

TELEFONICA S A
Form 6-K
March 30, 2012

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, 2012

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant's name into English)

Distrito Telefónica, Ronda de la Comunicación s/n,

28050 Madrid, Spain

3491-482 85 48

(Address of principal executive offices)

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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 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

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

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

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

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 2011 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 30th, 2012

AUDIT REPORT, ANNUAL FINANCIAL STATEMENTS, AND
MANAGEMENT REPORT OF TELEFÓNICA, S.A., ALL FOR THE
YEAR ENDED DECEMBER 31, 2011

Audit Report

TELEFÓNICA, S.A.

Financial Statements and Management Report

for the year ended

December 31, 2011

*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, 2011, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended. The Company's 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 2011 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, 2011, 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 2011 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 2011 financial statements. Our work as auditors is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the Company's accounting records.

ERNST & YOUNG, S.L.

Ignacio Viota del Corte

March 28, 2012

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

TELEFÓNICA, S.A.
ANNUAL FINANCIAL STATEMENTS AND MANAGEMENT
REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011

TELEFÓNICA, S.A.

BALANCE SHEET AT DECEMBER 31

(Millions of euros)

ASSETS	Notes	2011	2010
NON-CURRENT ASSETS		87,198	87,748
Intangible assets	5	68	71
Patents, licenses, trademarks, and others		9	4
Software		11	14
Other intangible assets		48	53
Property, plant and equipment	6	338	381
Land and buildings		154	150
Plant and other PP&E items		141	157
Property, plant and equipment under construction and prepayments		43	74
Investment property	7	423	345
Land		65	65
Buildings		358	280
Non-current investments in Group companies and associates	8	79,036	81,726
Equity instruments		77,396	78,870
Loans to Group companies and associates		1,618	2,832
Other financial assets		22	24
Financial investments	9	4,728	3,008
Equity instruments		556	473
Loans to third parties		37	36
Derivatives	16	4,118	2,486
Other financial assets		17	13
Deferred tax assets	17	2,605	2,217
CURRENT ASSETS		5,339	5,369
Non-current assets held for sale	8		624
Trade and other receivables	10	698	574
Current investments in Group companies and associates	8	3,478	3,335
Loans to Group companies and associates		3,390	3,295
Derivatives	16	57	12
Other financial assets		31	28
Investments	9	394	414
Loans to companies		46	29
Derivatives	16	348	360
Other financial assets			25
Accruals		4	6
Cash and cash equivalents		765	416
Cash		765	416
TOTAL ASSETS		92,537	93,117

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

TELEFÓNICA, S.A.

BALANCE SHEET AT DECEMBER 31

(Millions of euros)

EQUITY AND LIABILITIES	Notes	2011	2010
EQUITY		26,597	29,400
CAPITAL AND RESERVES		27,212	29,550
Share capital	11	4,564	4,564
Share premium	11	460	460
Reserves	11	22,454	24,710
Legal		984	984
Other reserves		21,470	23,726
Treasury shares and own equity instruments	11	(1,782)	(1,376)
Profit for the year	3	4,910	4,130
Interim dividend	3	(3,394)	(2,938)
UNREALIZED GAINS (LOSSES) RESERVE	11	(615)	(150)
Available-for-sale financial assets		(40)	(5)
Hedging instruments		(575)	(145)
NON-CURRENT LIABILITIES		47,236	43,693
Non-current provisions		42	42
Other provisions		42	42
Non-current borrowings	12	11,339	8,009
Bonds and other marketable debt securities	13	170	148
Bank borrowings	14	9,046	6,822
Derivatives	16	2,033	1,031
Finance leases		86	
Other debts		4	8
Non-current borrowings from Group companies and associates	15	35,381	34,864
Deferred tax liabilities	17	474	778
CURRENT LIABILITIES		18,704	20,024
Current provisions		65	4
Current borrowings	12	1,033	1,455
Bonds and other marketable debt securities	13	87	104
Bank borrowings	14	742	1,176
Derivatives	16	204	175
Current borrowings from Group companies and associates	15	17,140	16,009
Trade and other payables	18	440	2,522
Accruals		26	34
TOTAL EQUITY AND LIABILITIES		92,537	93,117

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

TELEFÓNICA, S.A.

INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31

(Millions of euros)	Notes	2011	2010
Revenue	19	7,952	7,439
Rendering of services to Group companies and associates		707	583
Rendering of services to non-group companies		3	4
Dividends from Group companies and associates		6,967	6,474
Interest income on loans to Group companies and associates		275	378
Impairment and gains (losses) on disposal of financial instruments	19	(1,082)	(1,985)
Impairment losses and other losses	8	(1,606)	(1,985)
Gains (losses) on disposal and other gains and losses		524	
Other operating income	19	157	103
Non-core and other current operating revenues Group companies and associates		140	91
Non-core and other current operating revenue non-group companies		17	12
Employee benefits expense	19	(244)	(193)
Wages, salaries and others		(213)	(165)
Social security costs		(31)	(28)
Other operating expenses		(399)	(687)
External services Group companies and associates	19	(94)	(85)
External services non-group companies	19	(296)	(592)
Taxes other than income tax		(9)	(10)
Depreciation and amortization	5, 6 and 7	(72)	(70)
Gains (losses) on disposal of fixed assets		1	(11)
OPERATING PROFIT		6,313	4,596
Finance revenue	19	139	224
From equity investments of third parties		38	37
From marketable securities and other financial instruments		101	187
Finance costs	19	(2,119)	(1,812)
Borrowings from Group companies and associates		(1,872)	(1,791)
Third-party borrowings		(247)	(21)
Change in fair value of financial instruments		(91)	(245)
Trading portfolio and other securities		(11)	(2)
Gain (loss) on available-for-sale financial assets recognized in the period	9	(80)	(243)
Exchange losses	19	(138)	122
Impairment and gains (losses) on disposal of financial instruments with third parties	19	(105)	
NET FINANCIAL EXPENSE		(2,314)	(1,711)
PROFIT BEFORE TAX	21	3,999	2,885
Income tax	17	911	1,245
PROFIT FOR THE YEAR		4,910	4,130

The accompanying Notes 1 to 23 and Appendix I 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**

<i>(Millions of euros)</i>	Notes	2011	2010
Profit for the period		4,910	4,130
Total income and expense recognized directly in equity	11	(612)	(44)
From measurement of available-for-sale financial assets		(50)	(120)
From cash flow hedges		(824)	57
Income tax impact		262	19
Total amounts transferred to income statement	11	147	221
From measurement of available-for-sale financial assets			243
From cash flow hedges		210	73
Income tax impact		(63)	(95)
TOTAL RECOGNIZED INCOME AND EXPENSE		4,445	4,307

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

TELEFÓNICA, S.A.

B) STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31

<i>(Millions of euros)</i>	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, 2009	4,564	460	20,145	(527)	6,252	(2,277)	(327)	28,290
Total recognized income and expense					4,130		177	4,307
Transactions with shareholders and owners			(2,959)	(849)		(2,938)		(6,746)
Capital decreases								
Dividends paid			(2,934)			(2,938)		(5,872)
Transactions with treasury shares or own equity instruments (net)			(25)	(849)				(874)
Other movements			3,549					3,549
Appropriation of prior year profit (loss)			3,975		(6,252)	2,277		
Balance at December 31, 2010	4,564	460	24,710	(1,376)	4,130	(2,938)	(150)	29,400
Total recognized income and expense					4,910		(465)	4,445
Transactions with shareholders and owners			(3,455)	(777)		(3,394)		(7,626)
Capital decreases								
Dividends paid			(3,458)			(3,394)		(6,852)
Transactions with treasury shares or own equity instruments (net)			3	(777)				(774)
Other movements			7	371				378
Appropriation of prior year profit (loss)			1,192		(4,130)	2,938		
Balance at December 31, 2011	4,564	460	22,454	(1,782)	4,910	(3,394)	(615)	26,597

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

TELEFÓNICA, S.A.

CASH FLOW STATEMENTS FOR THE YEARS ENDED DECEMBER 31

<i>(Millions of euros)</i>	Notes	2011	2010
A) CASH FLOWS FROM OPERATING ACTIVITIES		6,423	6,833
Profit before tax		3,999	2,885
Adjustments to profit:		(3,773)	(3,115)
Depreciation and amortization	5, 6 and 7	72	70
Impairment of investments in Group companies and associates	8	1,606	1,985
Impairment of investments in non-group companies			(40)
Change in trade provisions		(524)	1
Gains on the sale of financial assets		1	11
Losses on disposal of property, plant and equipment		(6,967)	(6,474)
Dividends from Group companies and associates	19	(275)	(378)
Interest income on loans to Group companies and associates	19	2,314	1,711
Net financial expense	19	(108)	310
Change in working capital		(51)	53
Trade and other receivables		(16)	(64)
Other current assets		(106)	392
Trade and other payables		65	(50)
Other current liabilities		(21)	(21)
Other non-current assets and liabilities		6,305	6,753
Other cash flows from operating activities	21	(1,405)	(1,061)
Net interest paid		7,073	6,621
Dividends received		637	1,193
Income tax receipts			
B) CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		(1,235)	(8,429)
Payments on investments	21	(3,554)	(10,521)
Proceeds from disposals	21	2,319	2,092
C) CASH FLOWS USED IN FINANCING ACTIVITIES		(4,817)	(2,992)
Payments on equity instruments	11	(377)	(883)
Proceeds from financial liabilities	21	2,412	3,763
Debt issues		7,533	14,848
Repayment and redemption of debt		(5,121)	(11,085)
Dividends paid	11	(6,852)	(5,872)
D) NET FOREIGN EXCHANGE DIFFERENCE		(22)	33
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		349	(4,555)
Cash and cash equivalents at January 1		416	4,971
Cash and cash equivalents at December 31		765	416

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

TELEFÓNICA, S.A.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED

DECEMBER 31, 2011

(1) INTRODUCTION AND GENERAL INFORMATION

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

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

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

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

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

(2) BASIS OF PRESENTATION

a) True and fair view

These financial statements have been prepared from Telefónica, S.A.'s accounting records by the Company's Directors in accordance with the accounting principles and standards contained in the Code of Commerce, developed in the Spanish GAAP in force (2007 Spanish GAAP) and other prevailing legislation at the date of these financial statements, to give a true and fair view of the Company's equity, financial position, results of operations and of the cash flows obtained and applied in 2011.

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

Acquisition of Brasilcel, N.V. and subsequent merger with Telefónica, S.A.

On July 28, 2010 Telefónica, S.A. and Portugal Telecom, SGPS, S.A. reached an agreement for the acquisition by Telefónica, S.A. of 50% of the capital stock of Brasilcel, N.V. (a company in which Portugal Telecom and Telefónica had equal joint interests until that date, and which held approximately 60% of the capital stock of the Brazilian company Vivo Participações, S.A.). The acquisition price for the aforementioned capital stock of Brasilcel, N.V. was 7,500 million euros, of which 2,000 million euros was paid on October 31, 2011 (see Note 18.b). At the time of the acquisition the company announced that it would merge Brasilcel, N.V. into the company as part of the same transaction. This agreement also established inter alia that Portugal Telecom waived the declared dividend payable by Brasilcel, N.V., amounting to 49 million euros and still outstanding, which was recognized as a reduction in the cost of this acquisition. Taking into account the conditions established, the discounted price at which this acquisition was recognized was 7,419 million euros (see Note 8.1).

Subsequently, on September 28, 2010 the two boards of directors approved the merger of Telefónica and Brasilcel, N.V., which was recognized on that date. This merger was entered in the Mercantile Registry on December 21, 2010 and gave rise to a reserve of 3,602 million euros, reduced by 49 million euros corresponding to the aforementioned dividends. The net amount by which Telefónica, S.A.'s equity was affected by this transaction was therefore 3,553 million euros (see Note 11).

In 2011, Telefónica restructured Group entities in Brazil. These transactions are disclosed fully in Note 8.

c) Use of estimates

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

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.

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.

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

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

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

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

Deferred taxes

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

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

(3) PROPOSED APPROPRIATION OF PROFIT

Telefónica, S.A. obtained 4,910 million euros of profit in 2011.

Accordingly, the Company's Board of Directors will submit the following proposed appropriation of 2011 profit for approval at the Shareholders Meeting:

	<i>Millions of euros</i>
Proposed appropriation:	
Profit for the year	4,910
Distribution to:	
Interim dividend (paid in May 2011)	3,394
Goodwill reserve (Note 11.c)	2
Voluntary reserves	1,514

At its meeting of April 12, 2011, the Company's Board of Directors resolved to pay an interim dividend against 2011 profit of a fixed gross 0.75 euros for each of the outstanding shares carrying dividend rights. This dividend was paid in full on May 6, 2011. The total amount paid was 3,394 million euros (see Note 11.1.d).

In accordance with Article 277 of the Spanish Enterprise Law, the following table shows the provisional statement issued by the Directors to substantiate that the Company had sufficient liquidity at that time to distribute this dividend.

	<i>Millions of euros</i>
Liquidity statement at April 12, 2011	
Income from January 1 through March 31, 2011	5,961
Mandatory appropriation to reserves	
Distributable income	5,961
Proposed interim dividend (maximum amount)	3,423
Cash position at April 12, 2011	
Funds available for distribution	
Cash and cash equivalents	1,670
Unused credit facilities	6,593
Proposed interim dividend (maximum amount)	(3,423)
Difference	4,840

To ensure its liquidity requirements are met throughout the following year, the Company effectively manages its liquidity risks (see Note 16).

(4) RECOGNITION AND MEASUREMENT ACCOUNTING POLICIES

The main recognition and measurement accounting policies applied in the preparation of the 2011 annual financial statements are the following:

a) Intangible assets

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

The useful lives of intangible assets are assessed individually to be either finite or indefinite. Intangible assets with finite lives are amortized systematically over the useful economic life and assessed for impairment whenever events or changes indicate that their carrying amount may

not be recoverable.

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

Intangible assets include mainly the following:

1. Computer software licenses, which are recorded at cost and amortized on a straight-line basis over their useful lives, generally estimated at three years.
2. Intellectual property, which is recorded at the amounts paid to acquire ownership of or rights to use patents and trademarks and amortized on a straight-line basis over the useful life of the patent or trademark for a period of 3 to 10 years.
3. The goodwill arising from the merger of Telefónica, S.A. and Terra Networks, S.A. carried out in 2005. This is included under Other intangible assets at the carrying amount at January 1, 2008 of 33 million euros, calculated in accordance with the former accounting principles, less any accumulated impairment losses. Goodwill is not amortized, but is tested for impairment annually or more frequently if there are certain events or changes indicating the possibility that the carrying amount may not be fully recoverable (see Note 4.c).

b) Property, plant and equipment and investment property

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

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

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

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

Upkeep and maintenance expenses are expensed as incurred.

