and fixed communications services providers. Its strategy is to become a leader in the new digital world and transform the possibilities it brings into reality.

Telefónica aim is to reinforce its position as an active player in the digital world capable of seizing all the opportunities afforded by its global scale and its industrial and strategic alliances.

Telefónica has a regional and integrated management model. The current organizational structure was defined in 2011 and its implementation continued through 2013.The different operations of the Telefónica Group, are organized around two geographic regions, Europe and Latin America, together with other Global Units. Telefónica Europe comprised, at year-end, the Spain, United Kingdom, Germany, Czech Republic, Slovakia and Ireland operations. Latin America includes operations in Brazil, Argentina, Peru, Chile Venezuela and Central America (El Salvador, Guatemala, Nicaragua, Panama and Costa Rica), Colombia, Mexico, Ecuador and Uruguay. Telefónica Digital is a global business division of Telefónica. Its mission is to seize the opportunities within the digital world and deliver new growth for Telefónica through research and development, venture capital, global partnerships and digital services.

Telefónica Global Resources is a global unit that aims to support the profitability and sustainability of the business by leveraging economies of scale, as well as by driving Telefónica s transformation into a fully global company. Its goal is to maximize Telefónica s economies of scale while seeking greater efficiencies for the company, through, among other strategies, simplification, standardization, rationalization and consolidation, global procurement and the management of Telefónica s non-strategic assets.

In 2013, with the aim of strengthening direct contact with both retail and corporate clients in order to accelerate the transformation of the company into a digital telecommunications company, the Global Chief Marketing Officer position was created, which oversees all the related commercial areas, encompassing product, service, channels, handset and pricing policies, as well as advertising and brand strategies. Furthermore, Telefónica Global Solutions unit is facing the increasing complexity of enterprise market is increasingly adopting digital solutions.

Telefónica Europe and Telefónica Latin America s aim is to generate sustainable growth through available means and the support of the Telefónica Group. In this report two differentiated segments are presented: Telefónica Europe (T. Europe) and Telefónica Latin America (T. Latin America).

The Telefónica s Group strategy aims to:

- Improve the customer experience in order to continue increasing accesses.

- Lead growth:

Drive forward the penetration of smart phones in all markets in order to raise the rate of growth of mobile data by monetizing their increasingly widespread use.

Defend our competitive positioning, and leverage our customer knowledge.

Develop the growth opportunities that have arisen in an increasingly digital context, such as media, financial services, cloud, security, advertising, M2M, e-Health, etc.

Capture the opportunity in the business areas.

Continue working on the transformation of the Group s operating model:

Increase the modernization of networks in markets where we operate through technological advances and the acquisition of spectrum.

Maximize the benefits of economies of scale to increase efficiency.

Simplify the operative model.

Reduce legacy cost, especially legacy network costs.

In addition, Telefónica maintains an industrial alliance with Telecom Italia, S.p.A and a strategic alliance with China Unicom in which the Group holds a 5% stake. Furthermore, in order to unlock the value of Telefónica s scale, the Partners program was created in 2011, and now includes five operators (Bouygues, Etisalat, Sunrise, Megafon and O2 CZ). The Partners Program is an initiative that makes available to selected operators and under commercial terms a host of services that allows partners to leverage on Telefónica s scale and to cooperate on key business topics (roaming, services to multinationals, procurement, devices, etc.).

Elsewhere, in 2013 Telefónica Europe s portfolio was restructured through a sale agreement of operations in the Czech Republic, which was closed in January 2014 after obtaining regulatory approval, and in Ireland, pending regulatory approval, and with the announcement of the acquisition of E-Plus by Telefónica Germany to form the leading operator in the European market.

Non-controlling interests are split into two groups. The first group consists of subsidiaries listed in a regulated market such as Telefónica Brasil or Telefónica Deutschland, the shareholder bases of which are quite dispersed and for which Telefónica protects non-controlling interests in compliance with the regulations of the market in which they are listed. The second group consist of subsidiaries with significant non-controlling interests with which agreements are entered into to guarantee their rights as non-controlling interests are protected, and (in certain cases such as Colombia Telecomunicaciones) where specific commitments also exist through corporate actions (see Note 21.b).

The Company has a governance system, which applies to Telefónica s entire structure. Pursuant to the Company s commitment to its shareholders, the Board of Directors, supported by its Committees, manages the Company s business in accordance with the corporate governance rules laid down primarily in the Corporate By-laws, Regulation of the General Shareholders Meeting, and Regulation of the Board of Directors.

Telefónica s Board of Directors consists of 18 directors and is responsible for overseeing and controlling the Company s activity. It has sole powers regarding general strategy and policies on corporate governance, corporate social responsibility, remuneration of the Board and senior management, shareholder remuneration, and strategic investments.

In order to strengthen the corporate governance of the Company, the board of directors of Telefónica, S.A. has eight committees (including the Executive Commission) which are charged with examining and overseeing areas of particular relevance. Pursuant to its regulation, the Board also confers responsibility for day-to-day management of the businesses on Telefónica s executive bodies (primarily through the Executive Committee) and management team.

Economic results of Telefónica, S.A.

Telefónica, S.A. obtained net profit of 664 million euros in 2013. Highlights of the 2013 income statement include:

Revenue from operations, amounting to 11,003 million euros has increased significantly year on year, primarily due to the higher amount of dividends received from Group companies and associates. The most significant variation comes from Telefónica Internacional, S.A.U. with 4,500 million euros (1,500 million euros in 2012) and Telefónica Europe, plc. with 1,309 million euros (575 million euros in 2012).

The figure of Impairment and gains (losses) on disposal of financial instruments amounting to 7,990 million euros has increased considerably compared to 2012 due to impairment charges recognized to investments in Telefónica Brasil, S.A. and Sao Paulo Telecomunicaçoes, S.A. totalling 3,863 million euros (in 2012 the write down was 103 million euros). Related with the decrease in this investment value it must be highlighted the Brazilian real devaluation of 17% since 2012.

Net financial expense totaled 2,491 million euros in 2013, compared to 2,216 million euros in 2012. This was mainly due to finance costs with Group companies and associates, of which the largest came from Telefónica Europe, B.V. amounting to 238 million euros (388 million euros in 2012) and Telefónica Emisiones, S.A.U. totaling 1,712 million euros (1,607 million euros in 2012).

Investment activity

2013

On April 29, 2013, Telefónica, S.A. signed an agreement with Corporación Multi Inversiones (CMI) to incorporate jointly a Spanish company to manage the Group s assets in Guatemala, El Salvador, Nicaragua and Panama.

The resulting company, Telefónica Centroamérica Inversiones, S.L. (TCI) was incorporated through the initial contribution by Telefónica, S.A. of its entire shareholdings in Guatemala and El Salvador, along with 31.85% of its interest in Telefónica Móviles Panamá, S.A. at its net carrying amount equivalent to 633 million euros. The new company was incorporated and the corresponding contributions made on June 7, 2013.

On August 2, 2013 and having obtained the necessary regulatory authorisations, TCI s capital was increased in 500 million US dollars (equivalent to 377 milliion euros on the payment date), subscribed in full by TLK Investments, C.V., thereby completing the operation. Consequently, TLK Investments, C.V. holds a 40% interest in TCI and Telefónica, S.A. the remaining 60%. On the same date, Telefónica, S.A. sold the remainder of its stake in Telefónica Móviles Panamá, S.A. (24.5%) for 83 million euros.

On November 5, 2013, Telefónica announced that it had reached an agreement to sell 65.9% of the capital of Telefónica Czech Republic, a.s. (Telefónica Czech Republic) to PPF Group N.V.I. (PPF) for, approximately, 306 Czech crowns/share (around 2,467 million euros at the agreement date). This consideration shall be settled in two tranches:

(i) 2,063 million euros in cash on completion of the sale; and

(ii) 404 million euros in cash as a deferred payment over four years.

Subsequent to the transaction, Telefónica will hold a stake of 4.9% in Telefónica Czech Republic.

At the date of the agreement, Telefónica, S.A. measured its stake in Telefónica Czech Republic at its total market value, recognising a provision for its investment portfolio of 643 million euros under the *Impairment losses and gains (losses) on disposal of financial instruments* heading of the income statement.

The agreed price for the stake being sold, updated at year end exchange rates, has been reclassified to the *Non-current assets held for sale* heading for 2,302 million euros until the pertinent authorisations were received from the regulators (which had not been received at the date of these financial statements). The market value of the 4.9% stake that it is retaining totaling 178 million euros has been reclassified to the Equity instruments heading under non-current financial assets.

On September 24, 2013, Telefónica and the other shareholders of the Italian company Telco, S.p.A. (which holds a 22.4% stake with voting rights of Telecom Italia, S.p.A.) reached an agreement whereby Telefónica, S.A. subscribed and paid out a share capital increase in Telco, S.p.A., through a cash contribution of 324 million euros, in exchange for shares with voting rights in Telco, S.p.A. As a result of this capital increase, the interest held by Telefónica in the voting share capital of Telco, S.p.A. remains unchanged (i.e. 46.18 %, as Telefónica currently holds), although its interest in the total share capital of Telco, S.p.A. is increased to 66%.

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. 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 .

Telefónica 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. 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.

In April 2012, Telefónica, S.A. subscribed to various share capital increases in Telefónica Móviles México, S.A. de C.V. totaling 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.

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

Impairment provisions in investments

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, 2013.

As a result of these estimations and the effect of the net investment hedge in 2013, an impairment provision of 7,998 million euros was recognized (5,312 million euros in 2012). This amount derives mainly from the following companies:

(a) write down recognized for Telefónica Europe, plc. (2,423 million euros in 2013 and 3,682 million euros in 2012), less 70 million euros (82 million euros in 2012) for the effect of the net investment hedge.

(b) write down of 2,947 million euros for Telefónica Brasil, S.A. (69 million euros in 2012) and 916 million euros (34 million euros in 2012) for Sao Paulo Telecomunicaçoes, S.A.

(c) write down of 359 million euros for Telco, S.p.A. (1,305 million euros in 2012), the holding company of Telecom Italia. After the adjustment registered, the investment in Telecom Italia, S.p.A. through Telco, S.p.A. is valued at 1 euro per share (1.2 euros per share at December 31, 2012).

(d) write down recognised by Telefónica Czech Republic of 643 million euros (no impairment registered in 2012) explained at the beginning of this Note.

(e) write down of 211 million euros for Telefónica México, S.A. de C.V. (32 million euros in 2012).

The write down of Telefónica Europe, plc. is mainly due to the net impact of the fluctuation in the pound sterling exchange rate (decrease of 2.1%), the impact of the 1,309 million-euro dividend distribution in 2013 and, as a minor effect, the changes in the present value of the expected turnover of the subsidiary. The estimate of GDP growth in United Kingdom, prepared by International Monetary Fund and analysts, has been downgraded by 0.3% since the one elaborated 18 months ago. This change in expectations, as well as the thighter competitive pressure, has been reflected in the decrease of Operating Income before Depreciation and Amortizacion (OIBDA) used to calculate future cash flows. The decrease in average OIBDA margin used in 2013 compared to 2012 has been 4.4. p.p.

The write down of the stake in Telefónica Brasil, S.A. and Sao Paulo Telecomunicaçoes, S.A. results from the fluctuation in the Brazilian real exchange rate (decrease of 16.5%), changes in the present value of the expected turnover of the subsidiary, and the 655 million-euro dividend distribution, including dividends received from Sao Paulo Telecommunicaçoes. The effect of the changes in the macroeconomic scenario has been significantly important in Brazil. The estimate of GDP growth in the country, prepared by International Monetary Fund and analysts, has been downgraded by half since the one elaborated 18 months ago (estimate of 5.7% at the end of 2013 since 11.3% in June 2012). This change in expectations, has been reflected in the decrease of Operating Income before Depreciation and Amortizacion (OIBDA) used to calculate future cash flows. The decrease in average OIBDA margin used in 2013 compared to 2012 has been 2.75 p.p.

Share price performance

The main European markets were up in 2013 (EStoxx-50: +17.9%) for the first time in three consecutive years, off the back of fewer concerns about the eurozone crisis, greater confidence among investors in the efforts being made by periphery states to cut their debt levels, and how the US has managed its stimulus packages. The DAX outperformed the rest of Europe climbing 25.5%, followed by the Ibex-35 (+21.4%), the CAC-40 (+18.0%), the FTSEMIB (+16.6%) and the FTSE-100 (+14.4%).

The Spanish ten-year bond yield closed 2013 at 4.1% (5.2% in 2012), while the risk premium steadily fell over the year to 218.3 basis points at year end (388.7 basis points at year-end 2012).

Against this backdrop, Telefónica shares rose by 16.1% to 11.84 euros per share at year-end 2013. Meanwhile, the European sector benchmark index (DJ Stoxx 600 Telecommunications) rebounded by 32.1%, outperforming the market in general thanks to a rise in corporate actions in the telecommunications sector, expectations about the sector s consolidation and a more favourable regulatory environment, and a re-rating of the sector due to a widening of the EV/EBITDA multiple. It is noteworthy that the operators enjoying the greatest upticks in share price were those directly or indirectly affected by corporate actions: BT (+64.2%); Vodafone (+53.4%); Deutsche Telekom (+44.6%); Telenor (+28.9%); Orange (+7.9%); Telecom Italia (+5.6%); KPN (+4.0%) and Telefónica Deutschland (+3.9%). In contrast, PT shares slumped by 15.7%.

The total return on Telefónica shares in 2013 was 19.6% (including the dividends distributed throughout 2013), compared to a negative performance over the last three years (-17.8% in 2012; -12.1% in 2011; -6.4% in 2010).

At the 2013 year end, Telefónica featured among the world s ten largest telecommunications company by market cap (53,861 million euros vs. 46.375 million euros in 2012).

Daily trading volume in Telefónica shares on Spain s continuous market was 35.8 million shares in 2013 (42.9 million shares in 2012).

Research, development and innovation

Telefónica remains firmly committed to technological innovation as an essential tool for achieving competitive advantages, anticipating market trends and differentiating its products. By introducing new technologies and developing new products and business processes, we seek to become a more effective, efficient and customer-oriented Group.

Telefónica has developed an open innovation model for the management of technological innovation to boost the application of technical research in the development of new commercial products and services. Telefónica focuses on certain applied research and development (R&D) priorities that are aligned with its strategy. Open innovation initiatives driving this model include the creation of a venture capital fund and involvement in business collaboration forums, among others. The model also promotes the use of knowledge developed at technology centers, universities and start-ups, among other sources, and encourages innovation in conjunction with other agents (e.g. customers, universities, public administrations, suppliers, content providers and other companies), making them technological partners. Telefónica believes it cannot rely solely on acquired technology to differentiate its products from those of its competitors and to improve its market positioning. It is also important to encourage R&D initiatives in an effort to achieve this differentiation and make inroads in other innovation activities. The Group s R&D policy is geared towards:

- developing new products and services in order to win market share;
- boosting customer loyalty;
- increasing revenue;
- enhancing innovation management;
- improving business practices;
- increasing the quality of infrastructure services to improve customer service and reduce costs;
- promoting global products;
- supporting open innovation; and

creating value from the technology generated.
In 2013, the technological innovation projects undertaken focused on sustainable innovation, process efficiency, creation of new revenue streams, customer satisfaction, consolidation of operations in new markets and technological leadership.

Technical innovation activities are a key part of Telefónica s strategy of creating value through latest-generation network communications and services.

In 2013, projects were undertaken to promote greater access to information technology, new services focused on new internet business models, advanced user interfaces, TV distribution, multimedia content and other broadband services. These initiatives, among others, were undertaken based on our objective of rapidly identifying emerging technologies that could have a relevant impact on our businesses and pilot testing these technologies in new services, applications and platform prototypes.

Most of our R&D activities are carried out by Telefónica Investigación y Desarrollo, S.A.U. (Telefónica I+D), a wholly-owned subsidiary, which works mainly for the lines of business. In its operations, Telefónica I+D receives the assistance of other companies and universities. Telefónica I+D s mission is centered on enhancing the Company s competitive positioning by leveraging technological innovation and product development. Telefónica I+D undertakes experimental and applied research and new product development with the overriding goal of broadening the range of services offered and reducing operating costs.

Telefónica I+D s technological innovation activities focus on certain areas:

Telefónica I+D s works on new networks, primarily in collaboration with Telefónica s Global Resources team. These activities are related with radio access technologies and fiber; network virtualization technologies, in line with the technology trend known as software defined networks (SDN); and network optimization and zero touch developments making networks more flexible and moldable and able to adapt dynamically to new digital consumer and service requirements.

R&D activities to develop new products and services are conducted as part of Telefónica Digital s strategy. Indeed, Telefónica I+D has been the origen of many activities and products of Telefónica Digital. These activities include the following:

- Natural P2P communication of the future, using the Internet, Web 2.0 and smartphones.

- Video and multimedia services (combining text, audio, images and video) offering a user experience in all connected devices.

- Advanced solutions in emerging ITC businesses such as cloud computing, security, financial services or e-health.

- M2M (machine-to-machine) service management associated with energy efficiency and mobility and with the Internet of Things and their adoption in the urban and industrial scenario, and as a service creation enabler.

- Making use of user communication profiles to exploit opportunities to operate different products and business models (marketing campaigns, target marketing, contextual services, churn reduction, cross-selling, etc.)

Telefónica I+D s also boasts scientific work groups with a more medium- to long-term focus and aim to look into opportunities relating to new networks and services and solutions to the technological challenges that arise.

At December 31, 2013, Telefónica I+D had 689 employees (667 employees in 2012).

Total I+D expense for 2013 amounted to 1,046 million euros, down 2.4% from the 1,071 million euros incurred in 2012. This expense represents 1.8% and 1.7% of the Group s consolidated revenue for 2013 and 2012, respectively. These figures were calculated using guidelines of the Organization for Economic Co-operation and Development (OECD).

In 2013, Telefónica registered 82 patents (87 patents in 2012), 70 of which were registered with the Spanish Patent and Trademark Office and (OEPM for its initials in Spanish) and 12 with the United States Patent and Trademark Office (USPTO). Of the patents pending with the OEPM, 57 European (EP) applications, and 13 international (PCT) applications.

Environment

Objectives and policies related to environmental management and the control of environmental risks.

Telefónica has an integrated Green ICT and Environmental strategy, with three converging objectives. The first is focused on the management of environmental risks, the second on the promotion of internal eco-efficiency, and the third on taking advantage of business opportunities, to provide integrated telecommunications services that promote a low carbon economy.

The Group maintains an Environmental Policy applicable to all the companies and a Global Environmental Management System that ensures compliance with local environmental legislation and continually improves management processes. Our business operations are not by nature particularly harmful to the environment, but we have a massive geographical deployment which makes it essential that environmental management is based on standardised procedures.

Currently over 60% of the Group companies, which represent 70% of global billing, have Environmental Management Systems in accordance with ISO 14001 and certified by an external entity.

Guidelines

Telefónica s activities are regulated, in environmental matters, by local laws, especially in activities related to our network infrastructure. These activities entail obtaining environmental permits for operations, waste management, noise control, and the monitoring of electromagnetic fields.

In addition, Telefónica extended its environmental control over suppliers and contractors to ensure correct environmental management. To this end, in addition to incorporating environmental clauses in all the contracts, environmental educational initiatives are carried out, along with audits to monitor the supply chain.

Main initiatives aimed at improving environmental quality and management results

Among the main initiatives carried out by the Group to effectively manage the environmental aspects of its operations, is the optimal selection of sites for the rollout of the network, promoting the sharing of infrastructure with other operators over 30,000 sites in 2013, and the development of technical evaluations to reduce the visual impact of antennas.

The waste generated during the construction and maintenance of the network, is managed by qualified managers, in compliance with environmental legislation and prioritising the following points in order set out below: reduction, reuse and recycle. On average, the waste management processes for reusing and recycling generate revenues for the company of around 80 million euros annually.

The Telefónica Climate Change and Energy Efficiency Office is responsible for the energy efficiency processes and the reduction of the carbon footprint. 85% of the Group s CO_2 emissions come from the networks, for which reason Telefónica has a structured corporate governance model and an energy manager in each country to ensure the correct management of energy and carbon. Telefónica has corporate objectives for the reduction of energy and emissions. 30% of electricity consumption in the network in 2015 and 30% of the CO2 in 2020; both for customer equivalent access.

Despite the intensive programmes to rollout the network, thanks to the energy efficiency activities, the electricity consumption of the Group s network grew an average of 1% annually since 2010. Similarly, the Group s CO2 emissions remained practically stable in the last 3 years.

Consequently, the Group s employees are a fundamental pillar in the company s environmental performance, and therefore the different companies develop specific training programmes and initiatives to raise awareness.

Human Resources

Social objectives and policies

At Telefónica people are important and are the core of the business, representing one of the Group s greatest assets. The aim is to build capacities in people, the culture and the organisation in order to become a Digital Telco.

Our vision is based on three main pillars:

- To construct and develop people s capacity and ensure the company s diversity strategy in its recruiting, empowering the best professionals and future leaders.
- To accelerate the transformation of Telefónica, raising awareness regarding the necessity and urgency of this transformation.
- To encourage the productivity of employees with a headcount that is more adapted to the business and ensures the correct management of the company s simplification process.

Telefónica faces a great transformation in order to continue as a leader in the new digital environment. Therefore, human resources policies have been rolled out to create a work environment in which each professional contributes the best they have to offer. As a result of these policies, in the Global Climate and Commitment index that was carried out in the final months of the year, Telefónica, S.A. reached 76%, with a participation percentage of 72.5% of the people invited. Among the aspects where the Company made the greatest progress, we would highlight the leadership of employees immediate managers and the pride of belonging to the group.

Employee training

Telefónica employees have access to a wide range of training options thanks to the opportunities that the Company makes available to all its professionals. These opportunities are structured using different tools, through both on-site training and online training via the a+ platform.

The Universitas Telefónica campus is the nexus where Telefónica s culture and values flourish. In 2013 the number of employees receiving training through this channel increased over 60% with respect to the previous year. The strategic programmes, events, as well as the off-shore Universitas that involve on-site training in places away from the campus, have increased.

The Social Learning model with the A+ platform has consolidated, with over 47,000 students and over 380,000 accesses in the corporate schools, doubling the number of students who benefited from its educational initiatives the previous year.

In 2013, over 37,900 training initiatives were carried out. For the Company, managing knowledge is a priority. In 2013, the cost of training amounted to over 1.4 million euros, 21.6% higher than the previous year.

Equality in Diversity at Telefónica

Diversity is a key value at Telefónica. The work of men and women of different nationalities, cultures, ethnic groups, histories, generations and abilities make the Group s growth possible. The company makes an effort to offer employees the same opportunities, without losing sight of the fact that each worker is unique. Telefónica believes that equality opens the way for enrichment and professional development, something that positively impacts innovation and efficiency and, therefore increases the quality of the services provided to customers.

The headcount distribution by gender and professional scales has been disclosed in Note 19.4.

Telefónica has a *Women in Leadership* programme that seeks to establish a solid network of female leaders that extends throughout Telefónica s European companies. These initiatives seek to promote female talent among the leaders in the sector.

Telefónica is committed to society and makes important investments in innovation related to social innovation and initiatives in favour of the disabled. Among other initiatives, we would highlight the *Telefónica Ability Awards* which recognise the companies or institutions that have incorporated the disabled into their value chains, and developed sustainable business models that integrate solutions, products, and services that meet the needs of disabled people and promote their incorporation into society.

Occupational health and safety

One of Telefónica s priorities is to offer its staff the best possible working conditions at their place of work or when they are on the move.

As per its Business Principles, Telefónica ensures staff work in a safe environment. Appropriate mechanisms are therefore in place to avoid workplace accidents, injuries and illness associated with professional activities by fully complying with prevailing regulations, implementing safe working procedures, providing training and managing occupational risks.

The Occupational Risk Management System ensures worker health and safety is at the heart of all Telefónica s processes and services; offering an end-to-end model for rolling out joint action, procedures and policies. This system enables Telefónica to identify and disseminate practices that are proven to have an impact on staff welfare and therefore on reducing accident rates.

Liquidity and capital resources

Financing

In 2013, Telefónica s financing activity was intense, executing operations through bond and loan markets for an amount over 12,000 million equivalent euros. The financing activity was mainly focused on refinancing in advance debt maturing in 2014 and beyond and on smoothing the debt maturity profile at the Holding level for the following years while strengthening the liquidity position. Therefore, as of December 31st, the Company maintained a comfortable liquidity position to meet its upcoming debt maturities.

Telefónica, S.A., has a fully and unconditionally guaranteed the following issues by Telefónica Emisiones, S.A.U. during 2013:

Description	Issue date	Maturity date	Amount (nominal)	Currency of issue	Coupon
EMTN bonds	22/01/2013	23/01/2023	1,500,000,000	EUR	3.987%
	27/03/2013	26/03/2021	1,000,000,000	EUR	3.961%
	29/05/2013	29/05/2019	750,000,000	EUR	2.736%
	23/10/2013	23/10/2020	225,000,000	CHF	2.595%
SHELF bond	29/04/2013	27/04/2018	1,250,000,000	USD	3.192%
	29/04/2013	27/04/2023	750,000,000	USD	4.570%

The main financing transactions undertaken by Telefónica, S.A. in the banking market in 2013 are as follows:

Item	Limit	Currency	Nominal (millions of euros)	Arrangement Date	Maturity date
Vendor Financing (2)	206	EUR	206	02/21/2013	02/21/2016
Vendor Financing (2)	1,001	USD	336	02/22/2013	01/31/2023
Syndicated loan Tranche A2A (FSF) (1)	700	EUR		02/22/2013	02/22/2017
Syndicated loan Tranche A2B (FSF) (1)	700	EUR		02/22/2013	02/22/2018
ECAs structured facility (2)	734	USD		08/01/2013	08/01/2023

(1) 1,400 million euros under Tranche A2 were refinanced with forward start facilities dated 02/22/2013 (available from 07/28/2014).

(2) Facilities with amortization schedule.

Available funds

At December 31, 2013, available funds from undrawn lines of credit in different financial institutions totaled 8,873 million euros. Out of this figure, around 7,979 million euros have a maturity longer than 12 months. Additionally, cash and cash equivalents as of December 31, 2013 amount to 4,768 million euros.

Additional information on sources of liquidity and undrawn lines of credit available to the Company, on liquidity risk management, on the Company s debt levels, and on capital management is provided in Notes 13, 14, 15 and 16 tof this financial statements.

Contractual commitments

Note 19.5 to this financial statements provides information on firm commitments giving rise to future cash outflows and associated with operating leases, primarily.

Credit risk management

The Telefónica Group considers managing commercial credit risk is crucial to meeting its sustainable business and customer base growth targets in a manner that is consistent with its risk-management policy.