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

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

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

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

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

c) Impairment of non-current assets

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

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

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

d) Leases

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

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

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased item to the Company. These are classified at the inception of the lease, in accordance with its nature and the associated liability, at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance costs and reduction of the principal of lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are taken to the income statement over the lease term.

e) Financial assets and liabilities

Financial investments

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

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

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

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

1. Listed securities on active markets: Fair value is considered to be the quoted market price at the closing date.
2. Unlisted securities: Fair value is determined using valuation techniques such as discounted cash flow analysis, option valuation models, or by reference to arms length market transactions. When fair value cannot be reliably determined, these investments are carried at cost.

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

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

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

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

Financial assets are only fully or partially derecognized when:

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

Cash and cash equivalents

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

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

Issues and interest-bearing debt

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

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

Derivative financial instruments and hedge accounting

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

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

The Company designates certain derivatives as:

1. Fair value hedges, when hedging the exposure to changes in the fair value of a recognized asset or liability or a firm transaction;
2. Cash flow hedges, when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction; or
3. Hedges of a net investment in a foreign operation.

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

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

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

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

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

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

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

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

f) Treasury shares

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

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

g) Foreign currency transactions

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

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

h) Provisions

Pensions and other employee obligations

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

Other provisions

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

i) Share-based payments

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

j) Income tax

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

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

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

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

Furthermore, deferred taxes arise from unused tax credits and tax loss carryforwards.

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

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

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

Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

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

k) Revenue and expenses

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

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

l) Related party transactions

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

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

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

m) Financial guarantees

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

Guarantees provided for which there is no item on the Company's balance sheet acting as a counter-guarantee 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 in accordance with rules for measuring provisions and contingencies; and
- ii) the amount initially recognized less, when applicable, any amounts taken to the income statement corresponding to accrued income.

n) Non-current assets held for sale

Non-current assets (and certain groups of assets and liabilities defined as disposal groups) are classified as *held for sale* when their carrying amounts will be recovered primarily through their sale, which is considered to be highly probable. Non-current assets (and disposal groups) held for sale are accounted for at the lower of their carrying amount and fair value less cost to sell, and are recognized on a separate line of the balance sheet.

o) Consolidated data

As required under prevailing legislation, the Company has prepared separate consolidated annual financial statements, drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The balances of the main headings of the Telefónica Group's consolidated financial statements for 2011 and 2010 are as follows:

Item (millions of euros)	2011	2010
Total assets	129,623	129,775
Equity:		
Attributable to equity holders of the parent	21,636	24,452
Attributable to minority interests	5,747	7,232
Revenue from operations	62,837	60,737
Profit for the year:		
Attributable to equity holders of the parent	5,403	10,167
Attributable to minority interests	784	(95)

(5) INTANGIBLE ASSETS

The movements in the items composing intangible assets and the related accumulated amortization in 2011 and 2010 are as follows:

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

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Other intangible assets	(60)	(10)			(70)
Net carrying amount	71	(17)	(1)	15	68

(Millions of euros)

<i>2010</i>	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	346	6	(42)	1	311
Patents, licenses, trademarks, and others	62	2	(42)		22
Software	171	4		1	176
Other intangible assets	113				113
ACCUMULATED AMORTIZATION	(217)	(25)	2		(240)
Patents, licenses, trademarks, and others	(17)	(3)	2		(18)
Software	(152)	(10)			(162)
Other intangible assets	(48)	(12)			(60)
Net carrying amount	129	(19)	(40)	1	71

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

In 2010 the rights to operate and commercialize the Altamira Platform were sold to a company outside the Telefónica Group. The carrying amount of this asset was 40 million euros on the sale date.

At December 31, 2011 commitments exist to acquire intangible assets amounting to 1.1 million euros (0.3 million euros at December 31, 2010). Future finance lease commitments are also disclosed in Note 19.5.

At December 31, 2011 and 2010, the Company had 190 million euros and 167 million euros, respectively, of fully amortized intangible assets.

(6) PROPERTY, PLANT AND EQUIPMENT

The movements in the items composing property, plant and equipment and the related accumulated depreciation in 2011 and 2010 are as follows:

(Millions of euros)

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

(Millions of euros)

Disposals Transfers

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2010	Opening balance	Additions and allowances		Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	591	33	(26)	598
Land and buildings	243		(24)	219
Plant and other PP&E items	294	2	9	305
Property, plant and equipment under construction and prepayments	54	31	(11)	74
ACCUMULATED DEPRECIATION	(180)	(37)		(217)
Buildings	(65)	(4)		(69)
Plant and other PP&E items	(115)	(33)		(148)
Net carrying amount	411	(4)	(26)	381

Firm commitments to acquire property, plant and equipment at December 31, 2011 and 2010 amounted to 0.4 million euros and 0.3 million euros, respectively.

In 2011 and 2010, no interest or other borrowing costs incurred in the construction of property, plant and equipment were capitalized.

At December 31, 2011 and 2010, the Company had 36 million euros and 21 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 73 million euros and 95 million euros at the 2011 and 2010 year-ends, respectively. Also included is the net carrying amount of the remaining assets (mainly plant and property) related to the operational headquarters built in the Las Tablas district, called Distrito Telefónica, of 114 million euros at December 31, 2011 and 134 million euros at December 31, 2010.

(7) INVESTMENT PROPERTIES

The movements in the items composing investment properties in 2011 and 2010 and the related accumulated depreciation are as follows:

(Millions of euros)

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

(Millions of euros)

	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
2010					
INVESTMENT PROPERTIES, GROSS	361			25	386
Land	65				65
Buildings	296			25	321
ACCUMULATED DEPRECIATION	(33)	(8)			(41)
Buildings	(33)	(8)			(41)
Net carrying amount	328	(8)		25	345

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In January 2011, the Telefónica Group moved its offices to the recently completed Diagonal 00 building, its new corporate headquarters in Barcelona. In the view of the terms of the contract, the Company has determined that the building satisfies the requirements for recognition as an asset acquired under a finance lease; it is accordingly shown under Additions in the above table 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.

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 and Telefónica's new headquarters in Barcelona, Diagonal 00.

The Company has buildings with a total area of 367,167 square meters leased to several Telefónica Group and other companies, equivalent to an occupancy rate of 93.3% of the buildings it has earmarked for lease. In 2010, it had a total of 361,475 square meters leased, equivalent to an occupancy rate of 92.97% of the buildings earmarked for lease.

Total income from leased buildings in 2011 (see Note 19.1) amounted to 52 million euros (43 million euros in 2010). Future minimum rentals receivable under non-cancellable leases are as follows:

<i>(Millions of euros)</i>	2011		2010	
	Future minimum recoveries	Present value	Future minimum recoveries	Present value
Up to one year	51		50	
Between one and five years	121			
Over 5 years	5			
Total	177	151	50	48

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

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

(8) INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

8.1 The movements in the items composing investments in Group companies, joint ventures and associates in 2011 and 2010 are as follows:

(Millions of euros)

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

(Millions of euros)

2010	Opening balance	Additions	Disposals	Business combinations	Transfers	Exchange losses	Dividends	Hedges of a net investment	Closing balance	Fair value
Non-current:										
-Equity instruments (Net) (1):	66,542	9,219		3,505	(610)		(21)	235	78,870	146,118
Equity instruments										
(Cost)	72,535	11,204	(5)	3,505	(629)		(21)	235	86,824	
Impairment losses	(5,993)	(1,985)	5		19				(7,954)	
-Loans to Group companies and associates	4,000	769	(30)		(2,116)	209			2,832	2,832
-Other financial assets	23	24			(23)				24	24
Total non-current investment in Group companies and associates	70,565	10,012	(30)	3,505	(2,749)	209	(21)	235	81,726	148,974
Current:										
-Loans to Group companies and associates	3,141	1,115	(3,095)		2,116	18			3,295	3,295
-Derivatives	29	12	(29)						12	12
-Other financial assets	29	23	(47)		23				28	28

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Total current investments in Group companies and associates	3,199	1,150	(3,171)	2,139	18	3,335	3,335
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(1) Fair value at December 31, 2011 and 2010 of Group companies and associates quoted in an active market (Telefónica de Perú, S.A.A. and Telefónica Czech Republic, a.s. in 2010, and, additionally in 2011, 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.

On March 25, 2011 the Boards of Directors of each of the subsidiaries controlled by Telefónica, Vivo Participações and Telesp, approved the terms and conditions of a restructuring process whereby all shares of Vivo Participações that were not owned by Telesp were exchanged for Telesp shares, at a rate of 1.55 new Telesp shares for each Vivo Participações share. These shares then became the property of Telesp, whereby Vivo Participações then became a wholly owned subsidiary of Telesp. The restructuring process was approved by the shareholders of Vivo Participações at the Extraordinary General Shareholders Meeting held on April 27, 2011 and by the shareholders of Telesp at the Extraordinary General Shareholders Meeting held on the same date following authorization by the Brazilian telecommunications regulator, Anatel.

At that date, Telefónica, S.A. held a direct stake of approximately 60% in Vivo Participações, Ltda., valued at 13,021 million euros (see Note 8.c), subsequent to the liquidation by absorption of Portelcom Participações, S.A., PTelecom Brasil, S.A. and Telefónica Brasil Sul Celular Participações, Ltda.

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

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

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

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

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

In January and October 2011, invoices issued in 2010 and 2011 to Telcel, C.A. were contributed to Latin American Cellular Holding, S.A., so that the latter could offset these collection rights against the loan it had received from the former. These invoices amounted to 61 million euros, as reflected under *Transfers*.

In both 2011 and 2010, movement in *Transfers* under *Loans to Group companies and associates* primarily relates to the reclassification from long-term to short-term, 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. In 2011, these figures relate chiefly to SPT (107 million euros).

On June 23, 2010 Telefónica S.A. reduced its ownership interest in Portugal Telecom by 6.49%, resulting in cash inflow of 512 million euros from the sale of these shares. In addition, Telefónica entered into three equity swap contracts for Portugal Telecom shares with a number of financial institutions, subject to net settlement, which grant Telefónica the equivalent total return of the investment. At that time, this investment, previously recognized under *Investments in associates*, was reclassified to *Non-current assets held for sale*. At December 31, 2010 Telefónica, S.A. held a 2.02% interest in Portugal Telecom, which was also reclassified to this heading. Both movements were included under *Transfers* in the table of movements for 2010.

In 2011, equity swap contracts were partially cancelled through the sale of 33 million shares in Portugal Telecom, generating gains of 13 million euros. These gains were recognized under the income statement caption *Gains (losses) on disposal and other gains and losses*. Given that the listed price of these shares dropped considerably in the second half of the year, the Company made a financial provision amounting to 135 million euros, recognized under the income statement caption *Impairment and gains (losses) on disposal of financial instruments* (see Note 19.10). In October 2011, in view of the adverse outlook published for this stock by financial analysts, the Company decided to extend the equity swap contracts and reclassified the net carrying amount of the direct stake in Portugal Telecom (which continued to be 2.02%) and the shares allocated to the equity swap contracts, a total amount for direct and indirect stake of 235 million euros to *Available-for-sale assets* within the caption *Non-current financial investments*, until it could design an appropriate divestment policy in view of market value trends for this investee (see Note 9).

The impact in 2011 of hedges of net investments in foreign operations amounted to a gain of 68 million euros (235 million euros in 2010).

In 2011 and 2010, Telefónica, S.A. bought and sold the following shareholdings:

a) Acquisitions of investments and capital increases:

Companies	<i>Millions of euros</i>	
	2011	2010
Subsidiaries:		
Casiopea Re, S.A.	80	
Telefónica Global Technology, S.A.U.	38	
Telefónica Móviles México, S.A. de C.V.	176	
Telefónica de Costa Rica, S.A.	127	
Brasilcel, N.V.		7,419
Telfin Ireland, Ltd.		3,410
Telefónica Europe, Ltd.		35
Others	37	340
Total subsidiaries	458	11,204

2011

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

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

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

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

2010

On February 10, 2010 Irish company Telfin Ireland Limited was incorporated by means of a 919 million euro contribution by Telefonica, S.A. (its sole shareholder). On April 28, 2010, Telefónica, S.A. injected a further 243 million euros of equity into this company. Then on May 21, 2010, Telefónica, S.A. injected a further 1,379 million euros and on June 24, 2010 another 869 million euros. These funds were used by Telfin Ireland, Ltd. to finance other Group companies in transactions performed during 2010.

On July 28, 2010, Telefónica and Portugal Telecom signed an agreement for the acquisition by Telefónica of 50% of the capital stock of Brasilcel (company then jointly owned in equal shares by Telefónica and Portugal Telecom; the joint venture in its turn owned shares representing, approximately, 60% of the capital stock of Brazilian company Vivo Participações, S.A.). The acquisition price for the aforementioned capital stock of Brasilcel was 7,500 million euros, of which 4,500 million euros was paid at the closing of the transaction on September 27, 2010, 1,000 million euros on December 30, 2010, and the remaining 2,000 million euros on October 31, 2011.

b) Disposals of investments and capital decreases:

Companies	Millions of euros	
	2011	2010
Subsidiaries:		
Telefónica Móviles Argentina Holding, S.A.	285	
Atento Inversiones y Teleservicios, S.A.	116	
Others	3	5
Total subsidiaries	404	5

2011

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

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

2010

In January 2010, Mobipay Internacional was liquidated. Full provision had been made for the investment in this company of 5 million euros.

c) Business combinations

2011

No business combinations were carried out in 2011.

2010

On September 27, 2010 the corresponding boards of directors agreed to start the take-over of Brasilcel, N.V. by Telefónica, which was completed on December 21, 2010 after being entered in the Madrid Mercantile Registry.

Brasilcel, N.V. had the following merger balance sheet:

<i>(Millions of euros)</i>	
Investments in Group companies	4,574
Other assets	103
Total assets	4,677
Liabilities and equity	4,677

As a result of this transaction, Telefónica, S.A. acquired direct investments in Vivo Participações, S.A. (35.89%), Portelcom Participações, S.A. (84.78%), PTelecom Brasil, S.A. (100%), and increased its stake in Telefónica Brasil Sul Celular Participações, Ltda. to 74.39%. The total direct and indirect stake in Vivo Participações held by Telefónica, S.A. at December 31, 2010 amounted to approximately 60%. The gross value of these stakes amounts to 13,021 million euros which, less the acquisition cost of Brasilcel, N.V., amounts to 3,505 million euros, as shown in the Business combinations column of the table showing investments in Group companies and associates in 2010.

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, 2011 and 2010.

As a result of these re-estimations and the effect of the net investment hedge in 2011, an impairment provision of 1,606 million euros was recognized. This amount reflects the net effect of the following: (a) the reversal of the impairment loss recorded for Telefónica Europe, plc. (1,279 million euros), less 120 million euros for the effect of the net investment hedge; (b) the write-down of 2,085 million euros in Telefónica Móviles México, S.A. de C.V.; (c) the write-down of 629 million euros made in Telco, S.p.A. to reflect the decrease in value of the stake in Telecom Italia, along with the effect of recovering part of the operational synergies during the year.

In 2010, the Company recognized write-downs of its shareholding in Telefónica Europe, plc. amounting to 1,985 million euros, of which 124 million euros related to the effect of net investment hedges.