This management approach relies on the continuous monitoring of the risk assumed and the resources necessary to optimize the risk-reward balance to grant the adequate separation between the risk ownership areas and the risk management areas. Customer financing products and those debtors that could cause a material impact on the Group s financial statements are subject to specific management practices to mitigate exposure to credit risk according to the segment and risk profile of the customer (which include, particularly in the case of distributors and resellers, applications for deposits, guarantees and credit insurance as one of the key variables used to set the maximum threshold or acceptable limit for each of these parties).

All Group companies adopt policies, authorization guidelines, and homogeneous management practices, in consideration of the particularities of each market and best international practices, including:

- Using statistical/expert models for accepting customers that can be used to forecast and manage the probabilities of default associated with such arrangements.

- Tools for continually monitoring and rating the solvency and payment behavior of existing customers.

- Internal and external collection processes aimed at optimizing debt recovery through measures that vary depending on a customer s profile and the length of time in default.

- Ongoing controls over and evaluation of exposure to credit risk by specific local and group committees.

This commercial credit risk management model is embedded into the Group s decision-making processes, both from a strategic and, especially, a day-to-day operating perspective, where credit risk assessment guides the product and service offering available for the different credit profiles.

Credit rating

Telefónica, S.A. s long-term issuer default rating is currently BBB+/negative outlook from Fitch, Baa2/negative outlook from Moody s and BBB/negative outlook from Standard & Poor s. The most recent updates on these ratings were issued by Standard and Poor s on November 21, 2013, Moody s on July 25, 2013, and Fitch on July 23, 2013. The only change in the long-term issuer default rating and outlook for Telefónica, S.A. during 2013 was that the Japanese rating agency, JCR, withdrew from assigning the Company a rating on October 31, 2013.

In 2013, among the measures taken to help to protect the credit rating it is noteworthy the intensive financing activity to extend average debt maturity and accumulate liquidity; cash retained in the Company by not paying out dividends in the first half-year and restating the November 2013 dividend; net disposals of treasury shares; agreements to sell

Group companies (the Czech Republic and Ireland operators); and the issuance of undated deeply subordinated securities (hybrids), which also enabled the Company to agree the acquisition of E-Plus, with no negative impact in the solvency.

Dividend policy

Telefónica, S.A. s dividend policy is revised yearly based on the Group s earnings, cash generation, solvency, liquidity, flexibility to make strategic investments, and shareholder and investor expectations. Given circumstances in 2013, it was resolved to pay a cash dividend of 0.35 euros per share in November 2013, and the Board announced its intention to take corporate actions to approve another cash dividend of 0.40 euros per share in the second quarter of 2014.

The 2014 dividend policy will be announced in the report on fourth quarter 2013 earnings.

In May 2012, Telefónica launched a scrip dividend issue to allow shareholders to choose to receive new shares in place of a cash dividend (which may be replaced by selling the associated subscription rights to the Company at a pre-established price), while enabling the Company to reduce its debt, depending on the take-up rate of the conversion.

Treasury shares

Telefónica has performed, and may consider performing, transactions with treasury shares and financial instruments or contracts that confer the right to acquire treasury shares or assets whose underlying is Company shares.

Treasury share transactions will always be for legitimate purposes, including:

- Undertaking treasury share acquisitions approved by the Board of Directors or pursuant to General Shareholders Meeting resolutions.
- Honoring previous legitimate commitments assumed.
- Covering requirements for shares to allocate to employees and management under stock option plans.
- Other purposes in accordance with prevailing legislation. In the past, treasury shares purchased on the stock market were exchanged for other shares-securities (as in the case of preferred capital securities), swapped for stakes in other companies (e.g. China Unicom or Telco S.p.A.), or acquired to reduce the number of shares in circulation (by redeeming the shares acquired), thereby boosting earnings per share.

Treasury share transactions will not be performed in any event based on privileged information or in order to intervene in free price formation. In particular, any of the conduct referred to in Articles 83.ter.1 of the Spanish Securities Market Law and 2 of Royal Decree 1333/2005 of November 11 implementing the Spanish Securities Market Law, with regards to market abuse will be avoided.

At December 31, 2013 and 2012, Telefónica, S.A. held the following treasury shares:

		Euros per share			
	Number of shares	**Acquisition price**	**Trading price**	**Market value (1)**	**%**
Treasury shares at 13/12/31	29,411,832	11.69	11.84	348	0.64627%

(1) Millions of euros

	Euros per share		
	Trading price	**Market value (1)**	**%**

	Number of shares	Acquisition price			
Treasury shares at 12/12/31	47,847,809	10.57	10.19	488	1.05136%

(1) Millions of euros

The movement in treasury shares of Telefónica, S.A. in 2013 and 2012 is as follows:

	Number of shares
Treasury shares at 11/12/31	**84,209,363**
Acquisitions	126,489,372
Delivery GESP share plan	(2,071,606)
Disposals	(76,569,957)
Share redemption	(84,209,363)
Treasury shares at 12/12/31	**47,847,809**
Acquisitions	113,154,549
Disposals	(131,590,526)
Treasury shares at 13/12/31	**29,411,832**

Furthermore, at December 31, 2012, one Telefónica, S.A. share was held by Telefónica Móviles Argentina, S.A. This share has been sold during 2013.

Acquisitions

The amount paid to acquire treasury shares in 2013 and 2012 was 1,216 million euros and 1,346 million euros, respectively.

Disposals

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 2013 and 2012 amounted to 1,423 million euros and 801 million euros, respectively. The main transactions during 2013 and 2012 were as follows:

On March 26, 2013 Telefónica, S.A. reached an agreement with qualified and professionial investors whereby the Company disposed of all the treasury shares it held (90,067,896 shares) at a price of 10.80 euros per share.

On September 24, 2013 Telefónica, S.A. acquired the remaining shareholders of Telco, S.p.A. 23.8% of the non-convertible bonds issued in 2013 by Telco, S.p.A. The payment of this transaction consisted of the transmission of 39,021,411 treasury shares of the Company.

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 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.

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.

Other equity instruments

At December 31, 2013, Telefónica held 134 million call options on treasury shares subject to physical delivery at a fix price (178 million call options on treasury shares at December 31, 2012) which are presented as a reduction in equity under the caption treasury share instruments . They are valued at the amount of premium paid, and upon maturity if the call options are exercised the premium is reclassified as treasury shares together with the price paid. If they are not exercised upon maturity their value is recognized directly in equity.

The Company also has a derivative on Telefónica shares, to be settled by offset, which has increased from 28 million shares in 2012 to 30 million shares in 2013, and is recognized under Derivatives (financial liabilities, current) on the balance sheet. In 2012, the fair value of this derivative was recognized under Derivatives (financial assets, current).

Lastly, details of the applicable conditions and time periods governing any resolutions of the General Shareholders Meeting to purchase and/or transfer treasury shares are provided hereon.

At Telefónica s Ordinary General Shareholders Meeting held on June 2, 2010, the shareholders granted the Board of Directors authorization (with express powers to delegate duties to the Executive Commission, Executive Chairman, Chief Operating Officer, or any other individual to which the Board of Directors confers powers for the same purpose) for the derivative acquisition by Telefónica, S.A. either directly or through any of the subsidiaries of which it is the controlling company at any time and as many times as it deems appropriate, of fully-paid treasury shares through purchase and sale, exchange or any other legal transaction.

The minimum price or consideration for the acquisition shall be equal to the par value of the treasury shares acquired, and the maximum acquisition price or consideration for the acquisition shall be equal to the listing price of the treasury shares acquired by the Company on an official secondary market at the time of the acquisition.

Such authorization is granted for 5 years as from the date of the General Shareholders Meeting and is expressly subject to the limitation that the par value of the treasury shares acquired pursuant to this authorization added to those already held by Telefónica, S.A. and any of its controlled subsidiaries shall at no time exceed the maximum amount permitted by the Law (currently 10% of Telefónica, S.A. s share capital).

The aforesaid authorization granted to acquire treasury shares may be used in whole or in part to acquire shares of Telefónica, S.A. that it must deliver or transfer to directors or employees of the Company or of Group companies, directly or as a result of the exercise by them of option rights, all within the framework of duly approved compensation systems linked to the trading price of the Company s shares.

Risks and uncertainties facing the Company

The Telefónica Group s business is conditioned by a series of intrinsic risk factors that affect exclusively the Group, as well as a series of external factors that are common to businesses of the same sector. The main risks and uncertainties facing the Company which could affect its business, financial position, reputation, corporate image and brand and its results, must be considered jointly with the information in the financial statements of 2013, and are as follows:

Group-related risks

Worsening of the economic and political environment could negatively affect business.

Telefónica s international presence enables the diversification of its activities across countries and regions, but entails the need of considering various legislations, as well as the political and economic environments of the countries in which it operates. Any adverse developments or even just uncertainties in this regard, or possible exchange-rate or sovereign-risk fluctuations may adversely affect the business, financial position, cash flows and/or the performance of some of the Group s economic and financial parameters.

With respect to the economic environment, the Telefónica Group s business is impacted by overall economic conditions in each of the countries in which it operates. Economic conditions may adversely affect the level of demand of existing and prospective customers, as they may no longer deem critical the services offered by the Group. The main macroeconomic factors that could have an adverse impact on consumption and, accordingly, on the level of demand for our services and finally, on Telefónica Group s results, are: the shortage of credit in an environment of adjustment of banks balance sheets; the evolution of the labor market; the worsening of consumer confidence, with an increase in saving rates as an immediate consequence; or the needs for greater fiscal adjustment, which would negatively impact on the household income levels and corporate investments, expenses and revenues.

This economic risk might be significant in some European countries which are on the road to recovery but are rebounding more slowly due to financial imbalances that must continue to be corrected. According to the European Economic and Financial Affairs Council, the European economy is expected to have shrunk by -0.4% in 2013 and will only grow 1.1% in 2014, assuming, therefore, that private consumption growth may be weak in certain cases. In this region, Telefónica Group generated 47% of the Group s total revenues in 2013 (including 22.7% in Spain, 11.7% in the UK and 8.6% in Germany).

Also, the impact of the sovereign debt crisis and the rating downgrades in certain Euro Area countries should be taken into account. Any additional deterioration in the sovereign debt markets, doubts about developments in European projects (e.g. implementation of the banking union project, the results of the European elections or progress towards fiscal integration), as well as further credit restrictions by the banking sector could have an adverse effect on the Telefónica s ability to access funding and/or liquidity which could have a significant adverse effect on the Group s businesses, financial position, results of operations and cash flows. In addition, the Group s business may be affected by other possible effects from the economic crisis, including a possible insolvency of key customers and suppliers.

In Latin America, the most important challenge is the exchange-rate risk in Venezuela and Argentina (with a sustained accelerated depreciation of the peso against the U.S. dollar), given the negative impact that a higher than expected depreciation in their currencies could have on cash flows from both countries. The economic outlook for the entire region suggests that growth rates will remain stable at around 3%, supported by solid domestic demand fundamentals. International scenario, despite being not so favorable as in the past periods, it will remain to have a relatively benign impact on the region, except for potential periods of volatility linked to the evolution of the developed financial markets (especially long-term interest rates in the United States affected by the U.S. Federal Reserve s intervention that are not discounted in the market), a greater than envisaged economic slowdown in Asia (a key region for Latin America), and the slow progress being made with structural reforms projects in the majority of these countries which limits potentially higher growth rates. The most significant internal macroeconomic risk factors in the region would be the very high inflation rates in Venezuela and Argentina that could lead to economic stagnation in these countries, the delicate situation of Venezuela s public finance, and the deterioration in the external accounts of countries such as Argentina, Brazil, Chile and Peru; though with very different funding outlooks for the latter three (favorable) than the first.

In relation to the political environment, the Group s investments and operations in Latin America could be affected by a series of risks related to economic, political and social factors in these countries, collectively denominated country risk, . On this point, approximately 15% of our revenues in the telephony business are generated in countries that do not have investment grade status (in order of importance Venezuela, Argentina, Ecuador, Guatemala, Nicaragua, El Salvador and Costa Rica), and other countries are only one notch away from losing this threshold. Also note that despite clear improvements in Brazil, recent announcements by the ratings agencies considering a possible downgrading of its credit rating could, depending on the extent of the downgrading, result in strong exchange-rate volatility due to an outflow of investments, especially strong in fixed-income.

Among the factors included in the concept of country risk , we highlight:

- government regulation or administrative polices may change unexpectedly, including changes that modify the terms and conditions of licenses and concessions and their renewal (or delay their approvals) which could negatively affect the Group s interests in such countries;

  - abrupt exchange-rate fluctuations mainly due to situations of high levels of inflation and twin deficits (in public finance and external sector) with the resulting exchange-rate overvaluation. This movement could lead to a strong exchange-rate depreciation in the context of a floating exchange rate regime, to a significant devaluation off the back of abandoning fixed exchange rates regimes, or to the introduction of varying degrees of restrictions on capital movement. For example, in Venezuela, the official U.S. dollar to Bolivar fuerte exchange rate is established by the Central Bank of Venezuela and the Minister of Finance, with an alternative market for attracting foreing currency through SICAD s fortnightly auctions. Additionally, the acquisition of foreign currencies by Venezuelan or Argentinian companies (in some cases) to pay foreign debt or dividends is subject to the pre-authorization of the relevant authorities. Also, the Argentinean peso is following a sustained accelerated depreciation against the U.S. dollar;

governments may expropriate or nationalize assets, or make adverse tax decisions, or increase their participation in the economy and in companies;

economic-financial downturns, political instability and civil disturbances may negatively affect the Telefónica Group s operations in such countries; and

maximum profit margins limits may be imposed in order to limit the prices of goods and services through the analysis of cost structures. Thus, in Venezuela, a maximum profit margin has been introduced that will be set annually by the Superintendence for the defense of socio-economic rights.

The Group s financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to foreign currency exchange rates, interest rates or financial investment risks.

At December 31, 2013, 71% of the Group s net debt (in nominal terms) had its interest rates fixed over a year, while 23% was denominated in a currency other than the euro.

To illustrate the sensitivity of financial expenses to a change in short-term interest rates at December 31, 2013: (i) a 100 basis points increase in interest rates in all currencies in which Telefónica has a financial position at that date would lead to an increase in financial expenses of 118 million euros, (ii) whereas a 100 basis points decrease in interest rates in all currencies except the euro, U.S. dollar and the pound sterling (these to zero rates in order to avoid negative rates), would lead to a reduction in financial expenses of 55 million euros. These calculations were made assuming a constant currency and balance position equivalent to the position at that date and bearing in mind the derivative financial instruments arranged.

According to the Group s calculations, the impact on results and specifically changes in the value of a 10% depreciation of Latin American currencies against the U.S. dollar and a 10% depreciation of the rest of the currencies against the euro would result in exchange losses of 42 million euros, primarily due to the weakening of the Venezuelan bolivar and, to a lesser extent, the Argentinean peso. These calculations had been made assuming a constant currency position with an impact on profit or loss at December 31, 2013 including derivative instruments in place.

The Telefónica Group uses a variety of strategies to manage this risk, mainly through the use of financial derivatives, which themselves are also exposed to risk, including counterparty risk. Furthermore, the Group s risk management strategies may not achieve the desired effect, which could adversely affect the Group s business, financial condition, results of operations and cash flows.

Existing or worsening conditions in the financial markets may limit the Group s ability to finance, and consequently, the ability to carry out its business plan.

The performance, expansion and improvement of the Telefónica Group s networks, the development and distribution of the Telefónica Group s services and products, the development and implementation of the Company s strategic plan, as well as the development and implementation of new technologies or the renewal of licenses require a substantial amount of financing.

The performance of financial markets in terms of liquidity, cost of credit, access and volatility, continues to be overshadowed by persisting uncertainty regarding certain factors such as the pace of economic recovery, the health of the international banking system and the concerns regarding the burgeoning deficits of some European countries. The worsening international financial market credit conditions caused by some of these factors could make it more difficult and more expensive to refinance existing financial debt or arrange new debt if necessary, and more difficult and costly to raise funds from our shareholders, and may negatively affect the Group s liquidity. At December 31, 2013, gross financial debt scheduled to mature in 2014 amounted to 9,214 million euros (which includes: (i) the net position of derivative financial instruments, certain current payables and (ii) 582 million euros of notes with an option of early repayment and no contractual obligation to be repaid), and gross financial debt scheduled to mature in 2015 amounted to 6,802 million euros. Despite having covered gross debt maturities of 2014 and 2015 by available cash and lines of credit at December 31, 2013, possible difficulties to maintain the current safety margin, or the risk that this could be significantly and unexpectedly exhausted, could force Telefónica to use resources allocated for other investments or commitments for payment of its financial debt, which could have a negative effect on the Group s businesses, financial position, results of operations or cash flows.

Although the Group maintains liquidity coverage on 24-month maturities, obtaining financing on the international capital markets could also be restricted, in terms of access and cost, if Telefónica s credit ratings are revised downwards, either due to lower solvency or operating performance, or as a result of a downgrade in the rating for Spanish sovereign risk by rating agencies. Any of these situations could have a negative impact on our ability to deal with our debt maturities.

Moreover, market conditions could make it harder to renew existing undrawn credit lines, 10% of which, at December 31, 2013, initially mature prior to December 31, 2014.

Risks related to the Group s industry

The Group operates in a highly regulated industry which requires government concessions for the provision of a large part of its services and the use of spectrum, which is a scarce and costly resource.

The telecommunications sector is subject to laws and regulations in different countries, and additionally, many of the services provided require the granting of a license, concession or official approval, which usually requires certain obligations and investments to be made, such as those relating to spectrum availability. Among the main risks of this nature are the spectrum and licenses/concessions, rates, universal service regulation, fiber networks, privacy, functional separation of businesses and network neutrality.

Thus, as the Group provides most of its services under licenses, authorizations or concessions, it is vulnerable to administrative bodies decisions, such us economic fines for serious breaches in the provision of services and, eventually, revocation or failure to renew these licenses, authorizations or concessions or the granting of new licenses to competitors for the provisions of services in a specific market.

The Telefónica Group pursues its license renewal in the terms referred in their respective contractual conditions, though it cannot guarantee that it will always complete this process successfully or under the most beneficial terms for the Group. In many cases complying with certain obligations is required, including, among others, minimum specified quality standards, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines, revision of the contractual terms, or even the revocation of the license, authorization or concession. Additionally, the Telefónica Group could be affected by regulatory actions carried out by the antitrust authorities. These authorizations could prohibit certain actions, such as new acquisitions or specific practices, create obligations or lead to heavy fines. Any such measures implemented by the competition authorities could results in economic and/or reputational loss for the Group, in addition to a loss of market share and/or in harm to the future growth of certain businesses.

Regulation of spectrum and government concessions:

The Digital Single Market packaged of measures is currently being amended by the European Parliament to include important measures affecting, *inter alia*, spectrum regulation. Although these measures are not yet final, they could have significant implications as they include new provisions on secondary markets, criteria to apply at auctions, renewals and terms of licensees, etc.

In 2015/2016, in Germany, it is expected that frequencies in the 900/1800 MHz band licenses, expiring at the end of 2016, will be renewed. The German regulator has adopted a proposal decision envisaging an auction of spectrum in the 900 MHz, 1800 MHz, 700 MHz and 1500 MHz bands. Furthermore, it is proposed, for operators holding 900 MHz GSM band licenses, the reservation of 2X5 MHz in this band. The aforementioned reservation entails a 99% population coverage obligation. Moreover, European and National regulators are reviewing the implications of the merger of Telefónica Germany and E-Plus, and any potential remedies or conditions. Remedies could affect the spectrum finally available. In Spain, it is expected that the previously auctioned frequencies in the 800 MHz band from the digital dividend, will be allocated on January 1, 2015. For its part, in the UK a tax rate increase for the use of the spectrum in 900 and 1800 MHz band is under discussion, which outcome is uncertain.

Main allocation criteria for the 700 MHz band (Digital Dividend II) will be defined in coming years in Europe. This could involve facing new cash outflow ahead of schedule (most likely scenario is currently seen as to have this spectrum between 2018 and 2021).

In Latin America, spectrum auctions will take place entailing potential outflows to obtain new licenses or to meet the coverage requirements associated with these licenses. Specifically, the following procedures are in progress or expected to take place in 2014:

- Brazil. Auction of the 700 MHz band. Allocation of frequencies in the 700 MHz band for fixed-line and mobile telephone and broadband services has being approved. However, the allocation process requires television channels currently occupying this band to be migrated and Anatel to complete its analysis regarding spectrum interference between mobile and television services.

Chile. Auction of the 700 MHz band.

Ecuador. Negotiations underway to obtain additional frequencies in the 1900 MHz band.

El Salvador. The auction of one block in the 1900 MHz band and another in the AWS band had been postponed, although this issue might be resolved in the coming months.

Venezuela. Auction in the AWS band (1710-2170 MHz frequencies) and in the 2.5 GHz band, has been suspended.

On the other hand, negotiations to renew 850 MHz/1900 MHz licenses in Colombia (where a legal action regarding the reversion of assets at the end of the license terms is in place) and 850/1900 MHz licenses in Panama are under way. In Peru, an application for partial renewal of the concessions for the provision of the fixed-line service for another five years has been made, although assurance has been given that the concession will remain in force until November 2027. Also, a new law has also been enacted establishing mobile virtual network operator (MVNOs) and Rural Mobile Infrastructure Operators (RMIOs) in the Peruvian market. In Mexico, it is envisaged, in development of the constitutional reform enacted due to the Pact for Mexico political initiative, the creation of a wholesale network publicly owned which will offer wholesale services in the 700 MHz band, the funding and the marketing model of this project have not been determined at present

On the other hand, Telefónica UK was awarded two 10 MHz blocks of spectrum in the 800 MHz band in 2013 to roll out a national 4G network. In Spain, the following license extensions have been granted: in the 900 MHz band, 4 MHz from July 2025 to December 2030 and 1 MHz from February 2015 to December 2030, likewise, in the 1800 MHz band a 20 MHz license has been extended from 2028 to December 2030. Moreover, in 2013, Telefónica also obtained spectrum licenses in Uruguay (2x5 MHz in the 1900 MHz band), Colombia (30 MHz in the AWS band) and Peru (20+20 MHz in the 1700 MHz band). In 2013 Telefónica Brazil requested the amendment of the Terms of its Authorization for the L band in order to relocate the blocks of radiofrequencies. Currently, the L band is located in the 3G radiofrequencies (1.9/2.1GHz). The notice of the L band provided for such relocation and the request ensured a more efficient use of the spectrum for Telefónica Brazil. CAPEX associated with the new spectrum in 2013 amounted to 1,224 million euros.

In 2012, Telefónica Ireland was awarded spectrum in the 800, 900 and 1800 MHz bands. In Brazil, Telefónica was awarded a block of the 2500 MHz X band (20+20 MHz), including the 450 MHz band in certain states. In the spectrum auction, Telefónica Brazil had to compensate the former licensees of this bandwidth, used for multichannel multipoint distribution services. The other operators also awarded spectrum shall, in turn, compensate Telefónica Brazil. Part of these compensation requirements is being legally contested. In Venezuela, the concession agreement between Telefónica Venezolana and the Regulator for an additional 20 MHz in the 1900 MHz band was executed. Telefónica Móviles Chile, S.A. was awarded radiofrequencies for 4G technology in the 2.6 GHz band (2x20 MHz), and in Nicaragua Telefónica was granted 36 MHz in the 700 MHz band.

The Company s failure to obtain sufficient or appropriate spectrum capacity in the jurisdictions discussed above or any others in which it operates or its capacity to assume the related costs, could have an adverse impact its ability to launch and provide new services and on the Company s ability to maintain the quality of existing services, which may adversely affect the Group s financial condition, results of operations and cash flows.

Regulation of wholesale and retail charges:

In terms of roaming, the regulated Eurotariffs will be reduced in July 2014, as per the Regulation approved in 2012. The structural roaming solutions which could lead to a price decrease in the intra-european roaming services, will also take effect in July 2014. Furthermore, the packet of Digital Single Market measures mentioned above also includes a proposal to eliminate European Union roaming charges in July 2016 as well as international charges.

The decreases in wholesale mobile network termination rates in Europe are also noteworthy. In the UK, wholesale mobile network termination rates will be reduced to 0.845 pence/minute from April 1, 2014 (representing a 0.3% reduction compared to the current rates), while the termination rate in Germany was set at 0.0179 euro/minute as from December 31, 2013 (3.24% lower than the previous termination rates). The European Commission has requested that the German regulator withdraw or amend its latest decision on mobile termination rates. There is a risk that the European Commission will initiate infringement proceedings, against Germany, and rates may be further reduced. In Spain, the schedule for reducing mobile network termination rates has reached the target rate (0.0109 euro/minute) in July 2013, representing close to 61% lower than the wholesale prices in force until that date. As from July 2013, the target price reached will remain in force until new target prices are set. The Spanish regulator has yet to make its decision on this matter. Based on a High Court ruling in Ireland, a mobile termination rate of 2.60 euro cents was provisionally imposed (more favorable than the figure initially proposed by the regulator), applicable from July 1, 2013 (representing 29.35% lower the previous termination rates). The Irish regulator is also developing a more adverse cost model based on long-run incremental cost (LRIC) price calculation, which is expected to be announced in July 2014.

Also, in Latin America, there are moves to review mobile termination rates leading to these being reduced. Thus, for example, developments in Mexico are among the most relevant, where the declaration of dominant operators in the telecommunications market is expected to lead to asymmetric regulatory measures that must be set. The Company s competitive position may benefit to a greater or lesser extent depending on the scope of these measures. Telefónica México has filed an administrative appeal against the 2011 resolutions of the Federal Telecommunications Commission of México (Cofetel) regarding mobile network termination rates (representing a 61% reduction compared to the previous rates). As of today, no ruling has been made on this appeal. Once these appeals have been concluded, the rates applied may be further reduced retroactively. As of today, Cofetel has not approved the termination rates for 2012, 2013, or 2014.

In Brazil, in October 2011, the regulator (Anatel) approved the fixed-mobile rate adjustment Regulation, which provides a progressive reduction of these rates until 2014 through a reduction factor, which will be deducted from the inflation, and implying a reduction of approximately 29% in 2012-2014. However, the Plano Geral de Metas de Competiçao (PGMC) of the end of 2012 extended application of the reduction to 2015 and amended the rates for 2014 and 2015 (75% of the 2013 rate in 2014 and 50% of the 2013 rate in 2015). A draft law has been prepared in Brazil to abolish the basic telephony service monthly fee. Price protection practices (reimbursement of price differences of a product to customers if this falls within a relative short period of time) may also have a negative effect, both in economic and image terms.