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

8.4 Transactions protected for tax purposes

Transactions carried out in 2011 that are considered protected for tax purposes, as defined in Articles 83 or 94, as applicable, of Chapter VII 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 protected for tax purposes carried out in prior years are disclosed in the annual financial statements for those years.

The main operation of this type which took place in 2011 between subsidiaries belonging to the tax Group headed by Telefónica, S.A. is the following:

On September 26, 2011 the Luxembourg-based company Casiopea Re, S.A., a wholly-owned subsidiary of Telefónica S.A., signed a public deed whereby its entire shareholding in the Spanish company Pléyade Peninsular Correduría de Seguros y Reaseguros (an 83.33% stake) was spun off to Telefónica Finanzas S.A.U., a Spanish company fully owned by Telefónica S.A. The spin-off was completed with the corresponding share capital increase in Telefónica Finanzas S.A.U., fully subscribed by Telefónica, S.A.

8.5 The breakdown and maturity of loans to Group companies and associates in 2011 and 2010 are follows:

2011						2017 and subsequent years	Final balance, current and non-current
Company (millions of euros)	2012	2013	2014	2015	2016		
Telefónica de España, S.A.U.	1,036						1,036
Telefónica Móviles México, S.A. de C.V.	1,298						1,298
Telefónica de Contenidos, S.A.U.	2	1,142		79			1,223
Telefónica Móviles Argentina, S.A.	8	5					13
Telefónica Global Technology, S.A.U.	5	5	5	1	13	75	104
Telco, S.p.A.	614						614
Telefónica Emisiones, S.A.U.	4	117	42				163
Others	423	26	22	27	7	52	557
Total	3,390	1,295	69	107	20	127	5,008

2010						2016 and subsequent years	Final balance, current and non-current
Company (millions of euros)	2011	2012	2013	2014	2015		
Telefónica de España, S.A.U.	1,079	698					1,777
Telefónica Móviles España, S.A.U.	236						236
Telefónica Móviles México, S.A. de C.V.	1,697						1,697
Telefónica de Contenidos, S.A.U.	28		1,142		79		1,249
Telefónica Móviles Argentina, S.A.	8	8	5				21
Inversiones Telefónica Móviles Holding, Ltd.	50						50
Telefónica Global Technology, S.A.U.	4	5	5	5	2	66	87
Telco, S.p.A.	14	600					614
Telefónica Internacional, S.A.U.	56						56
Others	123	24	86	14	16	77	340
Total	3,295	1,335	1,238	19	97	143	6,127

The main loans granted to Group companies are described below:

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Financing granted to Telefónica de España, S.A.U. consists mainly of a loan dated January 4, 1999 resulting from the company's spin-off from Telefónica, that bears interest at 6.80% and had an outstanding short-term balance of 698 million euros at December 31, 2011. The short-term amount includes accrued interest receivable of 6 million euros (11 million euros in 2010).

On December 29, 2011 Telefónica, S.A. acquired two buildings from Telefónica de España, S.A.U., the market value of which amounted to 51 million euros (see Note 18.a, Donation to the Telefónica Foundation). The balance payable on this acquisition was recorded as a decrease in the aforementioned financing and will be allocated in three equal installments upon the next loan maturities. The first installment was reduced through a payment at December 31, 2011, resulting in an outstanding balance payable of 34 million. This amount has been applied as a reduction in the balance payable in 2012, shown in the above table.

The Company also has tax receivables from this subsidiary amounting to 366 million euros, in connection with the consolidated tax group.

At December 31, 2009, the total drawn amount on the credit facilities extended to Telefónica Móviles México, S.A. de C.V. (the principal of the loans) came to 27,912 million Mexican pesos, or 1,494 million euros. One of the lines of credit of 4,519 million Mexican pesos (279 million euros) matured in 2010 and was offset by a payable Telefónica had with Telfisa Global, B.V. for the same amount in euros. No cash flow therefore occurred in relation to this repayment. The movement was recognized as a disposal in the 2010 table of movements.

On September 23, 2010, an additional loan of 269 million euros was extended to Telefónica Móviles México, S.A. de C.V., maturing in March 2011, to cover the financing requirements of the subsidiary during the second half of 2010. On March 23, 2011, this loan was repaid, decreasing the balance Telefónica, S.A. had payable to Telfisa Global, B.V. for the same amount in euros.

In 2011 the Company capitalized accrued interest receivable amounting to 1,065 million Mexican pesos, equivalent to 62 million euros.

At December 31, 2011 and 2010 the balance of the two outstanding loans amounted to 23,393 million Mexican pesos, equivalent to 1,298 million euros in 2011 (1,418 million euros in 2010).

At December 31, 2011 there was no accrued interest receivable on the aforementioned loans extended to Telefónica Móviles México, S.A. de C.V. Accrued interest receivable on these loans at December 31, 2010 amounted to 11 million euros.

Financing granted to Telefónica de Contenidos, S.A.U. comprises a 1,142 million euro participating loan, extended in 2003 and fully drawn down at December 31, 2011 and 2010, which bears interest based on Telefónica de Contenidos, S.A.U. s business performance. In addition, in 2005 Telefónica, S.A. granted a new participating loan of 79 million euros maturing in 2015. This second loan was also fully drawn down at December 31, 2011 and 2010. The current portion of this loan in 2010 included accrued interest receivable of 11 million euros. No interest receivable is outstanding in respect of 2011.

The Company also has tax receivables from this subsidiary amounting to 2 million euros, in connection with the consolidated tax group.

On January 11, 2010, Telco, S.p.A. (Telco) arranged a 1,300 million euro loan with Intesa Sanpaolo, S.p.A., Mediobanca, S.p.A., Société Générale, S.p.A. and Unicredito, S.p.A. maturing on May 31, 2012, part of which is secured with Telecom Italia, S.p.A. shares. The lending banks granted Telco shareholders a call option on the Telecom Italia, S.p.A. shares that they may be entitled to receive as a result of the potential execution of the pledge.

In line with the commitments assumed by Telco shareholders, on December 22, 2009, the rest of Telco's financing needs with respect to debt maturities were met with a bridge loan granted by shareholders Telefónica, Intesa Sanpaolo, S.p.A. and Mediobanca, S.p.A., for approximately 902 million euros, and a bank bridge loan granted by Intesa Sanpaolo, S.p.A. and Mediobanca, S.p.A., for the remaining 398 million euros.

The financing from the bridge loans was substituted with a bond subscribed by Telco's shareholder groups, on a pro-rate basis in accordance with their interests in the company, on February 19, 2010 (maturing on June 8, 2012) for 1,300 million euros, of which 600 million euros corresponded to Telefónica, accruing interest at a fixed rate of 4%. At the 2011 year end, this bond had generated accrued interest receivable of 14 million euros (14 million euros at December 31, 2010).

A floating-rate loan linked to three-month Euribor was granted to Telefónica Internacional, S.A.U. on April 15, 2008 for 1,000 million euros, maturing in April 2011. At that time, the loan was raised to 1,300 million euros, maturing on April 14, 2012. No amounts were drawn as at December 31, 2011 or 2010, although 700 million euros were drawn down in the course of 2011 and repaid prior to the year-end (see Note 21).

In January 2010, a 19 million euro loan was extended to Telefónica Global Technology, S.A. (hereinafter TGT), which matures in 2015 and accrues interest at a variable rate linked to the six-month Euribor. At December 31, 2011 a total of 15 million euros had been drawn down on this loan (18 million euros at December 31, 2010).

On September 10, 2010, Telefónica, S.A. extended a 111 million euro participating floating-rate Euribor-linked loan to TGT, maturing in 2020. This loan accrues interest based on the performance of the company. At December 31, 2011 and 2010, 68 million euros was drawn down on this loan.

In October 2011, Telefónica, S.A. extended another Euribor-linked variable-interest participating loan, for 59 million euros, maturing in 2019. This loan accrues interest based on the performance of the company. At December 31, 2011, 21 million euros was drawn down on this loan.

At December 31, 2011 and 2010, financing granted to Telefónica Móviles Argentina, S.A. comprised a 47 million US dollar loan granted in July 2006, on which 15 million US dollars (13 million euros) were drawn down at the 2011 year end.

Financing granted to Inversiones Telefónica Móviles Holding, Ltd. was arranged on November 4, 2008 as a result of the loan assigned by Telefónica Internacional Chile, S.A. to Telefónica, S.A. for 284 million euros. Upon maturity of this loan in 2010, it was extended to July 26, 2011. The balance was therefore recognized as a current loan in the 2010 table, for the amount drawn down (50 million euros). This amount was repaid on maturity.

In the second half of 2010, Telefónica, S.A. acquired bonds issued by Telefónica Emisiones, S.A.U. amounting to 56 million euros. The bond acquisition policy for this subsidiary was carried on in 2011, reaching a total of 159 million euros.

Other accrued interest payable amounts to 4 million euros.

Disposals of current credit facilities 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 totalling 703 million euros (2010: 1,166 million euros).

Additions also include 665 million euros (703 million euros in 2010) for credits arising in connection with the taxation of Telefónica, S.A. as the head of the tax group pursuant to the consolidated tax regime applicable to corporate groups (see Note 17), mainly 264 million euros to Telefónica Móviles España, S.A.U. (236 million euros in 2010) and 366 million euros to Telefónica de España, S.A.U. (371 million euros in 2010). There is no balance receivable from Telefónica Internacional, S.A.U. in 2011 (56 million euros in 2010). All these amounts mature in the short term.

Loans to Group companies and associates includes accrued interest receivable at December 31, 2011 amounting to 27 million euros (51 million euros in 2010).

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 2012, 2013 and 2014 (see Note 19.3).

(9) FINANCIAL INVESTMENTS

9.1. The breakdown of Financial investments at December 31, 2011 and 2010 is as follows:

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

2010	ASSETS AT FAIR VALUE					ASSETS AT AMORTIZED COST					Subtotal liabilities at fair value	Subtotal CARRYING AMOUNT	TOTAL FAIR VALUE	
	Available-for-sale financial assets	Financial assets held for trading	Hedges	Subtotal assets at fair value	Measurement hierarchy Level 1: quoted prices	Level 2: Estimates based on directly observable market inputs	Level 3: Estimates not based on directly observable market data	Loans and other financial assets	Other financial assets	Subtotal amortized cost				
Non-current financial investments	473	936	1,550	2,959	473	2,486		36	13	49	49	3,008	3,008	
Equity instruments	473			473	473								473	473
Derivatives (Note 16)		936	1,550	2,486		2,486							2,486	2,486
Loans to third parties and other financial assets								36	13	49	49	49	49	
Current financial investments		170	190	360		360		29	25	54	54	414	414	

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Loans to third parties						29	25	54	54	54	54	
Derivatives (Note 16)	170	190	360	360						360	360	
Total financial investments	473	1,106	1,740	3,319	473	2,846	65	38	103	103	3,422	3,422

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 derivative financial instruments at December 31, 2011 and 2010 (see Note 16).

9.3 Available-for-sale financial assets.

This category mainly includes the fair value of investments in listed companies (equity instruments). The movement of items composing this category at December 31, 2011 and 2010 are as follows:

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

<i>(Millions of euros)</i>	December 31, 2010				Closing balance
	Opening balance	Additions		Fair value adjustments	
Banco Bilbao Vizcaya Argentaria, S.A.	468	49		(99)	418
Amper, S.A.	11			(6)	5
Zon Multimedia Serviços de Telecomunicações e Multimedia, SGPS, S.A.	65			(15)	50
Total	544	49		(120)	473

In view of the ongoing drop in the price of Portugal Telecom, SGPS, S.A. shares, in October 2011 the Company reclassified the carrying amount of its stake in that investee from Non-current assets held for sale to Available-for-sale financial assets (see Note 8). Consequently, since that month, changes in the market value of these shares have been reflected under equity (32 million euros, net of the tax effect). In December 2011, the Company sold 1.9 million shares, reflected under Disposals in the table of movements.

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

The amount shown under Additions in 2010 reflected the capital increase performed on November 30, 2010, in which Telefónica, S.A. acquired 7,359,889 new shares in the investee.

In 2010, Telefónica, S.A. transferred the stake in Banco Bilbao Vizcaya Argentaria, S.A. of 191 million euros and in Zon Multimedia Serviços de Telecomunicações e Multimedia, S.G.P.S., S.A. of 52 million euros from equity to net financial expense. These transfers were recognized in Gain (loss) on available-for-sale financial assets recognized in the period .

At December 31, 2011 Telefónica, S.A.'s investment in Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), held since 2000, represents 0.90% of that company's share capital.

9.4 Other financial assets and loans to third parties

The breakdown of investments included in this category at December 31, 2011 and 2010 is as follows:

<i>(Millions of euros)</i>	2011	2010
Other non-current financial assets		
Loans to third parties	37	36
Prepayments	2	1
Guarantees given	15	12
Other current financial assets:		
Loans to third parties	46	29
Guarantees given		25
Total	100	103

9.4.1 Loans to third parties

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

The value of the financial instrument arranged in 2010 partly to cover the fourth phase of share-based payment schemes involving Telefónica, S.A. shares, which in 2010 was recorded as non-current, was reclassified to current at December 31, 2011 owing to its falling due in June 2012 (36 million euros).

9.4.2 Guarantees given

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

In 2010 non-current loans to third parties included the remaining guarantee deposit provided to Ipse 2000 S.p.A., for 25 million euros. This amount was released and collected by the Company in 2011 (see Note 20.c).

(10) TRADE AND OTHER RECEIVABLES

The breakdown of Trade and other receivables at December 31, 2011 and 2010 is as follows:

<i>(Millions of euros)</i>	2011	2010
Trade receivables	24	39
Trade receivables from Group companies and associates	453	388
Other receivables	21	20
Employee benefits payable	2	2
Tax receivables (Note 17)	198	125
Total	698	574

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 include balances in foreign currency equivalent to 134 million euros (91 million euros at year end 2010). In December 2011, there were receivables in US dollars equivalent to 104 million euros and Czech crowns equivalent to 30 million euros. In December 2010, there were receivables in US dollars equivalent to 57 million euros and Czech crowns equivalent to 34 million euros.

These balances gave rise to exchange losses in the income statement of approximately 8 million euros in 2011 (9 million euros of exchange gains in 2010).

(11) EQUITY

11.1 Capital and reserves

a) Share capital

At December 31, 2011, Telefónica, S.A.'s share capital amounted to 4,563,996,485 euros and consisted of 4,563,996,485 fully paid ordinary shares of a single series, per value of 1 euro, all recorded by the book-entry system and traded on the Spanish electronic trading system (Continuous Market), where they form part of the Ibex 35 Index, on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and listed on the New York, London, Buenos Aires and Lima Stock Exchanges.

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

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

In addition, on June 2, 2010, shareholders voted to authorize the acquisition by the Board of Directors of 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 subsidiaries, exceed the maximum legal percentage at any time (currently 10% of Telefónica, S.A.'s share capital).