In Chile, a process to set new fixed-line termination charges is ongoing. A Tariff Decree has been passed for mobile networks covering the 2014-2019 five-year period. The new Tariff Decree entered into effect on January 25, 2014 and implies a reduction of 73.4% with respect to the previous rates. In Ecuador the rate-related risks also concern a reduction in rural and urban telephony charges, a reimbursement of top-up balances, as well as rounding to the nearest minute.

The implementation of the Enabling Act (Ley Habilitante) in Venezuela also confers full powers to the President to implement price controls measures, and it is therefore expected that it will not be possible to raise Movistar retail rates in line with high Venezuela inflation. In relation to mobile termination rates with the national operator of reference, these have been reduced 6% compared to the previous rates.

In Peru, the previously applicable rate was reduced by 24.24% in October 2013.

In Colombia, a decision was adopted establishing a gradual reduction for termination mobile rates. Regarding the termination model for time, the reduction for 2014 is 19.8% and 24.6% for 2015. For the capacity model the reduction will be 10.9% for 2014 and 12.3% for 2015. In relation with fix networks (for extended local networks) the reduction will be 50% for 2014 and 100% for 2015.

Regulation of universal services:

The European Commission on its formal obligation to review the Universal Service Directive will launch a public consultation whose objective will be to modify the scope of their obligations and include, at a European level, far higher broadband speeds than are currently provided. Depending on the terms set forth in the new regulation, implementation at a local level could lead to higher costs for both the universal service provider and the operators forced to finance the Universal Service.

The regulator in Brazil has modified the universal service targets. This represents a risk on the Company s positive balance resulted from the fulfilment of 2003 universal service targets, whose implementation was less costly than the initially established targets, leaving a positive balance for the Company.

The new requirements that cause this positive balance could apply until 2025, and extend beyond on issues such as, for example, rural telephony services and the expansion of the backhaul network. Rural telephony services are another risk in Brazil given the obligations arising from the switched fixed-line telephone services model and the obligations to provide mobile coverage in certain rural areas of the country.

Regulation of fiber networks:

It is expected that in 2014, Spanish National Competition Authority (Comisión Nacional de los Mercados y la Competencia) will study broadband market regulation in Spain. This could increase Telefónica s regulatory obligations in Spain, especially wholesale market obligations concerning access to fiber networks, and its pricing.

Regulations on privacy:

In Europe, a new Data Protection Regulation is in the pipeline before the end of the current European legislative term (spring 2014). This could lead to certain critical provisions laid down in the current draft of the Regulation (presently under debate) being worded in such a way that stops or hinders Telefónica from launching some services, that focus on the processing of personal data.

Regulation of functional separation:

The new principles established in Europe s common regulatory framework, adopted in 2009 and transposed in the national legislation of each Member State in which Telefónica operated during 2011 and 2012 could result in greater regulatory pressure on the local competitive environment. Specifically, this framework supports the possibility of national regulators, in specific cases and under exceptional conditions, forcing operators with significant market power and vertically-integrated operators to separate their wholesale and retail businesses at a functional level. They would therefore be required to offer equal wholesale terms to third-party operators that acquire these products.

Regulation of network neutrality:

In Europe, application of the current regulatory framework means that it is likely that during 2014, the Body of European Regulators for Electronic Communications (BEREC) and national regulators will strengthen their supervision of operators with regard to blocking of access, discrimination of applications or Internet service quality. The European Parliament and the Council are simultaneously debating the draft of the European Digital Market Regulation proposed by the European Commission, in particular concerning network neutrality, network management or differentiation of Internet access service characteristics. All of them are aspects of great importance that have a direct impact on potential business models that can be developed in the future.

Presently we have countries where net neutrality has already been ruled, such us Chile and Colombia. But it is a live issue and with varying degree of development in the rest of the countries. In Germany, the Economy Minister published a draft law on June 20, 2013 to regulate neutrality, especially with regard to blocking and discrimination of content and Internet services. The text is pending approval by parliament in 2014 after the new government was sworn in during December 2013.

In Brazil, the Civil Rights Framework for Internet Governance is being debated by Congress and is expected to be approved in the first quarter of 2014. It includes policies on the Internet such as network neutrality. Activities regarding net neutrality have been, as of today, focused in supervision of the quality of the services: in October 2011, Anatel approved the regulations of the Service Quality of Multimedia Communication Service (includes fixed internet) and Personal Mobile Service (including mobile internet). Aforementioned regulations, regulates the measurement made from independent entities on quality delivered and perceived by ISPs to customers.

If changes to regulation such as those described above, or otherwise, occur in the various jurisdictions where the Telefónica Group operates, it could have a material adverse effect on our business and results of operations.

Customers perceptions of services offered by the Company may put it at a disadvantage compared to competitors offerings.

Customers perceptions of the services and products offered are critical to operating in highly-competitive markets. The ability to predict and respond to the changing needs and demands of customers affects the Company s competitive position relative to other technology sector companies, and its ability to extract the value generated during this process of transformation. Failure to do so appropriately could have an adverse impact on the Group s financial condition, results of operations and cash flows.

Company may not be able to adequately foresee and respond to technological changes and sector trends.

In a sector characterized by rapid technological change, it is essential to be able to offer the products and services demanded by the market, and consider the impacts of changes in the life cycle of technical assets, finely adjust margins, and select the right investments to make.

The Telefónica Group operates in markets that are highly competitive and subject to constant technological development. Therefore, as a consequence of both characteristics, it is subject to the effects of actions by competitors in these markets and to its ability to anticipate and adapt to constant technological changes taking place in the industry.

To compete effectively in these markets, the Telefónica Group needs to successfully market its products and services and respond to both commercial actions by competitors and other competitive factors affecting these markets, anticipating and adapting promptly to technological changes, changes in consumer preferences and general economic, political and social conditions. Failure to do so appropriately could have an adverse impact on the Group s financial condition, results of operations and cash flows.

New products and technologies arise constantly, while the development can render obsolete the products and services the Telefónica Group offers and the technology it uses. This means that Telefónica must invest in the development of new products, technology and services so it can continue to compete effectively with current or future competitors, and which may result in the decrease of the Group s profits and revenue margins. In this respect, margins from traditional voice and data business are shrinking, while new sources of revenues are deriving from mobile internet and connectivity services that are being launched. Research and development costs amounted to 1,046 million euros and 1,071 million euros in 2013 and 2012, respectively, representing 1.8% and 1.7% of the Group s consolidated revenue, respectively. One technology that telecommunications operators, including Telefónica (in Spain and Latin America), are focused on is the new FTTx-type network, which offers broadband access using optical fiber with superior services, e.g. internet speed of up to 100MB or HD television services. However, substantial investment is required to deploy these networks, which entails fully or partially substituting copper loop access with optic fiber. An increasing demand for the capabilities offered by these new networks to end users exist, however, the high level of the investments requires a continuous analysis of the return on investment.

The explosion of the digital market, and entry of new players in the communications market, such as Mobile Virtual Network Operators (MVNOs), internet companies or device manufacturers, may cause the loss of value of certain assets, and affect its ability to generate income. Therefore, it is necessary to update the business model, encouraging the pursuit of incomes and additional efficiencies to the more traditional. Failure to do so appropriately could have an adverse impact on the Group s financial condition, results of operations and cash flows.

In addition, the ability of the Telefónica Group s IT systems (operational and backup) to respond the Company s operating requirements is a key factor to be taken into account with respect to the commercial development, customer satisfaction and business efficiency.

The Company depends on the suppliers.

The existence of critical suppliers in the supply chain, especially in areas such as network infrastructure, information systems or handsets, with a high concentration in a small number of suppliers, poses risks that may affect the operation, and may cause contingencies or damages to the Company s image in the event that inappropriate practices were produced by a participant in the supply chain.

As of December 31, 2013, the Telefónica Group depends on 8 handset suppliers and 12 network infrastructure suppliers, which together accounted for 80% of orders. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements.

If these suppliers fail to deliver products and services to the Telefónica Group on a timely basis, it could jeopardize network deployment and expansion plans, which in some cases could adversely affect the Telefónica Group s ability to satisfy its license terms and requirements or have an adverse impact on the Group s business, financial condition, results of operations and cash flows.

Unanticipated network interruptions can lead to quality loss or the interruption of the service.

Unanticipated network interruptions as a result of system failures, including those due to network, hardware or software or cyber-attacks, which affect the quality of or cause an interruption in the Telefónica Group s service, could lead to customer dissatisfaction, reduced revenues and traffic, costly repairs, penalties or other measures imposed by regulatory authorities and could harm the Telefónica Group s image and reputation.

Telefónica attempts to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and other physical and logical security. However, these measures are not always effective. Although the Telefónica Group has insurance policies to cover this type of incidents and risks, these policies may not be sufficient to cover all possible monetary losses, although the claims and loss in revenue caused by service interruptions to date have been covered by these policies.

The telecommunications industry may be affected by the possible effects of electromagnetic fields, emitted by mobile devices and base stations, may have on human health.

In some countries, there is a concern regarding potential effects of electromagnetic fields, emitted by mobile devices and base stations, on human health. This public concern has caused certain governments and administrations to take measures that have hindered the deployment of the infrastructures necessary to ensure quality of service, and affected the deployment criteria of new networks and digital services such as smart meters development.

There is a consensus between various expert groups and public health agencies, including the World Health Organization (WHO), who claim that at the moment there have not been established risks for exposure to low frequency signals in mobile communications. The scientific community is still investigating this issue especially on mobile devices. Exposure limits for radio frequency suggested in the guidelines of the Protection of Non-Ionizing Radiation Protection Committee (ICNIRP) have been internationally recognized. The mobile industry has adopted these exposure limits and works to request authorities worldwide to adopt these standards.

Society s worries about radiofrequency emissions may discourage the use of mobile devices and new digital services, which could cause the public authorities to implement measures restricting where transmitters and cell sites can be located and how they operate, and the use of our mobile telephones, the massive deployment of smart meters and other products using mobile technology. This could lead to the Company being unable to expand or improve its mobile network.

The adoption of new measures by governments or administrations or other regulatory interventions in this respect, and any future assessment on the adverse impact of electromagnetic fields on health, may negatively affect the business, financial conditions, results and cash flows of Telefónica Group.

Possible regulatory, business, economic or political changes could lead to asset impairment.

The Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the value of assets and cash-generating units, to assess whether their carrying values can be supported by the future expected cash flows, including, in some cases synergies allowed for in acquisition cost. Potential changes in the regulatory, business, economic or political environment may result in the need to introduce changes to estimates made and recognize impairment losses in goodwill, intangible assets or fixed assets. Although the recognition of impairments of property, plant and equipment, intangible assets and financial assets results in a non-cash charge on the income statement, it could adversely affect the results of the Telefónica Group s operations. In this respect, the Telefónica Group has experienced impairment losses on certain of its investments, affecting the results of the year in which they were made. Thus, with respect to the investment in Telco, S.p.A., it has been made value adjustments in fiscal years 2012 and 2013 resulted in 1.277 million euros and 267 million euros, respectively. Also in 2012, the revision of the value of Telefónica operations in Ireland, resulted in a negative impact of 527 million euros.

Our networks carry and store huge volumes of confidential, personal and corporate data, and our Internet access and hosting services may lead to claims for illegal or illicit use of the Internet.

Our networks carry and store huge volumes of confidential, personal and business data, both voice and data traffic. We store increasing quantities and types of customer data in both business and consumer segments. Despite our best efforts to prevent it, Telefónica may be found liable for the loss, transfer, or inappropriate modification of the customer data or general public data stored on its servers or transmitted through its networks which could involve many people and have an impact on the Company s reputation, or lead to legal claims and liabilities that are difficult to measure in advance.

Our Internet access and hosting servers could lead to claims for illegal or unlawful use of the Internet. Telefónica, like other telecommunications providers, may be held liable for the loss, transfer or inappropriate modification of the customer data stored on its servers or carried by its networks.

In most countries in which Telefónica operates, the provision of its internet access and hosting services (including the operation of websites with shelf-generated content) are regulated under a limited liability regime applicable to the content that it makes available to the public as a technical service provider, particularly content protected by copyright or similar laws. However, regulatory changes have been introduced imposing additional obligations on access providers (such as blocking access to a website) as part of the struggle against some illegal or illicit uses of the internet, notably in Europe.

Telefónica and Telefónica Group companies are party to lawsuits, tax claims, antitrust and other legal proceedings.

Telefónica and Telefónica Group companies are party to lawsuits, tax claims and other legal proceedings in the ordinary course of their businesses, the financial outcome of which is unpredictable. An adverse outcome or settlement in these or other proceedings could result in significant costs and may have a material adverse effect on the Group s business, financial condition, results of operations, reputation and cash flows. In particular, regarding tax and antitrust claims, Telefónica Group has open judicial procedures in Peru concerning the clearance of previous years income tax, which contentious-administrative appeal is currently on its way; as well as in Brazil CADE s (Conselho Administrativo de Defesa Ecônomica) as regards the acquisition of a 50% stake in VIVO and tax open procedures, primarily relating to the CIMS (tax on telecommunication services).

Trend evolution

Telefónica is an integrated diversified telecommunications group that offers a wide range of services, mainly in Europe and Latin America. Its core business is the provision of fixed and mobile telephony, broadband, internet, data, pay TV and value added services, among others. The Group s operations in 25 countries, managed through a regional organization geared towards certain businesses in global units, enable it to leverage the strong local positioning, as well as the advantages afforded by the scale, two features that have been reinforced by the opportunities arising from the Group s holdings in and strategic alliances with China Unicom and Telecom Italia.

As a multinational telecommunications company that operates in regulated markets, Telefónica is subject to different laws and regulations in each of the jurisdictions in which it provides services. Telefónica expects the regulatory landscape to continue to change in Europe as a consequence of the revised regulations resulting from the implementation of the review of the common regulatory framework currently in place in the European Union. In addition, Telefónica may also face pressure from regulatory initiatives in some European countries regarding tariffs, the reform of rights of spectrum use and allocation, issues related to the quality of service, and the regulatory treatment of new broadband infrastructure deployments.

Telefónica faces intense competition in the vast majority of the markets it operates in, and is therefore subject to the effects of actions taken by its competitors. The intensity of the competition may deepen, which could have an impact on tariff structures, consumption, market share and commercial activity and negatively affect the number of customers, revenues and profitability.

However, Telefónica believes that it is in a strong competitive position in most of the markets where it operates, which it expects to help enable it to continue taking advantage of the growth opportunities that arise in these markets, such as by boosting both fixed and mobile broadband services and by furthering the development of services beyond connectivity, information technology services and related businesses. In this respect, Telefónica seeks to lead the industry by anticipating trends in the new digital environment.

Telefónica embarked on a restructuring in September 2011 with the aim of reinforcing its growth story, actively participating in the digital world and capturing the most of the opportunities afforded by its scale and industrial alliances. This new organization gave rise to two cross-cutting areas, Telefónica Digital and Telefónica Global Resources, in addition to the Telefónica Europe and Telefónica Latin America business segments. This structure was designed to bolster Telefónica s place in the digital world, enabling it to tap any growth opportunities arising in this environment, drive innovation, strengthen the product and services portfolio and maximize the advantages afforded by its global customer bases in an increasingly connected world. In addition, the creation of a Global Resources operating unit supports the profitability and sustainability of the business by leveraging economies of scale and driving Telefónica s transformation into a fully global company. Telefónica Europe s and Telefónica Latin America s objective is to shore up the results of the business and generate sustainable growth through available capacity, backed by the global corporation. During 2013, with the objective of increasing its direct contact with customers, both residential and business, and in the context of accelerating the transformation of the company into a digital telecommunications company, Telefónica created the position of Chief Marketing Officer at the global level, bringing together all the commercial areas, policies products, services, channels, handsets and prices, as those relating to advertising and brand. In addition, Telefónica Global Solutions, was integrated into Telefónica Global Resources, and addresses the growing complexity of a business market that is increasingly adopting digital solutions.

In Europe, customers remain at the core of the Group s strategy and management priorities in the region in order to provide a high level of customer satisfaction with our services. With the objective of offering our customers the best value, we aim to boost the transformation of our network with higher investment in fiber and LTE and we will try to accelerate digital services growth. In such a competitive market such as presently prevails, we will dedicate our efforts on reinforcing our market positioning. Another objective in coming years is to improve operating efficiency, for which we are rolling out several local and regional initiatives, such as network sharing agreements, with the support of Telefónica Global Resources.

In Latin America, Telefónica s strategy is based on a regional model that captures growth and efficiency of scale without losing sight of the local management of the client. The mobile business will continue to play a key role as a driver of regional growth and we will continue further enhancing the capacity and coverage of our networks, in order to keep and attract high-value customers, especially in the contract segment and boosting the penetration of mobile internet.

Regarding the fixed telephony business, we will encourage the increase of broadband speed and expand the supply of bundled services. Meanwhile, we will further advance efficiency, in operational and commercial terms, and attempt to achieve further synergies by implementing global, regional and local projects.

In summary, in the context of intense competition and regulatory pressure on pricing, Telefónica aims to continue strengthening its business model to make it more efficient and capture the synergies arising from the integrated approach of businesses, processes and technologies, while focusing even more on the client and staying ahead of trends in the new digital world.

Events after the reporting period

The following events regarding the Company took place between the reporting date and the date of preparation of the accompanying financial statements:

Financing

On January 31, 2014, Telefónica Emisiones, S.A.U. redeemed 296 million pounds sterling (equivalent to 355 million euros) of its notes, issued on December 28, 2006. The notes were guaranteed by Telefónica S.A.

On February 3, 2014, Telefónica Emisiones, S.A.U. redeemed 2,000 million euros of its notes, issued on February 3, 2009. The notes were guaranteed by Telefónica S.A.

On February 7, 2014, Telefónica Emisiones, S.A.U. redeemed 1,500 million euros of its notes, issued on February 7, 2007. The notes were guaranteed by Telefónica S.A.

On February 7, 2014, Telefónica, S.A. made an early repayment for 923 million euros of its syndicated loan (Tranche D2) dated March 2, 2012 (scheduled to mature originally on December 14, 2015).

On February 7, 2014, Telefónica Europe, B.V. made an early repayment for 801 million euros of its syndicated loan (Tranche D1) dated March 2, 2012 (scheduled to mature originally on December 14, 2015).

On February 18, 2014, Telefónica, S.A. signed a 3,000 million euros syndicated revolving credit facility maturing on February 18, 2019. This agreement would enter into effect on February 25, 2014 cancelling the 3,000 million syndicated credit facility signed on July 28, 2010 (scheduled to mature originally in 2015).

Sale of Telefónica Czech Republic, a.s.

On January 28, 2014 Telefónica announced that, after obtaining the relevant regulatory approval, the transaction for the sale of a 65.9% stake of Telefónica Czech Republic, a.s. to PPF Group, N.V., has been completed (see Note 20.c. and 8.5.)

Telefónica new organization structure

On February 26, 2014, the Board of Directors of Telefónica, S.A. has approved the implementation of a new organizational structure completely focused on clients and that incorporates the digital offering as the main focus for commercial policies. The structure gives greater visibility to local operations, bringing them closer to the corporate decision-making centre, simplifying the global structure and strengthening the transverse areas to improve flexibility and agility in decision makings.

Within this framework, Telefónica has created the role of the Chief Commercial Digital Officer, who will be responsible for fostering revenue growth. On the cost side, the Company has strengthened the role of the Chief Global Resources Officer. Both Officers will report directly to the Chief Operating Officer (COO), as will the local business CEOs for Spain, Brazil, Germany and the United Kingdom, in addition to the Latin American Unit, now without Brazil.

The new model integrates the activities carried out to date by Telefónica Digital, Telefónica Europe and Telefónica Latam into the Global Corporate Centre, thus simplifying the organization.

Annual Corporate Governance Report for Listed Companies

A. Ownership structure

A.1. Complete the following table on the company s share capital:

Date of last modification	Share capital ( )	Number of shares	Number of voting rights
08-06-2012	4,551,024,586.00	4,551,024,586	4,551,024,586

Indicate whether different types of shares exist with different associated rights:

No

A.2. List the directed and indirect holders of significant ownership interests in your organization at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights: Name or corporate name of direct shareholder	Number of indirect voting rights: Number of voting rights	% of total voting rights
Banco Bilbao Vizcaya Argentaria, S.A.				6.893
Banco Bilbao Vizcaya Argentaria, S.A.	313,681,635			6.893
		BBVA Seguros, S.A. de Seguros y Reaseguros	25,498	0.000
Caja de Ahorros y Pensiones de Barcelona, la Caixa				5.427
Caja de Ahorros y Pensiones de Barcelona, la Caixa	0			0.000
		Caixabank, S.A.	246,251,707	5.411
		VidaCaixa, S.A. de Seguros y Reaseguros	42,940	0.000
		Compañía Andaluza de Rentas e Inversiones, S.A.	682,500	0.015
Blackrock, Inc.				3.895
Blackrock, Inc.	0	Blackrock Investment Management (UK)	177,257,649	3.895

Indicate the most significant movements in the shareholder structure during the year:

Name or corporate name of shareholder	Date of transaction	Description of transaction

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A.3. Complete the following tables on company directors holding voting rights through company shares:

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights: Name or corporate name of direct shareholder	Number of indirect voting rights: Number of voting rights	% of total voting rights
Mr. César Alierta Izuel	4,419,548			0.097
Mr. Isidro Fainé Casas	508,875		0	0.011
Mr. José María Abril Pérez	94,586		108,386	0.004
Mr. Julio Linares López	418,946		1,887	0.009
Mr. José María Álvarez-Pallete López	325,841		0	0.007
Mr. Alfonso Ferrari Herrero	586,352		19,499	0.013
Mr. Antonio Massanell Lavilla	2,346		0	0.000
Mr. Carlos Colomer Casellas	49,360		63,190	0.002
Mr. Francisco Javier de Paz Mancho	55,273		0	0.001
Mr. Gonzalo Hinojosa Fernández de Angulo	87,725		447,474	0.012
Mr. Ignacio Moreno Martínez	12,713		0	0.000
Mr. José Fernando de Almansa Moreno-Barreda	19,449		0	0.000
Mr. Luiz Fernando Furlán	34,035		0	0.001
Ms. Eva Castillo Sanz	97,089		0	0.002
Mr. Pablo Isla Álvarez de Tejera	8,816		0	0.000
Mr. Peter Erskine	71,081		0	0.002
Mr. Santiago Fernández Valbuena	506,042		50,000	0.012

% of total voting rights held by the Board of Directors	
	0,176

Complete the following tables on share options held by directors:

Name or corporate name of director	Number of direct voting rights	Number of indirect voting rights: Direct shareholder	Number of indirect voting rights: Number of voting rights	Equivalent number of shares	% of total voting rights
Mr. César Alierta Izuel	100,000		0	10,000,000	0.002
Mr. César Alierta Izuel 2	898,334		0	1,403,647	0.020
Mr. Julio Linares López	163,828		0	255,983	0.004
Mr. José María Álvarez-Pallete López	459,650		0	658,204	0.010
Ms. Eva Castillo Sanz	199,864		0	312,287	0.004
Mr. Santiago Fernández Valbuena	286,742		0	448,036	0.006

A.4. Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Name or company name of related party	Type of relationship	Brief description

A.5. Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Name or company name of related party	Type of relationship	Brief description
Banco Bilbao Vizcaya Argentaria, S.A.	Corporate	Joint shareholding with Telefónica Móviles España, S.A.U. in Mobipay España, S.A.
Banco Bilbao Vizcaya Argentaria, S.A.	Corporate	Joint shareholding of Banco Bilbao Vizcaya Argentaria, S.A. (or any of its Group Companies), with Telefónica, S.A. and with Caixabank, S.A., in Telefónica Factoring España, S.A., Telefónica Factoring Perú, S.A.C., Telefónica Factoring Colombia, S.A., Telefónica Factoring do Brasil, Ltda., Telefónica Factoring México, S.A. de C.V., SOFOM, E.N.R., and Telefónica Factoring Chile, S.A.
Caja de Ahorros y Pensiones de Barcelona, La Caixa	Corporate	Joint shareholding of Caixabank, S.A. with Telefónica, S.A. and with Banco Bilbao Vizcaya Argentaria, S.A. (or any of its Group Companies), in Telefónica Factoring España, S.A., Telefónica Factoring Perú, S.A.C., Telefónica Factoring Colombia, S.A., Telefónica Factoring do Brasil, Ltda., Telefónica Factoring México, S.A. de C.V., SOFOM, E.N.R., and Telefónica Factoring Chile, S.A.
Caja de Ahorros y Pensiones de Barcelona, La Caixa	Corporate	Joint shareholding of Caixa Card 1 Establecimiento Financiero de Crédito, S.A.U. with Telefónica Digital España, S.L., and with Banco Santander, S.A., in Ecosistema Virtual para la Promoción del Comercio, S.L.

A.6. Indicate whether any shareholders agreements have been notified to the company pursuant to Articles 530 and 531 of the Corporate Enterprises Act (*Ley de Sociedades de Capital*, hereinafter LSC in Spanish). Provide a brief description and list the shareholders bound by the agreement, as applicable:

Yes

Shareholders bound by agreement
China Unicom (Hong Kong) Limited
Telefónica, S.A.

% of share capital affected
0.87

Brief description of the agreement:

In accordance with the provisions of Article 112, Section 2 of the Securities Market Act 24/1988, of July 28 (currently replaced by Article 531 Section 1 of the revised text of the Corporate Enterprises Act approved by Royal Decree-Law 1/2010, of 2 July), on October 22, 2009, the Company notified the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*, CNMV in Spanish) in writing that on September 6, 2009 Telefónica had entered into a mutual share exchange agreement with China Unicom (Hong Kong) Limited, whose clauses 8.3 and 9.2 are considered a shareholder agreement as per Article 530 of the Corporate Enterprises Act. By virtue of these clauses, Telefónica may not, while the strategic partnership agreement is in force, offer, issue or sell a significant number of its shares or any convertible security or security that confers the right to subscribe or acquire a significant number of shares of Telefónica, S.A. to any of the main competitors of China Unicom (Hong Kong) Limited. In addition, China Unicom (Hong Kong) Limited undertook not to sell, use or transfer, directly or indirectly, for a period of one year its share in Telefónica s voting share capital (excluding intragroup transfers). This undertaking was rendered null and void when the aforementioned period of one year had elapsed.

At the same time, both parties also assumed similar obligations with respect to the share capital of China Unicom (Hong Kong) Limited.

This mutual share exchange agreement, which includes the shareholder agreement, was filed with the Madrid Mercantile Registry on November 24, 2009.

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 agreed to acquire through its subsidiary Telefónica Internacional, S.A.U. a number of China Unicom shares to the value of 500 million US dollars from third parties, within nine months from the agreement date. In recognition of China Unicom s stake in Telefónica, the latter commits to proposing the appointment of a board member nominated by China Unicom in the next General Shareholders Meeting, in accordance with prevailing legislation and the Company s By-laws. The General Shareholders Meeting held on May 18, 2011 duly approved the appointment of China Unicom s nominee, Mr. Chang Xiaobing, as member of the Board of Directors.