At December 31, 2011 and 2010, Telefónica, S.A. held the following treasury shares:

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

(1) Millions of euros

	Number of shares	Euros per share		Market value (1)	%
		Acquisition price	Trading price		
Treasury shares at 12/31/10	55,188,046	17.01	16.97	937	1.20920%

(1) Millions of euros

The movement in treasury shares of Telefónica, S.A. in 2010 and 2011 is as follows:

	Number of shares
Treasury shares at 12/31/09	6,329,530
Acquisitions	52,650,000
Disposals	(827,047)
Delivery PSP Phase II (Note 19.3)	(2,964,437)
Treasury shares at 12/31/10	55,188,046
Acquisitions	55,979,952
Disposals	(24,058,446)
Delivery PSP Phase III (Note 19.3)	(2,900,189)
Treasury shares at 12/31/11	84,209,363

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Furthermore, at December 31, 2011, one Telefónica, S.A. share is held by Telefónica Móviles Argentina, S.A. (16,896 treasury shares held by Telefónica Móviles Argentina, S.A. at December 31, 2010).

The amount paid to acquire treasury shares in 2011 and 2010 was 822 million euros and 897 million euros, respectively.

On June 30, 2011 and July 4, 2011, following the end of the third phase of the Performance Share Plan (PSP) (see Note 19.3), a total of 2,446,104 treasury shares were added, corresponding to two financial instruments arranged by the Company to meet its obligations to deliver treasury shares to managers and executives. The gross number of shares linked to the Plan amounted to 4,166,304 shares, with a net 2,900,189 shares finally delivered (32.6 million euros).

On June 30, 2010, subsequent to the maturing of the second phase of the Performance Share Plan (PSP) (see Note 19.3) a total of 2,964,437 treasury shares were delivered at a price of 16.93 euros per share (50.1 million euros).

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

Treasury shares sold in 2011 and 2010 amounted to 445 million euros and 14 million euros, respectively. The sales for 2011 included 371 million euros in respect of the Strategic Partnership Agreement with China Unicom, referred to above.

At the date of authorization for issue of these financial statements, Telefónica held 234 million call options on treasury shares subject to physical settlement (190 million and 160 million options on treasury shares at December 31, 2011 and 2010, respectively).

The Company also holds a derivative on approximately 26 million Telefónica shares, subject to net settlement, recognized under Derivative financial liabilities (current) on the balance sheet.

b) Legal reserve

According to the text of the Spanish Enterprise Law, 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, 2011, 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 2011, an amount of 15 million euros corresponding to revaluations reserves subsequently considered unrestricted has been reclassified to Other reserves. In 2010, an amount of 16 million euros was reclassified in this connection. The balance of this reserve at December 31, 2011 and 2010 was 126 million and 141 million euros, respectively.

Reserve for cancelled share capital:

In accordance with Article 335.c) of the Spanish Enterprise Law and to render null and void the right of opposition provided for in Article 334 of the same Law, 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. The cumulative amount of the reserve for cancelled share capital at December 31, 2011 and 2010 was 498 million euros.

Pursuant to the provisions of Royal Decree 1514/2007, since 2008, after the distribution of profits for each year, the Company sets aside a non-distributable reserve of 1.7 million euros for goodwill amortization. The balance of this reserve at December 31, 2011 was 5 million euros. The proposed appropriation of 2011 profit (see Note 3) includes an allocation of 1.7 million euros to this restricted reserve.

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

On September 27, 2010, subsequent to the merger approved by the competent company organs, the merger between Telefónica, S.A. and Brasilcel, N.V. was recognized, and inscribed thereafter on December 21, 2010 in the Madrid Mercantile Registry. This merger generated a distributable reserve of 3,602 million euros, reduced by 49 million euros corresponding to the dividends of Brasilcel, N.V. (see Note 2.b).

d) Dividends

Dividends paid in 2011

At its meeting of April 12, 2011, Telefónica, S.A.'s Board of Directors resolved to pay an interim dividend against 2010 profit of a fixed gross 0.75 euros per outstanding share carrying dividend rights. This dividend was paid in full on May 6, 2011. The total amount paid was 3,394 million euros.

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

Dividends paid in 2010

At its meeting of April 28, 2010, Telefónica, S.A.'s Board of Directors resolved to pay an interim dividend against 2010 profit of a fixed gross 0.65 euros per outstanding share carrying dividend rights. This dividend was paid in full on May 11, 2010, and the total amount paid was 2,938 million euros.

In addition, approval was given at the General Shareholders Meeting on June 2nd, 2010 to pay a gross 0.65 dividend per share outstanding carrying dividend rights with a charge to unrestricted reserves. This dividend was paid in full on November 8, 2010, and the total amount paid was 2,934 million euros.

11.2 Unrealized gains (losses) reserve

The movements in the items composing Unrealized gains (losses) reserve in 2011 and 2010 are as follows:

(Millions of euros)

	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
2011						
Available-for-sale financial assets						
(Note 9.3)	(5)	(50)	15			(40)
Cash flow hedges (Note 16)	(145)	(824)	247	210	(63)	(575)
Total	(150)	(874)	262	210	(63)	(615)

(Millions of euros)

	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to income statement	Tax effect of transfers	Closing balance
2010						
Available-for-sale financial assets						
(Note 9.3)	(91)	(120)	36	243	(73)	(5)
Cash flow hedges (Note 16)	(236)	57	(17)	73	(22)	(145)
Total	(327)	(63)	19	316	(95)	(150)

(12) FINANCIAL LIABILITIES

The breakdown of Financial liabilities at December 31, 2011 and 2010 is as follows:

	LIABILITIES AT FAIR VALUE					LIABILITIES AT AMORTIZED COST				
	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value	Level 1: quoted prices	Measurement hierarchy 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
<i>(Millions of euros)</i>										
Non-current financial liabilities	1,123	910	2,033		2,033		44,687	41,038	46,720	43,071
Payable to Group companies and associates							35,381	33,465	35,381	33,465
Bank borrowings							9,046	7,374	9,046	7,374
Bonds and other marketable debt securities							170	109	170	109
Derivatives (Note 16)	1,123	910	2,033		2,033				2,033	2,033
Other financial liabilities							90	90	90	90
Current financial liabilities	183	21	204		204		17,969	17,078	18,173	17,282
Payable to Group companies and associates							17,140	16,270	17,140	16,270
Bank borrowings							742	721	742	721
Bonds and other marketable debt securities							87	87	87	87
Derivatives (Note 16)	183	21	204		204				204	204
Other financial liabilities										
Total financial liabilities	1,306	931	2,237		2,237		62,656	58,116	64,893	60,353

	LIABILITIES AT FAIR VALUE					LIABILITIES AT AMORTIZED COST				
	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value	Level 1: quoted prices	Measurement hierarchy 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
<i>(Millions of euros)</i>										
Non-current financial liabilities	630	401	1,031		1,031		41,842	41,539	42,873	42,570
Payable to Group companies and associates							34,864	34,969	34,864	34,969
Bank borrowings							6,822	6,446	6,822	6,446
Bonds and other marketable debt securities							148	116	148	116
Derivatives (Note 16)	630	401	1,031		1,031				1,031	1,031

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Other financial liabilities					8	8	8	8
Current financial liabilities	109	66	175	175	17,289	18,128	17,464	18,303
Payable to Group companies and associates					16,009	16,866	16,009	16,866
Bank borrowings					1,176	1,157	1,176	1,157
Bonds and other marketable debt securities					104	105	104	105
Derivatives (Note 16)	109	66	175	175			175	175
Other financial liabilities								
Total financial liabilities	739	467	1,206	1,206	59,131	59,667	60,337	60,873

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.

(13) BONDS AND OTHER MARKETABLE DEBT SECURITIES

13.1 The balances and movements in issues of debentures, bonds and commercial paper at December 31, 2011 and 2010 are as follows:

<i>(Millions of euros)</i>	Non-convertible debentures and bonds	Other marketable debt securities	Total
2011			
Opening balance	148	104	252
Additions		44	44
Depreciation and amortization		(62)	(62)
Revaluation and other movements	22	1	23
Closing balance	170	87	257
Details of maturities:			
Non-current	170		170
Current		87	87

<i>(Millions of euros)</i>	Non-convertible debentures and bonds	Other marketable debt securities	Total
2010			
Opening balance	159	368	527
Depreciation and amortization	(19)	(272)	(291)
Revaluation and other movements	8	8	16
Closing balance	148	104	252
Details of maturities:			
Non-current	148		148
Current		104	104

Maturities of the nominal amounts of debenture and bond issues at December 31, 2011 and 2010 are as follows:

2011 Name	Interest rate	% interest rate	Maturity					Subsequent years	TOTAL
			2012	2013	2014	2015	2016		
DEBENTURES AND BONDS:									
JULY 99	ZERO COUPON (**)	6.39%						64	64

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MARCH 00	FLOATING	3.831%(*)	50		50
Total issues			50	64	114

2010			Maturity					Subsequent	TOTAL
Name	Interest rate	% interest rate	2011	2012	2013	2014	2015	years	TOTAL
DEBENTURES AND BONDS:									
JULY 99	ZERO COUPON (**)	6.39%						61	61
MARCH 00	FLOATING	3.994%(*)					50		50
Total issues							50	61	111

(*) The applicable interest rate (floating, set annually) is the sterling 10-year swap rate multiplied by 1.0225.

(**) Issues of zero-coupon debentures and bonds are shown in the table above at amortized cost.

13.2 The detail of the maturities and redemption values of zero-coupon debentures and bonds at December 31, 2011 and 2010 is as follows:

Issue	Redemption date	Redemption rate	Redemption value
DEBENTURES AND BONDS:			
JULY 99	07/21/2029	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, 2011, Telefónica, S.A. had a corporate promissory note program registered with the CNMV, with the following features:

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

At December 31, 2011 the outstanding balance on this promissory note program was 87 million euros (42 million euros in 2010).

13.4 The average interest rate during 2011 on debentures and bonds outstanding during the year was 4.74% (5.68% in 2010) and the average interest rate on corporate promissory notes was 1.88% (0.685% in 2010).

(14) INTEREST-BEARING DEBT AND DERIVATIVES

14.1 The balances at December 31, 2011 and 2010 are as follows:

Item (millions of euros)	December 31, 2011		Total
	Current	Non-current	
Loans with financial entities	742	9,046	9,788
Derivative financial liabilities (Note 16)	204	2,033	2,237
Total	946	11,079	12,025

Item (millions of euros)	December 31, 2010		Total
	Current	Non-current	
Loans with financial entities	1,176	6,822	7,998
Derivative financial liabilities (Note 16)	175	1,031	1,206
Total	1,351	7,853	9,204

14.2 The nominal values of the main interest-bearing debts at December 31, 2011 and 2010 are as follows:

Description	Value date	Maturity date	December 31, 2011		Balance (million currency)	Balance (million euros)
			Currency	Limit at 12/31/11		
8bn syndicated loan	07/28/10	07/28/16	EUR	8,000	8,000	8,000
Syndicated loan savings banks	04/21/06	04/21/17	EUR	700	700	700
ECAS/EKN loan	02/12/10	11/30/19	USD	472	335	259

Description	Value date	Maturity date	December 31, 2010		Balance (million currency)	Balance (million euros)
			Currency	Limit at 12/31/10		
8bn syndicated loan	07/28/10	07/28/15	EUR	8,000	6,000	6,000
Syndicated loan savings banks	04/21/06	04/21/17	EUR	700	700	700
6bn syndicated loan	06/28/05	06/28/11	EUR	650	300	300

14.3 Maturities of balances at December 31, 2011 and 2010 are as follows:

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

Item (millions of euros)	December 31, 2010 Maturity					Subsequent years	Closing balance
	2011	2012	2013	2014	2015		
Loans with financial entities	1,176	35	2,967	5	2,979	836	7,998
Derivative financial liabilities (Note 16)	175	103	69	95	214	550	1,206
Total	1,351	138	3,036	100	3,193	1,386	9,204

14.4 On June 28, 2010, Telefónica, S.A. obtained a syndicated line of credit with a group of national and international banks for up to a maximum of 8,000 million euros. The line of credit has two tranches: the first for up to 5,000 million euros and a term of three years, and the second for up to 3,000 million euros, structured as a revolving credit facility with a five-year term. On May 12, 2011 Telefónica, S.A. signed an amendment whereby it was agreed that of the 5,000 million euros that would initially mature in July 2013, 2,000 million euros would be extended for another year, i.e. until July 2014, and another 2,000 million for a further three years, i.e. until July 2016. At December 31, 2011 the outstanding balance drawn down on this line of credit amounted to 8,000 million euros (6,000 million euros at December 31, 2010).

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On May 3, 2011, Telefónica, S.A. entered into a long-term line of credit facility for an aggregate amount of 376 million US dollars at a fixed rate with the guarantee of the Finnish Export Credits Guarantee Board (Finnvera). This line of credit is structured into four tranches: a tranche of 94 US dollars maturing on January 30, 2020, another of 90 million US dollars maturing on July 30, 2020, a third of 94 million US dollars maturing on January 30, 2021, and a fourth of 98 million US dollars maturing on July 30, 2021. No amounts had been drawn down on this credit facility at December 31, 2011.

On February 12, 2010, Telefónica, S.A. signed a long-term line of credit of 472 million US dollars at a fixed rate and guaranteed by the Swedish Export Credits Guarantee Board (EKN). This credit facility is divided into three tranches: a tranche of 232 US dollars maturing on November 30, 2018, another of 164 million US dollars maturing on April 30, 2019, and a third of 76 million US dollars maturing on November 30, 2019. During the year, it repaid 218 million US dollars of the first tranche and 154 million US dollars of the second, although since this facility has a repayment schedule at December 31, 2011, the outstanding balance amounted to 335 million US dollars (equivalent to 259 million euros).

On April 21, 2006, Telefónica S.A. arranged a 700 million euro syndicated loan, denominated in euros and bearing interest linked to Euribor. In 2011 and 2010, there were no movements in this loan, which will be repaid in two equal installments, in April 2015 and 2017, respectively.

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

In addition, Telefónica signed three equity swap contracts with different financial entities in June 2010. These swaps are based on the share price of Portugal Telecom and are settled net, thereby obtaining the same economic returns. The amount received from these contracts is 541 million euros, recognized as current interest-bearing debts. These contracts were partially cancelled in 2011 through the sale of 33 million shares. The remaining outstanding balance stands at 155 million euros.

14.5 Average interest on loans and borrowings

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

The average interest rate in 2010 on loans and borrowings denominated in euros was 1.17% and on foreign-currency loans and receivables it was 3.86%.

14.6 Unused credit facilities

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

At 31 December 2011 and 2010, Telefónica had undrawn credit facilities amounting to 6,764 million and 8,670 million euros, respectively.

Financing arranged by Telefónica, S.A. at December 31, 2011 and 2010 is not subject to compliance with any financial covenants.