China Unicom completed the acquisition of Telefónica shares on January 28, 2011, giving it ownership of 1.37% of the Company s capital.

The Telefónica Group purchased China Unicom shares during 2011 to the amount of 358 million euros. At December 31, 2011, the Telefónica Group held a 9.57% stake in the company.

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

After securing the requisite regulatory authorizations, the sales transaction was completed on July 30, 2012.

Subsequent to the transaction, Telefónica and China Unicom remain firmly committed to their strategic partnership.

Telefónica agreed not to sell the shares it holds directly and indirectly in China Unicom for a period of 12 months as from the date of the agreement.

Telefónica will also continue to enjoy representation on China Unicom s board of directors, while Telefónica s Board of Directors will continue to include a representative of China Unicom.

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

No

Shareholders involved in concerted action	% of share capital affected	Brief description of the concerted action

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

A.7. Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with Article 4 of the Spanish Securities Market Act (Ley del Mercado de Valores). If so, identify:

No

Name or corporate name

Remarks

A.8. Complete the following tables on the company s treasury shares:
At year end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
29,411,832	0	0.646

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly
Total	

Give details of any significant changes during the year, in accordance with Royal Decree 1362/2007:

Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	% of total share capital
11/02/2013	48,534,363	0	1.066
25/07/2013	49,692,373	0	1.092

A.9. Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders Meeting authorizing the Board of Directors to repurchase or transfer the treasury shares:

At Telefónica s Ordinary General Shareholders Meeting held on June 2, 2010, the shareholders resolved to renew the authorization granted at the General Shareholders Meeting of June 23, 2009, for the derivative acquisition of treasury stock, either directly or through Group companies, in the terms literally transcribed below:

To authorize, pursuant to the provisions of Section 75 et seq. of the Spanish Companies Act (*Ley de Sociedades Anónimas*, hereinafter LSA in Spanish), the derivative acquisition by Telefónica, S.A. either directly or through any of the subsidiaries of which it is the controlling company at any time and as many times as it deems appropriate, of its own fully-paid shares through purchase and sale, exchange or any other legal transaction.

The minimum price or consideration for the acquisition shall be equal to the par value of the shares of its own stock acquired, and the maximum acquisition price or consideration for the acquisition shall be equal to the listing price of the shares of its own stock acquired by the Company on an official secondary market at the time of the acquisition.

Such authorization is granted for a period of 5 years as from the date of this General Shareholders Meeting and is expressly subject to the limitation that the par value of the Company s own shares acquired pursuant to this authorization added to those already held by Telefónica, S.A. and any of its controlled subsidiaries shall at no time exceed the maximum amount permitted by the Law at any time, and the limitations on the acquisition of the Company s own shares established by the regulatory Authorities of the markets on which the shares of Telefónica, S.A. are traded shall also be observed.

It is expressly stated for the record that the authorization granted to acquire shares of its own stock may be used in whole or in part to acquire shares of Telefónica, S.A. that it must deliver or transfer to directors or employees of the Company or of companies of its Group, directly or as a result of the exercise by them of option rights, all within the framework of duly approved compensation systems referencing the listing price of the Company s shares.

To authorize the Board of Directors, as broadly as possible, to exercise the authorization granted by this resolution and to implement the other provisions contained therein; such powers may be delegated by the Board of Directors to the Executive Commission, the Executive Chairman of the Board of Directors, the Chief Operating Officer or any other person expressly authorized by the Board of Directors for such purpose.

To deprive of effect, to the extent of the unused amount, the authorization granted under Item IV on the Agenda by the Ordinary General Shareholders Meeting of the Company on June 23, 2009.

A.10. Indicate, as applicable, any restrictions on the transfer of securities and/or any restrictions on voting rights. In particular, indicate any type of restrictions that could impose obstacles to the takeover of the company by means of share purchases on the market:

Yes

Description of the restrictions

In accordance with Article 26 of the Corporate By-laws, no shareholder may cast a number of votes in excess of 10 percent of the total voting capital existing at any time, regardless of the number of shares held by such shareholder and in full compliance with mandatory requirements of law. In determining the maximum number of votes that each shareholder may cast, only the shares held by each such shareholder shall be computed. It does not include additional votes cast on behalf of other shareholders who may have appointed them as proxy, who are themselves likewise restricted by the 10 percent voting ceiling.

The 10 percent limit described above also applies to the number of votes that can be cast either jointly or separately by two or more legal entity shareholders belonging to the same corporate group and to the number of votes that may be cast altogether by an individual or legal entity shareholder and any entity or entities that they directly or indirectly control and which are also shareholders.

For the purposes of the provisions contained in the preceding paragraph, the provisions of Section 18 of the current Corporate Enterprises Act shall apply in order to decide whether or not a group of entities exists and to examine the situations of control indicated above.

In relation to the above and in accordance with the provisions of Article 527 of the Corporate Enterprises Act, any clauses in the By-laws of listed corporations that directly or indirectly restrict the number of shares that may be cast by a single shareholder by shareholders belonging to the same group or by any parties acting together with the aforementioned, will be rendered null and void when, subsequent to a takeover bid, the buyer has a stake equal to or over 70 percent of share capital which confers voting rights, unless the buyer was not subject to neutralization measures to prevent a takeover bid or had not adapted these measures accordingly.

A.11. Indicate whether the General Shareholders Meeting has agreed to take neutralization measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

A.12. Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

The shares of Telefónica, S.A. are traded on the Spanish Continuous Markets, as well as on the markets of New York, London, Lima and Buenos Aires, and all share the same characteristics, rights and obligations.

On the stock markets of New York and Lima, Telefónica, S.A. s shares are traded via American Depositary Shares (ADSs), with each ADS representing one share in the Company.

B. General Shareholders Meeting

B.1. Indicate the quorum required for constitution of the General Shareholders Meeting established in the company s By-laws. Describe how it differs from the system of minimum quorums established in the Corporate Enterprises Act (Ley de Sociedades de Capital, hereinafter LSC in Spanish).

No

	Quorum % other than that established in Article 193 of the LSC for general cases	**Quorum % other than that established in Article 194 of the LSC for the special cases described in Article 194**
Quorum required for first call	0	0
Quorum required for second call	0	0

Description of the differences

B.2. Indicate and, as applicable, describe any differences between the company s system of adopting corporate resolutions and the framework established in the LSC:

No

Describe how they differ from the rules established in the LSC.

B.3. Indicate the rules governing amendments to the company s By-laws. In particular, indicate the majorities required to amend the By-laws and, if applicable, the rules for protecting shareholders rights when changing the By-laws.

The Articles of Association and the Rules of Procedure of the Telefónica General Meeting of Shareholders award the General Meeting of Shareholders the power to amend the Articles of Association (articles 15 and 5, respectively), referring otherwise to the applicable legal provisions.

The procedure to amend the Articles of Association is set down in articles 285 and thereafter in the Capital Enterprises Act, and requires approval by the General Meeting of Shareholders with the majorities foreseen in articles 194 and 201 of the aforementioned Act. In particular, the General Meeting is held to deliberate amendments to the Articles of Association, including capital increases and decreases, eliminating or limiting the right to first refusal to buy shares, and the transformation, merger, spin-off and global conveyance of assets and liabilities and transferring the registered office abroad. At the first meeting, these decisions require the attendance of shareholders or representatives of shareholders representing at least fifty percent of the subscribed capital with voting rights. If there is not a sufficient quorum, a General Meeting will be held where the attendance of at least 25 percent of the subscribed stock capital with voting rights. Where the shareholders in attendance represent less than fifty percent of the subscribed capital with voting rights, the decisions referred to in the paragraph above may only be validly adopted with the vote in favour of at least two thirds of the capital presented or represented at the Meeting.

Pursuant to the provisions of article 286 of the Capital Enterprises Act, in the event the Articles of Association are amended, the Directors or, where applicable, the partners tabling the proposal must write the full text of their proposal amendment, and a written report to justify the change, which must be made available to the shareholders for the General Meeting called to deliberate on said amendment.

Furthermore, and pursuant to article 287 of the Capital Enterprises Act, the announcement of a meeting of the General Assembly should explicitly state with due clarity the points to be amended, and mention the right of all partners to examine the full text of the proposal amendment and the report at the company s headquarters, and to request the delivery or sending of said documents free of charge.

Article 291 of the Capital Enterprises Act set out that where changes to the Articles of Association involve new obligations for the partners the affected parties must give their consent to the decision. Equally, if the amendment directly or indirectly affects a class of shareholders, or part thereof, the provisions of article 293 of the aforementioned Act must be applied.

The General Assembly voting procedure on proposals is governed by Telefónica s internal regulations (in particular, article 23 of the Rules of Procedure of the General Assembly). This states, i.a., that each substantially independent article of group of articles shall be voted on separately.

B.4. Indicate the attendance figures for the General Shareholders Meetings held during the year:

	Attendance data				
			% remote voting		
Date of general meeting	**% attending in person**	**% by proxy**	**Electronic means**	**Other**	**Total**
31/05/2013	7.126	47.349	0.009	0.587	54.475
14/05/2012	16.240	38.040	0.004	0.310	54.280

B.5. Indicate whether the bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders Meetings:

Yes

Number of shares required to attend the General Shareholders Meetings
300

B.6. Indicate whether decisions involving a fundamental corporate change (subsidiarization , acquisitions/disposals of key operating assets, operations that effectively entail the company s liquidation) must be submitted to the General Shareholders Meeting for approval or ratification even when not expressly required under company law.

Yes

Both Article 15 of the Company s By-laws and Article 5 of the Regulations for the General Shareholders Meeting expressly define the following powers among those conferred on the general Shareholders Meeting:

The transformation of the Company into a holding company through subsidiarization or by entrusting subsidiaries with the conduct of core activities theretofore carried out by the Company itself.

The acquisition or disposal of essential operating assets, when this entails an effective amendment of the corporate purpose.

Transactions, the effect of which is tantamount to liquidating the Company and, especially, the approval of the final balance sheet upon liquidation.

B.7. Indicate the address and mode of accessing corporate governance content on your company s website as well as other information on General Meetings which must be made available to shareholders on the website.

Telefónica complies with applicable legislation and best practices in terms of the content of its website concerning Corporate Governance. In this respect, it fulfills both the technical requirements for access to the Company s website and the requirements on the content thereof (including information on the General Shareholders Meetings) through direct access from the homepage of Telefónica, S.A. (www.telefonica.com) in the section Shareholders and Investors (www.telefonica.com/accionistaseinversores), which includes not only all of the information that is legally required, but also information that the Company considers to be of interest.

All the available information included on the Telefónica website, except for certain specific documents, is available in two languages: Spanish and English.

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C. Company management structure

C.1. Board of Directors

C.1.1. List the maximum and minimum number of directors included in the bylaws:

Maximum number of directors	20
Minimum number of directors	5

C.1.2. Complete the following table with board members details:

Name or corporate name of director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Mr. César Alierta Izuel		Chairman	29/01/1997	14/05/2012	Vote at General Shareholders Meeting
Mr. Isidro Fainé Casas		Vice Chairman	26/01/1994	18/05/2011	Vote at General Shareholders Meeting
Mr. José María Abril Pérez		Vice Chairman	25/07/2007	31/05/2013	Vote at General Shareholders Meeting
Mr. Julio Linares López		Vice Chairman	21/12/2005	18/05/2011	Vote at General Shareholders Meeting
Mr. José María Álvarez-Pallete López		Chief Executive Officer	26/07/2006	14/05/2012	Vote at General Shareholders Meeting
Mr. Alfonso Ferrari Herrero		Director	28/03/2001	18/05/2011	Vote at General Shareholders Meeting
Mr. Antonio Massanell Lavilla		Director	21/04/1995	18/05/2011	Vote at General Shareholders Meeting
Mr. Carlos Colomer Casellas		Director	28/03/2001	18/05/2011	Vote at General Shareholders Meeting
Mr. Chang Xiaobing		Director	18/05/2011	18/05/2011	Vote at General Shareholders Meeting
Mr. Francisco Javier de Paz Mancho		Director	19/12/2007	31/05/2013	Vote at General Shareholders Meeting
Mr. Gonzalo Hinojosa Fernández de Angulo		Director	12/04/2002	14/05/2012	Vote at General Shareholders Meeting
Mr. Ignacio Moreno Martínez		Director	14/12/2011	14/05/2012	Vote at General Shareholders Meeting
		Director	26/02/2003	31/05/2013	

Mr. José Fernando de Almansa Moreno-Barreda				Vote at General Shareholders	Meeting
Mr. Luiz Fernando Furlán	Director	23/01/2008	31/05/2013	Vote at General Shareholders	Meeting
Ms. Eva Castillo Sanz	Director	23/01/2008	31/05/2013	Vote at General Shareholders	Meeting
Mr. Pablo Isla Álvarez de Tejera	Director	12/04/2002	14/05/2012	Vote at General Shareholders	Meeting
Mr. Peter Erskine	Director	25/01/2006	18/05/2011	Vote at General Shareholders	Meeting
Mr. Santiago Fernández Valbuena	Director	17/09/2012	31/05/2013	Vote at General Shareholders	Meeting
Total number of directors				18	

Indicate any board members who left during this period:

Name or corporate name of director	Type of directorship at time of leaving	Leaving date

C.1.3. Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or corporate name of director	Committee proposing appointment	Post held in the company
Mr. César Alierta Izuel	Nominating, Compensation and Corporate Governance Committee	Executive Chairman
Mr. José María Álvarez-Pallete López	Nominating, Compensation and Corporate Governance Committee	Chief Operating Officer (COO.)
Ms. Eva Castillo Sanz	Nominating, Compensation and Corporate Governance Committee	Chairwoman Telefónica Europe
Mr. Santiago Fernández Valbuena	Nominating, Compensation and Corporate Governance Committee	Chairman Telefónica Latin America

Total number of executive directors	4
% of the board	22.222

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment
Mr. Isidro Fainé Casas	Nominating, Compensation and Corporate Governance Committee	Caja de Ahorros y Pensiones de Barcelona, la Caixa
Mr. José María Abril Pérez	Nominating, Compensation and Corporate Governance Committee	Banco Bilbao Vizcaya Argentaria, S.A.
Mr. Antonio Massanell Lavilla	Nominating, Compensation and	Caja de Ahorros y Pensiones de Barcelona, la Caixa

	Corporate Governance Committee	
Mr. Chang Xiaobing	Nominating, Compensation and Corporate Governance Committee	China Unicom (Hong Kong) Limited
Mr. Ignacio Moreno Martínez	Nominating, Compensation and Corporate Governance Committee	Banco Bilbao Vizcaya Argentaria, S.A.

Total number of proprietary directors	5
% of the board	27.778

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director	Profile
Mr. Alfonso Ferrari Herrero	Industrial Engineer. Formerly Executive Chairman of Beta Capital, S.A. and senior manager at Banco Urquijo.
Mr. Carlos Colomer Casellas	Graduate in Economics. Was Chairman of the Colomer Group until 2013.
Mr. Francisco Javier de Paz Mancho	Graduate in Information and Advertising. Law Studies. IESE Business Management Program. Formerly Chairman of the State- owned company MERCASA.
Mr. Gonzalo Hinojosa Fernández de Angulo	Industrial Engineer. Formerly Chairman and CEO of Cortefiel Group.
Mr. Luiz Fernando Furlán	Degrees in chemical engineering and business administration, specializing in financial administration. From 2003 to 2007 he was Minister of Development, Industry and Foreign Trade of Brazil.
Mr. Pablo Isla Álvarez de Tejera	Law Graduate. Member of the Body of State Lawyers (on sabbatical). Chairman and CEO of Inditex, S.A.
Mr. Peter Erskine	Psychology Graduate. Was General manager of Telefónica Europe until 2007. Currently Chairman of Ladbrokes, Plc.
Mr. José Fernando de Almansa Moreno-Barreda	Law Graduate. Joined the diplomatic corps in 1974 and was appointed by His Majesty the King [Juan Carlos I] as Chief of the Royal Household in 1993, with the rank of Minister, and is currently Personal Adviser to His Majesty the King.

Total number of independent directors	8
% of the board	44.444

List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

No

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

Name or corporate name of director	Description of the relationship	Reasons

Other External Directors

Name or corporate name of director	Committee notifying or proposing appointment
Mr. Julio Linares López	Nominating, Compensation and Corporate Governance Committee
Total number of Other External Directors	1
% of the board	5.556

List the reasons why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders.

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
Mr. Julio Linares López	On September 17, 2012, Mr. Julio Linares López resigned from his post as COO of Telefónica, S.A. and his managerial post in the Telefónica Group and therefore went from being an Executive Director to being classified in the Other External Directors category.	Telefónica, S.A.

List any changes in the category of each director which have occurred during the year.

Name or corporate name of director	Date of change	Previous classification	Current classification
Mr. José Fernando de Almansa Moreno-Barreda	26/06/2013	Other External	Independent

C.1.4. Complete the following table on the number of female directors over the past four years and their category:

	Number of female directors				% of total directors of each type			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	1	1	0	0	25	25	0	0
Proprietary	0	0	0	0	0	0	0	0
Independent	0	0	1	1	0	0	12.5	12.5
Other External	0	0	0	0		0	0	
Total:	1	1	1	1	25	25	12.5	12.5

C.1.5. Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures

The search for women who meet the necessary professional profile is a question of principle and, in this regard, it is clear that Telefónica has taken this concern on board. In this regard, it should be noted that, on January 23, 2008, the Board of Directors unanimously agreed to coopt, at the proposal of the Nominating, Compensation and Corporate Governance Committee, Ms. Eva Castillo Sanz as an Independent Director of Telefónica. This appointment was ratified by the Ordinary General Shareholders Meeting of Telefónica held on April 22, 2008, and she was thus appointed as a Member of the Board of the Company for a term of five years. On September 17, 2012, Ms. Eva Castillo Sanz was appointed as Chairwoman of Telefónica Europe, and therefore changed from being an Independent Director to an Executive Director.

Likewise, on December 19, 2007, the Board of Directors unanimously agreed, following a recommendation from the Nominating, Compensation and Corporate Governance Committee, to appoint Ms. María Luz Medrano Aranguren as the Deputy Secretary General and Secretary to the Board of Directors of Telefónica.

Article 10.3.of the Regulations of the Board of Directors stipulates that the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as Independent Directors.

Therefore, the selection procedure described above is based exclusively on the personal merits of the candidates (recognized caliber, qualifications and experience) and their ability to dedicate themselves to the functions of members of the Board, so there is no implicit bias capable of impeding the selection of women directors, if, within the potential candidates, there are women candidates who meet the professional profile sought at each moment.

C.1.6. Explain the measures taken, if applicable, by the Nomination Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.

Explanation of measures

In accordance with Article 10.3 of the Board Regulations, the Board of Directors and the Nominating, Compensation and Corporate Governance Committee shall ensure, within the scope of their respective powers, that the candidates chosen are persons of recognized caliber, qualifications and experience, who are willing to devote a sufficient portion of their time to the Company, and shall take extreme care in the selection of the persons to be appointed as independent Directors.

When, despite the measures taken, there are few or no female directors, explain the reasons:

Explanation of reasons

All the measures and processes agreed and adopted by the Board of Directors and the Nominating, Compensation and Corporate Governance Committee to ensure the number of females on the Board guarantees an even balance and to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors have been implemented and initiated by the Company. No circumstance arose however during 2013 requiring the current composition of the Board of Directors to be altered.

C.1.7. Explain how shareholders with significant holdings are represented on the board.

As stated in Section C.1.3 of this Annual Corporate Governance Report, at December 31, 2013, the group of External Directors of Telefónica, S.A. was composed of 14 members (of a total of 18 Board members), of whom five are Proprietary Directors, eight are Independent Directors and one falls under the Other External Directors category.

Of the five Proprietary Directors, two act in representation of Caja de Ahorros y Pensiones de Barcelona (la Caixa), which holds 5.43% of the capital of Telefónica, S.A., two act in representation of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), which holds 6.89% of the capital, and one acts in representation of China Unicom (Hong Kong) Limited (China Unicom) which holds a 1.41% stake.

C.1.8. Explain, when applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 5% of the share capital:

Name or corporate name of shareholder	Reasons
China Unicom (Hong Kong) Limited	As explained in Section A.6 of this report, on January 23, 2011, expanding on their existing strategic alliance, 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 also agreed to propose the appointment of a board member nominated by China Unicom in the next General Shareholders Meeting, in accordance with prevailing legislation and the Company s By-laws. The General Shareholders Meeting held on May 18, 2011 approved the appointment of China Unicom s nominee, Mr. Chang Xiaobing, as member of the Board of Directors in accordance with the addendum to the Strategic Partnership Agreement signed in January 2011. This commitment to China Unicom is a consequence of the Strategic Partnership, which is intended to strengthen Telefónica s position in the global communications market.

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained:

No

C.1.9. Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board his/her reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

No

Name of director	**Reasons for resignation**

C.1.10. Indicate what powers, if any, have been delegated to the Chief Executive Officer:

Name or corporate name of director	Brief description
Mr. César Alierta Izuel Executive Chairman (Chief Executive Officer)	The Chairman of the Company, as the Executive Chairman, has been expressly delegated all the powers of the Board of Directors, except those that cannot be delegated by Law, by the Corporate By-laws, or by the Regulations of the Board of Directors which establishes, in Article 5.4, the competencies that the Board of Directors reserves itself, and may not delegate. Article 5.4 specifically stipulates that the Board of Directors reserves the power to: (i) approve the general policies and strategies of the Company; (ii) evaluate the performance of the Board of Directors, its Committees and the Chairman; (iii) appoint Senior Executives, as well as determine the remuneration of Directors and Senior Executives; and (iv) decide on strategic investments.
Mr. José María Álvarez-Pallete López Chief Operating Officer	The Chief Operating Officer (COO) has been delegated those powers of the Board of Directors related to the management of the business and the performance of the highest executive functions over all the Company s business areas, except those which cannot be delegated by Law, under the Corporate By-laws or according to the Regulations of the Board of Directors.

C.1.11. List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company s group:

Name or corporate name of director	Corporate name of the group company	Post
Mr. Alfonso Ferrari Herrero	Telefónica Chile, S.A.	Acting Director
	Telefónica del Perú, S.A.A.	Director
Mr. Francisco Javier de Paz Mancho	Telefónica Brasil, S.A.	Director
	Telefónica de Argentina, S.A.	Director
Mr. Gonzalo Hinojosa Fernández de Angulo	Telefónica del Perú, S.A.A.	Director
	Telefónica Brasil, S.A.	Director
Mr. José Fernando de Almansa Moreno-Barreda	Telefónica Móviles México, S.A. de C.V.	Director
Mr. Luiz Fernando Furlán	Telefónica Brasil, S.A.	Director
Ms.Eva Castillo Sanz	Telefónica Czech Republic, A.S.	Chairman of Supervisory Board
	Telefónica Deutschland Holding, A.G.	Chairman of Supervisory Board
	Telefónica Europe, Plc.	Chairman and CEO
	Tuenti Technologies, S.L.	Chairwoman
Mr. Santiago Fernández Valbuena	Colombia Telecomunicaciones, S.A. Esp	Director
	Telefónica América, S.A.	Chairwoman
	Telefónica Brasil, S.A.	Vice Chairwoman
	Telefónica Capital, S.A.	Sole Director
	Telefónica Chile, S.A.	Acting Director
	Telefónica Internacional, S.A.U.	Chairwoman
	Telefónica Móviles México, S.A. de C.V.	Vice Chairman

C.1.12. List any company board members who sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company.

Name or corporate name of director	Name of listed company	Post
Mr. César Alierta Izuel	International Consolidated Airlines Group, S.A. (IAG)	Director
Mr. Isidro Fainé Casas	Caixabank, S.A.	Chairman
	Abertis Infraestructuras, S.A.	First Vice Chairman
	Repsol, S.A.	First Vice Chairman
	Banco Portugués de Investimento, S.A. (BPI)	Director
	The Bank of East Asia	Director
Mr. Carlos Colomer Casellas	Abertis Infraestructuras, S.A.	Director
	Inversiones Mobiliarias Urquiola, S.A. SICAV	Chairman
	Ahorro Bursatil, S.A. SICAV	Chairman
Ms. Eva Castillo Sanz	Bankia, S.A.	Director
Mr. Pablo Isla Alvarez de Tejera	Inditex, S.A.	Chairman- CEO
Mr. Luiz Fernando Furlán	Brasil Foods, S.A. (BRF)	Director
	AGCO Corporation	Director
Mr. Ignacio Moreno Martínez	Secuoya, Grupo de Comunicación, S.A.	Director
Mr. Santiago Fernández Valbuena	Ferrovial, S.A.	Director
Mr. Peter Erskine	Ladbrokes, Plc	Chairman
Mr. Antonio Massanell Lavilla	Boursorama, S.A.	Director
Mr. Chang Xiaobing	China United Network Communications Limited	Chairman
	China Unicom (Hong Kong) Limited	Chairman and CEO

C.1.13. Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit:

Yes

Explanation of rules

The Regulations of the Board of Directors (Article 28.2) establish as one of the obligations of the Directors that they must devote the time and efforts required to perform their duties and, to such end, shall report to the Nominating, Compensation and Corporate Governance Committee on their other professional obligations if they might interfere with the performance of their duties as Directors.

C.1.14. Indicate the company s general policies and strategies that are reserved for approval by the Board of Directors in plenary session:

Investment and financing policy	Yes
Design of the structure of the corporate group	Yes
Corporate governance policy	Yes
Corporate social responsibility policy	Yes
Strategic or business plans, management targets and annual budgets	Yes
Remuneration and evaluation of senior officers	Yes
Risk control and management, and the periodic monitoring of internal information and control systems	Yes
Dividend policy, as well as the policies and limits applying to treasury stock	Yes

C.1.15. List the total remuneration paid to the Board of Directors in the year:

Board remuneration (thousands of euros)	23,453
Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)	1,263
Total board remuneration (thousands of euros)	24,716

C.1.16. List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:

Name or corporate name	**Position(s)**
Mr. Guillermo Ansaldo Lutz	General Manager of Global Resources
Mr. Matthew Key	Chairman Telefónica Digital
Mr. Eduardo Navarro de Carvalho	Director of Strategies and Partnerships
Mr. Ramiro Sánchez de Lerín García-Ovies	General Secretary and of the Board of Directors
Mr. Ángel Vilá Boix	General Manager of Finance and Corporate Development
Mr. Ignacio Cuesta Martín-Gil	Director Internal Audit

Total remuneration received by senior management (in thousands of euros)	12,130

C.1.17. List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

Name or corporate name of