(15) PAYABLE TO GROUP COMPANIES AND ASSOCIATES

15.1 The breakdown at December 31, 2011 and 2010 is as follows:

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

	December 31, 2010		
<i>(Millions of euros)</i>	Non-current	Current	Total
Loans	34,520	15,800	50,320
Trade payables to Group companies and associates		132	132
Derivatives (Note 16)	6	20	26

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Payable to subsidiaries due to taxation on a consolidated basis	338	57	395
Total	34,864	16,009	50,873

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The maturity of these loans at the 2011 and 2010 year ends is as follows:

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

December 31, 2010							2016 and subsequent years	Final balance, current and non-current
Company (millions of euros)	2011	2012	2013	2014	2015			
Telefónica Emisiones, S.A.U.	3,713	634	3,452	4,395	3,428	13,802	29,424	
Telefónica Europe, B.V.	1,804	4,708	1,996			1,555	10,063	
Telfisa Global, B.V.	1,812						1,812	
Telefónica Finanzas, S.A.U.	8,461				475	75	9,011	
Others	10						10	
Total	15,800	5,342	5,448	4,395	3,903	15,432	50,320	

The carrying amount of financing raised by Telefónica, S.A. through its subsidiary Telefónica Europe, B.V. at December 31, 2011 was 10,048 million euros (10,063 million euros at the 2010 year end). This financing entails a number of loans paying market rates of interest calculated on a Euribor plus spread basis. The average interest rate in 2011 was 3.52% (3.94% in 2010).

This financing mainly derives from the syndicated multicurrency loan arranged between Telefónica Europe, B.V. and a group of financial institutions for an amount of up to 18,500 million pounds sterling on October 31, 2005 to fund the acquisition of O2, Plc., which at December 14, 2006 was reduced to 7,000 million pounds sterling, while the maturity was extended from 2008 to 2013. At December 31, 2011, the balance outstanding on this loan was 2,965 million euros (2,945 million euros at 2010 year end).

The carrying amount of financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2011 was 32,078 million euros (29,424 million euros in 2010). This financing is arranged as loans from these companies on the same terms as those of the issuance programs. The average interest rate in 2011 was 5.06% (5.06% in 2010). 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 2011 mainly by tapping the European and US capital markets, issuing the following bonds totaling 4,495 million euros (5,484 million euros in 2010):

Description	Issue date	Maturity date	Amount (nominal)	Currency of issue	Coupon
EMTN bonds	02-07-2011	02-07-2017	1,200,000,000	EUR	4.750%
	03-21-2011	02-07-2017	100,000,000	EUR	4.750%
	11-03-2011	02-03-2016	1,000,000,000	EUR	4.967%
	11-04-2011	11-04-2016	7,000,000,000	JPY	2.8247%

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<i>SHELF bond</i>	02-16-2011	02-16-2016	1,250,000,000	USD	3.992%
	02-16-2011	02-16-2021	1,500,000,000	USD	5.462%

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, 2011 and 2010 as a result of fair value interest rate and exchange rate hedges.

Meanwhile, at December 31, 2011, 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 7,380 million euros (9,011 million euros at December 31, 2010) 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 2,332 million euros in 2011 and 1,812 million euros in 2010.

Loans to Group companies under current assets includes accrued interest receivable at December 31, 2011 amounting to 829 million euros (776 million euros in 2010).

15.2 The balance of Payable to subsidiaries due to taxation on a consolidated basis was 530 million euros and 395 million euros at December 31, 2011 and 2010, 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 283 million euros (147 million euros in 2010), Telefónica Móviles España, S.A.U. for 130 million euros (128 million euros in 2010) and Telefónica de España, S.A.U. for 32 million euros (20 million euros in 2010).

(16) DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT POLICIES

a) Derivative financial instruments

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

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

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

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

Type of risk <i>Millions of euros</i>	2011		Telefónica receives		Telefónica pays	
	Value in Euros		Carrying	Currency	Carrying	Currency
Euro interest rate swaps	92,082					
<i>Fixed to fixed</i>	2,078		2,078	EUR	2,078	EUR
<i>Fixed to floating</i>	21,812		21,812	EUR	21,812	EUR
<i>Floating to fixed</i>	63,977		63,977	EUR	63,977	EUR
<i>Floating to floating</i>	4,215		4,215	EUR	4,215	EUR
Foreign currency interest rate swaps	19,971					
<i>Fixed to floating</i>						
GBP/GBP	2,412		2,015	GBP	2,015	GBP
JPY/JPY	220		22,000	JPY	22,000	JPY
USD/USD	14,385		18,612	USD	18,612	USD
<i>Floating to fixed</i>						
GBP/GBP	909		760	GBP	760	GBP
USD/USD	2,045		2,446	USD	2,446	USD
Exchange rate swaps	12,422					
<i>Fixed to fixed</i>						
EUR/BRL	331		318	EUR	804	BRL
EUR/CLP	131		112	EUR	87,800	CLP
EUR/CZK	606		631	EUR	15,641	CZK
<i>Fixed to floating</i>						
MAD/EUR	88		1,000	MAD	88	EUR
JPY/EUR	95		15,000	JPY	95	EUR
<i>Floating to fixed</i>						
EUR/MAD	90		90	EUR	1,000	MAD
<i>Floating to floating</i>						
EUR/CZK	319		322	EUR	8,228	CZK
EUR/GBP	484		588	EUR	405	GBP
JPY/EUR	244		37,000	JPY	244	EUR
USD/EUR	10,034		13,482	USD	10,034	EUR
Forwards	6,820					
ARS/USD			2	ARS	1	USD
CLP/EUR	147		101,490	CLP	147	EUR
CZK/EUR	5		125	CZK	5	EUR
EUR/BRL	18		17	EUR	44	BRL
EUR/CZK	556		567	EUR	14,335	CZK
EUR/GBP	941		933	EUR	786	GBP
EUR/MXN	2		2	EUR	35	MXN
EUR/USD	1,690		1,625	EUR	2,186	USD
GBP/EUR	2,447		2,094	GBP	2,447	EUR
GBP/USD	17		14	GBP	22	USD
USD/ARS	1		1	USD	6	ARS

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USD/BRL	168	224	USD	408	BRL
USD/CLP	11	14	USD	7,183	CLP
USD/COP	1	1	USD	2,756	COP
USD/EUR	763	1,014	USD	763	EUR
USD/GBP	53	69	USD	44	GBP
USD/PEN			USD	1	PEN
Spot	1				
MXN/EUR	1	17	MXN	1	EUR
USD/EUR			USD		EUR
Subtotal	131,296				

(Millions of euros)

Notional amounts of structured

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

The breakdown by average maturity is as follows:

(Millions of euros)

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

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

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

Type of risk <i>Millions of euros</i>	2010		Telefónica receives		Telefónica pays	
	Value in Euros	Carrying	Currency	Carrying	Currency	
Euro interest rate swaps	56,424					
<i>Fixed to fixed</i>	55	55	EUR	55	EUR	
<i>Fixed to floating</i>	18,290	18,290	EUR	18,290	EUR	
<i>Floating to fixed</i>	37,987	37,984	EUR	37,984	EUR	
<i>Floating to floating</i>	92	92	EUR	92	EUR	
Foreign currency interest rate swaps	17,325					
<i>Fixed to floating</i>	<i>14,261</i>					
GBP/GBP	1,801	1,550	GBP	1,550	GBP	
JPY/JPY	138	15,000	JPY	15,000	JPY	
USD/USD	12,322	16,465	USD	16,465	USD	
<i>Floating to fixed</i>	<i>3,064</i>					
GBP/GBP	1,098	945	GBP	945	GBP	
USD/USD	1,966	2,628	USD	2,628	USD	
Exchange rate swaps	11,122					
<i>Fixed to fixed</i>	<i>621</i>					
EUR/BRL	129	107	EUR	288	BRL	
EUR/CLP	140	112	EUR	87,800	CLP	
EUR/CZK	352	352	EUR	8,818	CZK	
<i>Fixed to floating</i>	<i>183</i>					
JPY/EUR	95	15,000	JPY	95	EUR	
MAD/EUR	88	1,000	MAD	88	EUR	
<i>Floating to fixed</i>	<i>143</i>					
EUR/MAD	89	90	EUR	1,000	MAD	
USD/ARS	54	90	USD	285	ARS	
<i>Floating to floating</i>	<i>10,175</i>					
EUR/CZK	328	322	EUR	8,228	CZK	
EUR/GBP	1,098	1,373	EUR	945	GBP	
JPY/EUR	178	30,000	JPY	178	EUR	
USD/EUR	8,571	11,395	USD	8,570	EUR	
Forwards	7,375					
EUR/BRL	12	11	EUR	27	BRL	
EUR/CZK	697	705	EUR	17,457	CZK	
EUR/GBP	961	984	EUR	828	GBP	
EUR/MXN	2	2	EUR	36	MXN	
EUR/USD	1,576	1,571	EUR	2,106	USD	
GBP/EUR	2,247	1,927	GBP	2,246	EUR	
GBP/USD	26	23	GBP	35	USD	
USD/BRL	144	185	USD	320	BRL	
USD/CLP		1	USD	274	CLP	
USD/COP			USD	246	COP	
USD/EUR	818	1,094	USD	818	EUR	

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USD/GBP	70	94	USD	60	GBP
USD/MXN	548	727	USD	9,039	MXN
MXN/USD	274	4,519	MXN	366	USD
Spot	1				
MXN/EUR	1	23	MXN	1	EUR
Subtotal	92,247				

(Millions of euros)

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

The breakdown by average maturity is as follows:

(Millions of euros)

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

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

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

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

b) Risk management policy

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

The main market risks affecting Telefónica are as follows:

1. Exchange rate risk

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

2. Interest rate risk

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

3. Share price risk

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

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

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

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

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

Exchange rate risk

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

At December 31, 2011, net debt in Latin American currencies was equivalent to approximately 7,953 million euros. However, the Latin American currencies in which this debt is denominated is not distributed in proportion to the cash flows generated in each currency. The future effectiveness of the strategy described above as a hedge of exchange rate risks therefore depends on which currencies depreciate relative to euro.

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

Telefónica's target is to preserve the same ratio of sterling-denominated net debt to OIBDA as the ratio of net debt to OIBDA for Telefónica as a whole so as to limit sensitivity to the sterling to euro and sterling to Czech crown exchange rates. This objective is similar to that described for the investment in the UK: the amount of Czech crown-denominated debt is proportional to the OIBDA of the Telefónica Europa business unit in the Czech Republic. Czech crown-denominated net debt at December 31, 2011 was 1.7 times OIBDA in Czech crown (1.6 times in 2010) on a consolidated basis and 2.55 times (2.3 times in 2010) on a proportional basis. Both were below the Telefónica Group's net debt to OIBDA ratio in 2011.

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

As Telefónica's direct exposure is counterbalanced by the positions held in subsidiaries, the Company analyses its foreign currency risk exposure at the Group level. To illustrate the sensitivity of exchange gains or losses to variability in exchange rates, assuming the exchange rate position affecting the income statement at the end of 2011 were constant during 2012 and Latin American currencies depreciated against the dollar and the rest of the currencies against the euro by 10%, Telefónica estimates that consolidated exchange losses recorded for 2012 would be 111 million euros. For Telefónica, S.A., assuming only financing arranged with external counterparties, the same change would lead to a decrease in finance costs of 89 million euros. Nonetheless, Telefónica manages its exposure on a dynamic basis to mitigate their impact.

Interest rate risk

The Telefónica Group's financial expenses are exposed to changes in interest rates. In 2011, the rates applied to the largest amount of short-term debt were mainly based on the Euribor, the Czech crown Pribor, the Brazilian SELIC, the dollar Libor and the Colombian UVR. Telefónica manages its interest rate risk by entering into derivative financial instruments, primarily swaps and interest-rate options.

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

To calculate the sensitivity of the income statement, a 100 basis point rise in interest rates in all currencies in which there are financial positions at December 31, 2011 has been assumed, as well as a 100 basis point decrease in all currencies except the US dollar and pound sterling, in order to avoid negative rates. The constant position equivalent to that prevailing at the end of 2011 has also been assumed.

To calculate the sensitivity of equity to variability in interest rates, a 100 basis point increase in interest rates in all currencies and terms in which there are financial positions at December 31, 2011 was assumed, as well as a 100 basis point decrease in all currencies and terms. Cash flow hedge positions were also considered as they are, in the main, the only positions where changes in market value due to interest-rate fluctuations are recognized in equity.

	Impact on consolidated result (*)	Impact on Telefónica SA individual income statement (*)	Impact on consolidated equity	Impact on Telefónica SA individual equity
+100bp	(141)	(32)	779	779
-100bp	147	39	(849)	(849)

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

Share price risk

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

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

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

During 2010, an incentive plan for Group employees to purchase Telefónica shares, approved at the Ordinary General Shareholders' Meeting of 2009, was initiated. The cost of this plan will not exceed 50 million euros, as agreed in the aforementioned Ordinary General Shareholders' Meeting (see Note 19 for further details).

In addition, the Group may use part of the treasury shares of Telefónica, S.A. held at December 31, 2011 to cover shares deliverable under the PSP or the PIP. The net asset value of the treasury shares could increase or decrease depending on variations in Telefónica, S.A.'s share price.

Liquidity risk

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

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

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

Country risk

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

1. Partly matching assets to liabilities (those not guaranteed by the parent company) in the Telefónica Group's Latin American companies such that any potential asset impairment would be accompanied by a reduction in liabilities; and,
2. Repatriating funds generated in Latin America that are not required for the pursuit of new, profitable business development opportunities in the region.

Credit risk

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

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

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

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

This is based on continuous monitoring of the risk assumed and the resources necessary to optimize the risk-reward ratio in its operations. Particular attention is given to those clients that could cause a material impact on the Group's consolidated financial statements for which, depending on the segment and type of relation, hedging instruments or collateral may be required to mitigate exposure to credit risk.

All Group companies adopt policies, procedures, authorization guidelines, and homogeneous management practices, in consideration of the particularities of each market and best international practices, and incorporating this commercial credit risk management model into the Group's decision making processes, both from a strategic and day to day operating perspective, which risk assessment guides the commercial offering available for the various credit profiles.

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

Telefónica, S.A. provides operating guarantees granted by external counterparties, which are offered during its normal commercial activity. At December 31, 2011, these guarantees amounted to approximately 239 million euros.

Capital management

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

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

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

Derivatives policy

Telefónica's derivatives policy emphasizes the following points:

Derivatives based on a clearly identified underlying.

Matching of the underlying to one side of the derivative.

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

Ability to measure the derivative's fair value using the valuation systems available to the Telefónica Group.

Sale of options only when there is an underlying exposure.

Hedge accounting

Hedges can be of three types:

Fair value hedges

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

Hedges of net investment in a foreign operation.

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

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

In 2011, the Company recognized a loss of 0.3 million euros for the ineffective part of cash flow hedges (3.8 million euros in 2010).

The breakdown of the Company's derivatives with counterparties not belonging to the Telefónica Group at December 31, 2011 and December 31, 2010 by type of hedge, their fair value at year end and the expected maturity schedule is as follows:

2011	Fair value	<i>(Millions of euros)</i> Notional amount MATURITIES (*)					
		(**)	2012	2013	2014	Subsequent years	Total
Derivatives							
Interest rate hedges	(58)	(1,536)	793	(824)	8,232	6,665	
Cash flow hedges	880	(1,040)	1,189	(350)	10,992	10,791	
Fair value hedges	(938)	(496)	(396)	(474)	(2,760)	(4,126)	
Exchange rate hedges	(947)	194	239		6,482	6,915	
Cash flow hedges	(947)	194	239		6,482	6,915	
Fair value hedges							
Interest and exchange rate hedges	(656)	(44)	1,154	72	2,099	3,281	
Cash flow hedges	(656)	(44)	1,154	72	2,099	3,281	
Fair value hedges							
Hedge of net investment	(141)	(546)	(160)	(230)	(1,152)	(2,088)	
Derivatives not designated as hedges	(427)	8,209	(441)	(194)	(1,576)	5,998	
Interest rate	(234)	7,855	(579)	(144)	(2,404)	4,728	
Exchange rate	(208)	445	138	(50)	828	1,361	
Interest and exchange rate	15	(91)				(91)	

(*) 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.

2010	<i>(Millions of euros)</i>					
	Fair value (**)	Notional amount MATURITIES (*)				Subsequent years
Derivatives						
Interest rate hedges	(353)	(5,998)	60	(2,084)	7,170	(852)
Cash flow hedges	267	(3,652)	556	(438)	8,487	4,953
Fair value hedges	(620)	(2,346)	(496)	(1,646)	(1,317)	(5,805)
Exchange rate hedges	(409)	854	112	577	4,323	5,866
Cash flow hedges	(409)	854	112	577	4,323	5,866
Fair value hedges						
Interest and exchange rate hedges	(223)	27	130	926	2,004	3,087
Cash flow hedges	(223)	27	130	926	2,004	3,087
Fair value hedges						
Hedge of net investment	(288)	(1,770)		(160)	(980)	(2,910)
Derivatives not designated as hedges	(367)	4,453	316	(289)	(478)	4,002
Interest rate	(238)	4,415	426	(427)	(1,316)	3,098
Exchange rate	(115)	106	(109)	138	838	973
Interest and exchange rate	(14)	(68)	(1)			(69)

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

(**) Positive amounts indicate payables.

(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 2011 comprised 48 companies. Included during the year were Wayra Investigación y Desarrollo, S.L.U., Movistar Loyalty, S.L., and Telefónica Digital Holding, S.L. All three companies were incorporated in 2011. Venturini, S.A. ceased forming part of the consolidated tax group in 2011, having been sold during the year.

Tax balances are as follows:

<i>(Millions of euros)</i>	2011	2010
Tax receivables:	2,803	2,342
Deferred tax assets:	2,605	2,217
Impuestos diferidos deducibles frente Hacienda Pública	124	140
Other temporary differences, assets	1,641	1,569
Long-term tax loss carryforwards	723	443
Deductions	117	65
Current tax receivables (Note 10):	198	125
Withholdings	52	42
Corporate income tax payable	120	66
VAT and Canary Islands general indirect tax refundable	26	17
Tax payable:	521	824
Deferred tax liabilities:	474	778
Deferred income tax (expense)	164	10
Other temporary differences, liabilities	310	768
Current payables to public administrations (Note 18):	47	46
Personal income tax withholdings	4	5
Corporate income tax payable	14	18
Withholding on investment income, VAT and other	28	10
Social security	1	13

The tax group had unused tax loss carryforwards at December 31, 2011 amounting to 4,575 million euros. These losses must be applied within 18 years.

Of this amount, 2,410 million euros gave rise to a tax credit recognized on the balance sheet in the amount of 723 million euros (443 million euros in 2010), of which 982 million euros (226 million euros in 2010) were generated by Telefónica, S.A. itself, net of the rest of the amount, which corresponded to other companies in the tax group.

Unused tax loss carryforwards relate mainly to a negative adjustment made to the taxable base for corporate income tax at Telefónica Móviles, S.A. (now Telefónica, S.A.) in 2002, amounting to 2,137 million euros and resulting from the transfer of certain holdings acquired in previous years where the market value differed from the book value at which they were recognized.

The challenging of this adjustment, which was related to the tax inspection of financial years 2001 to 2004, completed in 2008, has not had an impact on the Company's financial statements. However, the use by the Group of the tax loss carryforward is subject to a successful appeal before the Courts against the assessments arising from this inspection.

As head of the Telefónica Tax Group, in 2011 Telefónica, S.A. made no payments on account of 2011 income tax. In 2010, payments on account of the year totalled 729 million euros.

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, 2011 and 2010 are as follows:

<i>(Millions of euros)</i>	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	443	1,709	65	2,217	778
Arising in the year	756	446	11	1,213	280
Reversal		(358)		(358)	(604)
Transfers to the tax group's net position	(476)	(32)	41	(467)	5
Other movements					15
Closing balance	723	1,765	117	2,605	474

<i>(Millions of euros)</i>	Tax credits	Temporary differences, assets	Deductions	Total deferred tax assets	Deferred tax liabilities
Opening balance	443	454	200	1,097	37
Arising in the year		728	40	768	19
Reversal		(80)		(80)	(15)
Transfers to the tax group's net position			(258)	(258)	
Other movements		607	83	690	737
Closing balance	443	1,709	65	2,217	778

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

Deferred tax liabilities include 17 million euros corresponding to the tax amortization of goodwill generated on acquiring stakes in the Brazilian subsidiaries of Brasilcel, N.V. (see Note 8.1 c). 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), as well as with transitional provision 29 of that law, a positive adjustment of 248 million euros was provisionally included in the Company's taxable income declared at 2010 year end, in connection with the decline in value of investees. Finally, using the subsidiaries' definitive accounting records, 309 million euros was included in the income tax return. At December 31, 2011 2,489 million euros is pending inclusion for reversal of the adjustment in future periods. In 2010, the variation in equity of investees for which a provision was made amounts to 2,589 million euros.

In addition, at the 2011 year end, a decrease of 551 million euros was provisionally incorporated in the Company's taxable income in connection with impairment of investees for tax purposes.

At December 31, 2011 3,040 million euros is pending inclusion for reversal of the adjustment in future periods.

In 2011, the variation in equity of investees for which a provision was made amounts to 13,771 million euros, primarily in respect of Brazilian 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 2011 and 2010 is as follows.

<i>(Millions of euros)</i>	2011	2010
Accounting profit before tax	3,999	2,885
Permanent differences	(7,177)	(6,598)
Permanent differences arising from the first-time application of PGC 2007		210
Temporary differences:	658	2,060
Arising in the year	1,846	2,008
Arising in prior years	(1,188)	52
Tax result	(2,520)	(1,443)
Gross tax payable	(756)	(433)
Tax credits capitalized	(11)	(40)
Corporate income tax refundable	(767)	(473)
Temporary differences for tax valuation	(351)	(618)
Tax effect of first-time application of PGC 2007		(63)
Diferencias temporarias derivadas del proceso de consolidación fiscal	153	
Other effects	16	(100)
Corporate income tax accrued in Spain	(949)	(1,254)
Foreign taxes	38	9
Income tax	(911)	(1,245)
Current income tax	(718)	(487)
Deferred income tax	(193)	(758)

The permanent differences relate mainly to changes in investment write-down provisions recorded by the Tax Group companies included in the consolidated corporate income tax return, and to dividends received from Tax Group companies or foreign companies that meet certain requirements.

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 2011 and 2010, this income item came to 28 million euros and 139 million euros, respectively. This impact has been lessened as a result of the entry into force of Law 9/2011, which reduced the deductible portion of goodwill amortization under article 12.5 LIS (Corporate Income Tax Act) from 5% to 1% for 2011, 2012 and 2013. The effect is temporary: the 4% not amortized over those three years (12% in total) will be recovered by extending the deduction period from the original 20 years to 22.5 years.

Temporary differences mainly comprise adjustments on eliminating the tax base of impairment provisions and reversals of investment write-downs that are not tax deductible under article 12.3 of the Income Tax Law (LIS).

In 2011 and 2010, the Company capitalized 11 million euros and 40 million euros, respectively, of tax credits. The cumulative amount at year end principally reflects tax deductions for export activities and donations to non-profit organizations (approximately 117 million euros). Given that the tax balance was a negative balance in 2011, no deductions were offset during the year.

17.3 Tax inspections and tax-related lawsuits

On September 25, 2002, tax inspections commenced at several companies included in tax group 24/90, of which Telefónica is the parent company for the years from 1998 to 2000.

The tax assessments related to this review, which included settlement agreements and imposed fines on Telefónica, were signed by the company in disagreement in October 2004 and July 2005. The total amount of these assessments was 140 million euros, corresponding to subsidiaries of the Fiscal Group.

In April 2007, Telefónica filed an administrative appeal before the National Court of Justice requesting not only the avoid of the liquidation but also the consideration of another favourable aspects that were not observed by the inspection. Throughout the process, the Company requested that the execution of the settlements and penalties appealed be suspended by providing the appropriate guarantees. On February 22, 2010, Telefónica received the notification of the ruling by the National Court of Justice dated February 4, 2010, in which it partially accepted the Company's allegations, and cancelled the imposition of penalties. On May 18, 2010, Telefónica, S.A. filed an appeal and the National Court of Justice gave Telefónica, S.A. leave to proceed with its appeal and ruled on April 5, 2010 to refer the case to the Supreme Court. In addition, on June 4, 2010, the Tax Authorities filed an appeal before the Supreme Court against one of the rulings of the National Court of Justice partially accepting Telefónica's allegations. In January 2011, Telefónica submitted a brief of opposition against that appeal.

In addition, a new tax inspection for the period 2001 to 2004 commenced in June 2006 and concluded in July 2008. The Tax Group's income tax and in addition to the above, the inspection has not accepted additional adjustments to the tax amounts considered by Telefónica which amounts to 2,137 million euros (note that consolidated financial statements are not affected by this challenging). Approximately 346 million of additional deductions related to its exporting activity were not accepted by the Tax Authorities either.

In keeping with the above, the Tax Authorities solved the contentious by commencing a new tax liquidation. Telefónica, filed an administrative appeal before the Central Administrative Economic Court, which on September 10, 2009 ruled against the interests of the Company. Telefónica filed an administrative appeal before the National Court of Justice. On April, 2010 the Company filed the claim and on April, 2010, Telefónica presented in writing its conclusions.

Additionally, in June 2010, new inspections of various companies in the 24/90 Tax Group, of which Telefónica, S.A. is the parent, were initiated. The taxes subject to review were corporate income tax for the years 2005 to 2007, 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 years 2006 to 2007.

Therefore, including the years under inspection, Telefónica, S.A. has all taxes since 2005 open to inspection.

In relation to the sale by Terra Networks, S.A. (now Telefónica, S.A.) of its stake in Lycos, Inc. in 2004, the Company began the necessary procedures to enable it to recognize a higher tax loss of up to 7,418 million euros as a consequence of measuring the market value of Lycos, Inc. shares received at acquisition value for tax purposes, rather than the book value at which they were recorded, in conformity with Article 159 of the Spanish Corporation Law. However, no accounting adjustments have been recorded until the Company receives a definitive ruling on this procedure.

At 2011 year end, it is not expected that the final outcome of these assessments, lawsuits, and inspections in progress or pending for years open to inspection will require any additional significant liabilities to be recognized in Telefónica, S.A.'s financial statements.

(18) TRADE AND OTHER PAYABLES

The breakdown of Trade and other payables is as follows:

<i>(Millions of euros)</i>	2011	2010
Suppliers	322	411
Other payables	71	2,065
Current income tax liabilities (Note 17)	14	18
Other payables to public administrations (Note 17)	33	28
Total	440	2,522

a) Trade payables

In performance of Telefónica's irrevocable undertaking of 2010 to give Fundación Telefónica a total of 280 million euros, in 2011 the Company made cash payments in the amount of 60 million euros and, in addition, contributed real estate previously purchased from Telefónica de España, S.A.U. (see Note 8) at its arm's length value of 51 million euros.

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 2011 included payment periods of up to 85 days, 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 2011 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.

	\$00.00	\$00.00
	2011	
Millions of euros	Amount	%
Payments made on time	254	93
Other	19	7
Total payments to commercial suppliers	273	100
Weighted average maturity exceeded (days)	52	
Deferrals at year-end that exceed the limit	2	

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.

b) Sundry creditors

In 2010 this line included 1,977 million euros corresponding to the value of the final payable to Portugal Telecom (2,000 million euros) for the acquisition of 50% of Brasilcel, N.V. (see Note 8.1). This debt was repaid upon maturity.

(19) REVENUE AND EXPENSES

19.1 Revenue

a) Rendering of services

In 2008, Telefónica, S.A. arranged 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 2011 and 2010, Rendering of services to Group companies included 618 million euros and 518 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 2011 and 2010 amounted to 25 million euros and 13 million euros, in each case, recognized under Services rendered to Group companies and associates.

Operating revenues also include property rental income amounting to 52 million euros in 2011 and 43 million euros in 2010, 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 2011 and 2010 is as follows:

<i>(Millions of euros)</i>	2011	2010
Telefónica Móviles España, S.A.U.	1,980	2,190
Telefónica de España, S.A.U.	2,430	2,827
Telefónica Europe, plc.	715	708
Vivo Participações, Ltda. and subsidiaries	553	47
Telefónica Czech Republic, a.s.	365	331
Latin American Cellular Holding, B.V.	218	65
Brasilcel, N.V.		82
Portugal Telecom		44
Telecomunicações de Sao Paulo	235	
Sao Paulo Telecomunicações	91	
Telefónica Móviles Argentina, S.A. y		
Telefónica Móviles Argentina Holding, S.A.	179	39
Other companies	201	141
Total	6,967	6,474

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:

<i>(Millions of euros)</i>	2011	2010
Telefónica Móviles México, S.A. de C.V.	145	188
Telefónica de España, S.A.U.	83	130
Other companies	47	60

Total

275

378

65

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. The amount includes billings to Telefónica Móviles España, S.A.U., which amounted to 26 million euros and 30 million euros in 2011 and 2010, respectively, and to Telefónica de España, S.A.U., for 48 million euros in 2011 and 28 million euros in 2010.

19.3 Personnel expenses and employee benefits

The breakdown of Personnel expenses is as follows:

<i>(Millions of euros)</i>	2011	2010
Wages, salaries and other personnel expenses	213	165
Pension plans (Note 4.h)	12	10
Social security costs	19	18
Total	244	193

In 2011 Wages, salaries and other personnel expenses includes 61 million euros for estimated obligations arising from the collective labor force reduction program approved in Telefónica de España, S.A.U. and expected to be passed on to Telefónica, S.A., and for the estimated cost of certain voluntary redundancies approved in 2011 and carried out in early 2012. A balancing entry for this expense was made under Current provisions. In addition to these pending costs, the Company has recognized 10 million euros in connection with severance payments for terminations in 2011.

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, 2011, 1,717 employees had signed up for the plan (1,536 employees in 2010). 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 each of 2011 and 2010.

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 8.2 million euros in 2011 (6.2 million euros in 2010).

In 2010, some executives left this Plan, leading to the recovery of part of the initial extraordinary contributions amounting to 2 million euros.

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

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

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

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

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

	Number of shares	Unit fair value	End date
2 nd phase July 1, 2007	5,556,234	7.70	June 30, 2010

Of this amount, the maximum number of shares corresponding to Telefónica, S.A. managers and executives is as follows:

	Number of shares	Unit fair value	End date
2 nd phase July 1, 2007	1,102,711	7.70	June 30, 2010

With the maturity of the second phase of the plan on June 30, 2010 a total of 2,964,437 shares (corresponding to a total of 4,091,071 gross shares less a withholding of 1,132,804 shares at the choice of employees) were delivered to Telefónica Group directors included in the second phase. The shares delivered were deducted from the Company's treasury shares in 2010 (see Note 11.1.a). The total net shares delivered to Telefónica, S.A. managers and executives were 816,893.

The cost of the gross amount of shares delivered to the directors of each subsidiary was subsequently billed by Telefónica, S.A., as previously established, with a unit value of 7.7 euros per share. The tax obligations of the directors in each of their countries related to the increase in their personal income from the receipt of the incentive were met by each subsidiary and subsequently charged to Telefónica, S.A., which recognized the cost under Reserves for an amount of 15 million euros in 2010.

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

	Number of shares	Unit fair value	End date
3 rd phase July 1, 2008	5,286,980	8.39	June 30, 2011

Of this amount, the maximum number of shares corresponding to Telefónica, S.A. managers and executives is as follows:

	Number of shares	Unit fair value	End date
3 rd phase July 1, 2008	1,248,067	8.39	June 30, 2011

With the maturity of the third phase of the plan on June 30, 2011 a total of 2,900,189 shares (corresponding to a total of 4,166,304 gross shares less a withholding of 1,266,115 shares at the choice of employees) were delivered to Telefónica Group Directors. The shares delivered were deducted from the Company's treasury shares in 2011 (see Note 11.1.a). The total net shares delivered to Telefónica, S.A. managers and executives were 922,266.

The third phase of the Plan was partially covered through two financial instruments relating to 2,446,104 shares at a cost of 10.18 euros per share. The cost of the gross amount of shares delivered to the directors of each subsidiary was subsequently billed by Telefónica, S.A., as previously established, with a unit value of 8.39 euros per share. The tax obligations of the directors in each of their countries related to the increase in their personal income from the receipt of the incentive were met by each subsidiary and subsequently charged to Telefónica, S.A., which recognized the cost under Reserves for an amount of 19 million euros in 2011.

The maximum numbers of shares allotted at the beginning of each phase, and during each of the two phases that were outstanding at December 31, 2011, for the Telefónica Group as a whole, were as follows:

	No. of shares assigned	No. of shares outstanding at Dec 31, 2011	Unit fair value	End date
4th phase July 1, 2009	6,356,597	5,407,401	8.41	June 30, 2012
5th phase July 1, 2010	5,025,657	4,684,289	9.08	June 30, 2013

Of the total number of shares allotted and outstanding at year-end, those corresponding to Telefónica, S.A. employees, by phase, are as follows:

	No. of shares assigned	No. of shares outstanding at Dec 31, 2011	Unit fair value	End date
4th phase July 1, 2009	1,555,382	1,528,883	8.41	June 30, 2012
5th phase July 1, 2010	1,249,407	1,296,953	9.08	June 30, 2013

This plan is equity-settled via the delivery of shares to the executives, with a balancing entry for the 15 million euros of employee benefits expense recorded in 2011 (11 million euros in 2010) in equity, net of the related tax effect.

The cost of the shares granted to employees of Group subsidiaries is recognized under Reserves and amounted to 53 million euros in 2011 (52 million euros in 2010). As Telefónica, S.A. will reinvoice these amounts to its subsidiaries at the maturity of the phases, the related receivable is recognized under Other non-current financial assets (phase V) and Other current financial assets (phase IV) (see Note 8.6).

For the fourth phase of the Plan, Telefónica, S.A. acquired an instrument from a financial institution with the same features of the plan, whereby at the end of the phase, Telefónica will obtain part of the shares necessary to settle the phase (4 million shares). The cost of the financial instrument was 36 million euros, equivalent to 8.41 euros per option (see Note 9.4.1).

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

At the June 23, 2009 General Shareholders Meeting of Telefónica, S.A., the shareholders approved the introduction of a Telefónica, S.A. share incentive plan for all employees of the Telefónica Group worldwide, with certain exceptions. Under this plan, participants who met the qualifying requirements are offered the possibility of acquiring Telefónica, S.A. shares, with this company assuming the obligation of giving participants a certain number of Telefónica, S.A. shares free of charge.

The initial duration of the plan is intended to be two years. Employees subscribed to the plan can acquire Telefónica, S.A. shares through monthly installments of up to 100 euros (or the local currency equivalent), up to a maximum of 1,200 euros over a twelve-month period of (acquisition period). The delivery of shares will occur, where applicable, when the plan is consolidated, as of September 1, 2012, subject to a number of conditions:

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

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

The acquisition period started in August 2010, and at December 31, 2011, 37,230 Telefónica Group employees were members of this plan (41,152 in 2010). This plan will be equity-settled via the delivery of shares to the employees. Accordingly, a balancing entry for the employee benefits expenses was made in equity. In 2011, Telefónica, S.A. recognized an expense of 316 thousand euros for this item in its income statement (158 thousand euros in 2010).

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 plan participants selected by the Company who decide to participate on compliance with stated requirements and conditions.

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

The specific number of Telefónica, S.A. shares deliverable within the maximum amount established to each member at the end of each phase will be contingent and based on the Total Shareholder Return (TSR) of Telefónica, S.A. shares (from the reference value) throughout the duration of each phase compared to the TSRs of the companies included in the Dow Jones Global Sector Titans Telecommunications Index. For the purposes of this Plan, these companies make up the comparison group (Comparison Group).

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

At the beginning of each phase, each Participant is allocated a notional number of shares. The number of shares to be delivered under the Plan is expected to range from:

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

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

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

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

In addition, and independently of any other conditions or requirements that may be established, each in order to be entitled to receive the corresponding shares, each Participant must be a Telefónica Group employee at the delivery date for each phase, except in special cases as deemed appropriate. Shares will be delivered at the end of each phase (i.e., in 2014, 2015, and 2016, respectively). The specific delivery date will be determined by the Board of Directors or the committee or individual entrusted by the Board to do so.

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

The first allocation of shares under this plan was made on July 1, 2011. The maximum number of shares assigned (including the amount of co-investment) under the Plan at December 31, 2011 is as follows:

	No. of shares assigned	Unit fair value	End date
1st phase July 1, 2011	5,545,628	8.28	June 30, 2014

In connection with the PIP Plan, Telefónica, S.A. acquired an instrument from a financial institution with the same features of the plan, whereby at the end of the phase, Telefónica will obtain part of the shares necessary to settle the phase (4 million shares). The cost of the financial instrument was 37 million euros, equivalent to 9.22 euros per option (see Note 9.4.1).

Restricted Share Plan (RSP)

At Telefónica, S.A.'s General Shareholders Meeting held on May 18, 2011, the Company approved the roll-out of the Restricted Share Plan (RSP), a long-term share-based incentive plan with two primary aims: (a) to retain and motivate certain high-potential employees, and (b) to retain key personnel upon new acquisitions, providing them with an ownership interest in the Company through rights convertible to shares.

The RSP is established for a five-year period, with independent deliveries permitted at any time between 2011 and 2015. At each delivery date the Company extends certain Restricted Share Units (RSUs) carrying the right to automatically receive the same number of Telefónica, S.A. shares at the end of the vesting period, subject to compliance with certain length-of-service requirements.

Delivery of shares is conditional on compliance with certain service-related conditions, namely:

1. Final delivery: participants must have been employed by the Company continuously from the grant date to the conversion date
2. Final delivery: participants must have worked for a minimum period of 12 months within the vesting period
3. The specific duration of the vesting period will be set on a case-by-case basis.

At December 31, 2011 Telefónica, S.A. had carried out only one RSU delivery. Consequently, the cost of this plan is not significant in the income statement.

19.4 Average number of employees in 2011 and 2010 and number of employees at year-end:

2011 Professional category	Employees at 12/31/11			Average no. of employees in 2011		
	Females	Males	Total	Females	Males	Total
General managers and chairmen		4	4		4	4
Directors	41	147	188	40	138	178
Managers	95	131	226	91	112	203
Project Managers	97	153	250	89	125	214
University graduates and experts	93	54	147	89	50	139
Administration, clerks, advisors	158	20	178	160	20	180
Total	484	509	993	469	449	918

2010 Professional category	Employees at 12/31/10			Average no. of employees in 2010		
	Females	Males	Total	Females	Males	Total
General managers and chairmen		5	5		5	5
Directors	38	127	165	40	134	174
Managers	82	87	169	81	94	175
Project Managers	92	80	172	91	77	168
University graduates and experts	81	38	119	80	37	117
Administration, clerks, advisors	138	21	159	137	20	157
Total	431	358	789	429	367	796

19.5 External services

The items composing Finance revenue are as follows:

(Millions of euros)	2011	2010
Rent	11	15
Repairs and maintenance	4	5
Independent professional services	155	140
Bank charges	34	44
Donations (Note 18)	4	333
Marketing and advertising	86	77
Utilities	12	12
Other expenses	84	51
Total	390	677

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 leases without penalization at December 31, 2011 and 2010 are as follows:

(Millions of euros)	2011		2010	
	Future minimum payments	Present value	Future minimum payments	Present value
Up to one year	5		6	
Between one and five years	19		19	
More than five years	32		37	
Total	56	40	62	46

19.6 Finance revenue

The items composing Finance revenue are as follows:

<i>(Millions of euros)</i>	2011	2010
Dividends from other companies	38	37
Other finance revenue	101	187
Total	139	224

Other finance revenue includes the 48 million euros in gains accrued from the equity swap contracts on the share price of Portugal Telecom (57 million euros in 2010).

19.7 Finance costs

The breakdown of Finance costs is as follows:

<i>(Millions of euros)</i>	2011	2010
Interest on borrowings from Group companies and associates	1,872	1,791
Finance costs payable to third parties and gains (losses) on interest rates of financial hedges	247	21
Total	2,119	1,812

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

<i>(Millions of euros)</i>	2011	2010
Telefónica Europe, B.V,	373	454
Telefónica Emisiones, S.A.U,	1,395	1,286
Other companies	104	51
Total	1,872	1,791

Other companies includes financial costs with Telefónica Finanzas, S.A.U. related to current payables for specific cash needs. In 2011, more withdrawals of funds were made in this way and therefore the attendant financial charge increased.

19.8 Exchange differences:

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

<i>(Millions of euros)</i>	2011	2010
On current operations	26	
On loans and borrowings	982	1,161
On hedging derivatives	927	1,019

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On other items	40	24
Total	1,975	2,204

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

<i>(Millions of euros)</i>	2011	2010
On current operations	3	20
On loans and borrowings	251	408
On hedging derivatives	1,567	1,834
On other items	16	64
Total	1,837	2,326

The change in exchange gains and losses in 2011 was due mainly to fluctuations in the dollar/euro exchange rate with the dollar losing 3.27% (the dollar rose 7.2% in 2010) and in the pound sterling/euro exchange with the pound sterling falling by 3.05% (the pound gained 3.18% in 2010), which was offset by the effect of hedges arranged for this purpose.

19.9 Impairment and gains (losses) on disposal of financial instruments

At year end, the values of the investments in Group companies and associates were reviewed based on the calculations of their future discounted cash flows. These reviews lead to the recognition of an impairment provision amounting to 1,606 million euros (in 2010, a charge of 1,985 million euros was recognized). The amount of the charge was mainly due to (a) reversal of the impairment provision in respect of Telefónica Europe, plc. For 1,159 million euros, (b) recognition of an impairment of the interest in Telefónica Móviles México, S.A. de C.V., for 2,085 million euros, and (c) recognition of an impairment of the interest in Telco, S.p.A., for 629 million euros (see Note 8.2).

Revenue shown under Gains (losses) on disposal reflects the gains on the sale of a 25% stake in Telefónica Móviles Argentina Holding, S.A. for 511 million euros and on the partial cancellation of Portugal Telecom equity swaps, for 13 million euros. Both transactions are described in Note 8.

19.10. Impairment and gains (losses) on disposal of financial instruments with third parties

This caption reflects the 135 million euro valuation adjustment made to Telefónica, S.A.'s stake in Portugal Telecom (both the direct interest and the indirect stake held through the equity swap contracts) in view of the drop in the share price from January to October 2011 (see Note 8).

Revenue recognized under this caption relates to recovery of part of a financial provision made in 2009 upon the collapse of Lehman Brothers. The total amount recovered was 30 million euros.

(20) OTHER INFORMATION

a) Financial guarantees

At December 31, 2011, Telefónica, S.A. had provided financial guarantees for its subsidiaries and investees to secure their transactions with third parties amounting to 41,513 million euros (39,973 million euros at year-end 2010). These guarantees are measured in the Company's financial statements as indicated in Note 4.m).

(Millions of euros)

<i>Nominal amounts</i>	2011	2010
Debentures and bonds	33,819	31,946
Promissory notes & commercial paper	1,596	1,613
Loans and other payables	4,098	4,414
Other marketable debt securities	2,000	2,000
Total	41,513	39,973

The debentures and bonds in circulation at December 31, 2011 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 33,819 million euros at December 31, 2011 (31,946 million euros at December 31, 2010). During 2011, Telefónica Emisiones, S.A.U. and Telefonica Europe, B.V. issued debt instruments on capital markets for a nominal amount of 4,495 million euros (5,484 million euros in 2010).

The commercial paper program of Telefónica Europe, B.V. is also guaranteed by Telefónica, S.A. At December 31, 2011 the outstanding balance of commercial paper in circulation issued through this program is 1,596 million euros (1,613 million euros at December 31, 2010).

The main loans and other debts guaranteed by Telefónica, S.A. are: a syndicated loan granted to Telefónica Europe, B.V. by various institutions for the acquisition of shares in O2, Plc. in 2006, the principal of which at December 31, 2011 was equivalent to 2,965 million euros (2,945 million euros at December 31, 2010); and credit facilities obtained by Telefónica Finanzas, S.A.U. from the European Investment Bank, the outstanding principal of which at December 31, 2011 was equivalent to 824 million euros (1,171 million euros at December 31, 2010). The nominal amount of maturities in 2011 was 300 million euros.

Other marketable debt securities include the guarantee for preferred shares issued by Telefonica Finance USA, LLC, the redemption value of which amounts to 2,000 million euros guaranteed by Telefónica, S.A.

Telefónica, S.A. provides operating guarantees granted by external counterparties, which are offered during its normal commercial activity. At December 31, 2011, these guarantees amounted to approximately 239 million euros.

b) Litigation

Telefónica is 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 2011 (see Note 17.3 for details of tax-related cases), the following are of special note:

1. 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. This claim was rejected via a ruling issued on September 21, 2009, and the appellants were charged for the court costs. This ruling was appealed on December 4, 2009. On June 16, 2010, Telefónica was notified of the written appeal filed by the appellants. Telefónica opposed this appeal in January 2011.

2. 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 (EC) imposing a fine of approximately 152 million euros for breach of the former article 82 of EC Treaty rules by charging unfair prices between whole and retail broadband access services. The ruling charged Telefónica with applying a margin squeeze between the prices it charged competitors to provide regional and national wholesale broadband services and its retail broadband prices using ADSL technology between September 2001 and December 2006.

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

A hearing was held on May 23, 2011, at which Telefónica presented its case. A ruling has yet to be issued as of December 31, 2011.

3. Case before the European Commission, CE COMP 39.839 Telefónica/Portugal Telecom

On January 5, 2011, the European Commission sent a request to Telefónica, S.A. for information on the agreements entered into with Portugal Telecom SGPS (Portugal Telecom) for the purchase of its ownership interest in Brasilcel, N.V., a joint venture in which both are venturers and which is the owner of Brazilian company Vivo Participações. On January 24, 2011, the European Commission initiated formal proceedings to investigate whether Telefónica and Portugal Telecom had infringed European Union competition law with respect to a clause contained in these agreements. After responding to a number of requests for information from the European Commission, on September 24, 2011, Telefónica received a list of charges from the European Commission. On January 13, 2012, it presented its response to the charges.

c) Commitments

Guarantee provided for Ipse 2000 S.p.A.

The Telefónica Group had provided guarantees for the Italian company Ipse 2000 S.p.A. (holder of a UMTS license in Italy and in which the Company has a stake through Solivella B.V.) to ensure the amounts payable to the Italian government in connection with the grant of the license.

In November 2010, the last of the 10 annual payments scheduled was paid. Therefore, the guarantee expired on that day, pending the release letter from the Italian government, which was issued in 2011. The guarantee has now been entirely extinguished.

d) Directors and senior executives compensation and other benefits

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

Accordingly, on April 11, 2003, shareholders set the maximum gross annual amount to be paid to the Board of Directors at 6 million euros. This includes a fixed payment and fees for attending meetings of the Board of Directors' advisory or control Committees. Total compensation paid to Telefónica's Directors for discharging their duties in 2011 amounted to 4,549,501 euros in fixed compensation and in fees for attending the Board's advisory or control committees meetings.

The compensation paid to Telefónica 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 plus fees for attending the meetings of the Board's advisory or control Committees. Board members 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.

The following table presents the fixed amounts established for membership to the Telefónica Board of Directors, Executive Commission and the advisory or control Committees:

(Amounts in euro)

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

In addition, the amounts paid for attendance at each of the Advisory or Control Committee s meetings is 1,250 euros.

The following table presents the breakdown by ítem of the compensation and benefits paid by Telefónica to its directors in 2011:

(Euros)

Director	Wage/ Compensation ¹	Fixed Payment Board Committees ²	Attendance fees ³	Short-term Variable Compensation ⁴	Other items ⁵	TOTAL
Executive						
Mr. César Alierta Izuel	2,530,800	100,000		4,015,440	265,300	6,911,540
Mr. Julio Linares López	1,973,100			3,011,580	126,084	5,110,764
Mr. José María Álvarez-Pallete López	316,000				21,570	337,570
Proprietary						
Mr. Isidro Fainé Casas	250,000	100,000			10,000	360,000
Mr. Vitalino Nafría Aznar	250,000	56,000	26,250			332,250
Mr. José María Abril Pérez	150,000	122,167	13,750			285,917
Mr. Antonio Massanell Lavilla	150,000	70,000	32,500		10,000	262,500
Mr. Chang Xiaobing	87,500					87,500
Independent						
Mr. David Arculus	150,000	28,000	11,250			189,250
Ms. Eva Castillo Sanz	150,000	42,000	25,000			217,000
Mr. Carlos Colomer Casellas	150,000	156,000	21,250		130,000	457,250
Mr. Alfonso Ferrari Herrero	150,000	212,000	58,750		132,500	553,250
Mr. Luiz Fernando Furlán	150,000	14,000	5,000			169,000
Mr. Gonzalo Hinojosa Fernández de Angulo	150,000	198,000	48,750		133,750	530,500
Mr. Pablo Isla Álvarez de Tejera	150,000	75,833	13,750			239,583
Mr. Javier de Paz Mancho	150,000	156,000	11,250		120,000	437,250
Other external						
Fernando de Almansa Moreno-Barreda	150,000	56,000	25,000		10,000	241,000
Mr. Peter Erskine	150,000	156,000	27,500		3,750	337,250

- Wage/Compensation:** Cash compensation on an established schedule, whether or not consolidable over time, and payable in consideration of the mere fact of employment, regardless of the director s actual attendance at meetings of the Board of Telefónica, S.A. Also includes fixed components of pay earned by the director for performing executive duties, as the case may be.
- Fixed Payment Board Committees:** Amount of items other than attendance to meetings payable to Directors for membership to the Executive Committee or advisory or control Committees of Telefónica, S.A., irrespective of effective attendance to meetings of said Committees.
- Attendance fees:** Amounts payable for attendance to meetings of the advisory or control Committees of Telefónica, S.A.
- Short-term variable compensation:** Variable amount linked to the performance or achievement of individual or group objectives (quantitative or qualitative) and commensurate with other compensation or any other reference in euros for a period of up to a year.
- Other items:** Includes, *inter alia*, amounts paid for membership to the various regional advisory committees in Spain, and the Telefónica Corporate University Advisory Council.

It is duly noted that Mr. Vitalino Nafría Aznar tendered his resignation as Director on December 14, 2011. Appointed to replace him by the method of co-option was Mr. Ignacio Moreno Martínez, which did not receive any compensation in this respect in 2011.

The following table presents the specific compensation paid to Directors of Telefónica for membership of the various advisory or control Committees in 2011:

Board Members	Audit and Control	Nomination, Compensation and Corporate Governance	Human Resources and Corporate Reputation and Responsibility	Regulation	Service Quality and Customer Service	International Affairs	Innovation	Strategy	TOTAL
Mr. César Alierta Izuel									
Mr. Isidro Fainé Casas									
Mr. Vitalino Manuel Nafría Aznar	26,500		16,500	21,500		17,750			82,250
Mr. Julio Linares López									
Mr. José María Abril Pérez						20,250	15,667		35,917
Mr. José Fernando de Almansa Moreno-Barreda				21,500		34,250		25,250	81,000
Mr. José María Álvarez-Pallete López									
Mr. David Arculus				20,250		19,000			39,250
Ms. Eva Castillo Sanz				21,500	20,250			25,250	67,000
Mr. Carlos Colomer Casellas		17,750			17,750		41,750		77,250
Mr. Peter Erskine		20,250					24,000	39,250	83,500
Mr. Alfonso Ferrari Herrero	27,750	38,000	17,750	21,500	20,250	20,250		25,250	170,750
Mr. Luiz Fernando Furlán						19,000			19,000
Mr. Gonzalo Hinojosa Fernández de Angulo	40,500	22,750	19,000		20,250	20,250		24,000	146,750
Mr. Pablo Isla Álvarez de Tejera		20,250	14,000	35,500	14,000		5,833		89,583
Mr. Antonio Massanell Lavilla	25,250		16,500		34,250		26,500		102,500
Mr. Francisco Javier de Paz Mancho			33,000	16,500		17,750			67,250
Mr. Chang Xiaobing									
TOTAL	120,000	119,000	116,750	158,250	126,750	168,500	113,750	139,000	1,062,000

The following presents a breakdown of the amounts received from other Telefónica Group companies by Directors for discharging executive duties or for membership of the companies governing bodies:

(Amounts in euros)

Director	Wage/ Compensation ¹	Attendance fees ²	Short-term variable compensation ³	Other items ⁴	TOTAL
Executive					
Mr. José María Álvarez-Pallete López	961,709		1,140,138	57,553	2,159,400
Proprietary					
Mr. Vitalino Nafría Aznar	16,737				16,737
Independent					
Mr. David Arculus	86,456				86,456
Ms. Eva Castillo Sanz	240,847				240,847
Mr. Alfonso Ferrari Herrero	297,275				297,275
Mr. Luiz Fernando Furlán	299,406				299,406
Mr. Javier de Paz Mancho	840,667				840,667
Other external					
Mr. Fernando de Almansa Moreno-Barreda	436,214				436,214
Mr. Peter Erskine	86,456				86,456

- Wage/Compensation:** Cash compensation on an established schedule, whether or not consolidable over time, and payable in consideration of the mere fact of employment, regardless of the director's actual attendance at meetings of the board or analogous organ of the Telefónica Group entity in question. Also includes fixed components of pay earned by the director for performing executive duties, as the case may be.
- Attendance fees:** Amounts payable for attendance to meetings of the Board of Directors or similar bodies of any Telefónica Group company.
- Short-term variable compensation:** Variable amount linked to the performance or achievement of individual or group objectives (quantitative or qualitative) and commensurate with other compensation or any other reference in euros for a period of up to a year.
- Other items:** Other amounts related to pension schemes.

With respect to employee benefits, the following table presents a breakdown of internal or external contributions made in 2011 to both long-term savings schemes (including retirement and any other survival benefit) financed fully or partially by the Company for Directors, along with any other compensation in kind received by the Director during the year:

Board Members (Executive)	Contributions to pension plans	Contribution to the Pension Plan for Senior Executives ¹	Compensation in kind ²
Mr. César Alierta Izuel	8,402	1,014,791	57,955
Mr. Julio Linares López	9,468	555,033	83,923
Mr. José María Álvarez-Pallete López	7,574	355,563	17,346

- 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.
 - Compensation in kind** includes life and other insurance premiums (e.g. general medical and dental insurance).
- Share-based payment plans information is as follows:

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- (i) The Performance Share Plan (PSP) approved at the General Shareholders Meeting of June 21, 2006, whose fifth and final phase began in 2010. Under this plan, shares corresponding to the third phase were delivered in July 2011. In accordance with the general terms and conditions, a rate of 97.8% was applied to the notional number of shares assigned to each participant to determine the number of shares to deliver. Accordingly, the shares delivered in the third phase of the PSP to the three Executive Directors were as follows: 145,544 shares to Mr. César Alierta Izuel, 99,233 shares to Mr. Julio Linares López, and 66,155 shares to Mr. José María Álvarez-Pallete López. Meanwhile, it is laid down that the maximum number of shares for the fourth and the fifth phase of this Plan to be delivered (from July 1, 2012 and July 1, 2013), to each Executive Director of the Company, in case the covenants are met, are as follows: Mr César Alierta Izuel (173,716 shares for the fourth phase, and 170,897 shares for the fifth phase), Mr Julio Linares López (130,287 shares for the fourth phase, y 128,173 shares for the fifth phase), Mr José María Álvarez-Pallete López (78,962 shares for the fourth phase, y 77,680 shares for the fifth phase); and

- (ii) The Performance & Investment Plan (PIP) approved at the General Shareholders Meeting of May 18, 2011. Under this plan, participants who meet qualifying requirements receive a number of Telefónica shares as variable remuneration. The first phase of this plan began in 2011, once the PSP had finished. The theoretical number of shares assigned and the maximum possible number of shares to be received by the Executive Directors in the first phase of the PIP if the co-investment requirement established in the Plan and the maximum target TSR established for each phase are met are as follows: (i) to Mr. César Alierta Izuel: 249,917 theoretical shares and a maximum of 390,496 shares; to Mr. Julio Linares López: 149,950 theoretical shares and a maximum of 234,298; and Mr. José María Álvarez-Pallete López: 79,519 theoretical shares and a maximum of 124,249 shares.

Furthermore, at the General Shareholders Meeting of Telefónica, S.A. on June 23, 2009, its shareholders approved the introduction of a Telefónica, S.A. share incentive plan for all employees, including executives and board members, of the Telefónica Group worldwide. Under this plan, employees that meet the qualifying requirements are offered the possibility of acquiring Telefónica, S.A. shares, 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.

The three board members decided to participate in this plan, contributing the maximum, i.e. 100 euros a month, over 12 months. Therefore, at the date of preparing these financial statements, the three executive Directors had acquired a total of 212 shares through this plan, whereby they are entitled to receive, free of charge, an equivalent number of shares providing that, among other conditions, they retain the acquired shares during the consolidation period (12 months from the end of the acquisition period).

It should be noted that the external Directors do not receive and did not receive in 2011 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 2011 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, S.A. as a listed company in that market.

(iii) Senior executives' compensation

Meanwhile, the seven senior executives¹ of the Company (considering the period since they are senior executives), excluding those that are also members of the Board of Directors, received a total for all items in 2011 of 12,122,954 euros. In addition, the contributions by the Telefónica Group in 2011 with respect to the Pension Plan described in Note 20 for these Directors amounted to 2,709,866 euros. Contribution to the pension plan amounted to 50,208 euros and compensation in kind including life and other insurance premiums (e.g. general medical and dental insurance) to 154,955 euros.

Meanwhile, a total of 299,377 shares corresponding to the third phase of the PSP were delivered to senior executives of the Company. In relation to the fourth and the fifth phase of the forementioned Plan, assigned to senior executives of the Company amounts to 394,779 shares for the fourth phase and 350,485 for the fifth one.

Regarding the PIP approved at the General Shareholders' Meeting of May 18, 2011, a total of 457,949 shares were assigned to all executive directors of the Company.

¹ In this context, senior executives are taken as being those individuals who, in fact or in law, perform senior management duties, reporting directly to their board of directors or executive committees or the CEOs thereof, including in all cases the Director of Internal Audit.

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

Pursuant to article 229 of the revised text of the Spanish Enterprise Law, 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 article 231 of the Spanish Enterprise Law 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	Telecommunications	Abertis Infraestructuras, S.A.	Vice Chairman	< 0.01%
Mr. David Arculus	Telecommunications	British Sky Broadcasting Group, Plc.		< 0.01%
	Telecommunications	BT Group, Plc.		< 0.01%
Mr. Ignacio Moreno Martínez	Telecommunications	Conitas Comunicaciones, S.A.	Director	4.89%

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

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

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

Mr. Xiaobing holds no stakes in the capital of the companies in which he is a Board member (Article 229 of the Spanish Enterprise Law).

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	Telecom Italia, S.p.A.	Director
	China Unicom (Hong Kong) Limited	Director
Mr. Julio Linares López	Telecom Italia, S.p.A.	Director
Mr. Alfonso Ferrari Herrero	Telefónica Chile, S.A.	Acting Director
	Telefónica del Perú, S.A.A.	Director

Mr. Francisco Javier de Paz Mancho	Atento Inversiones y Teleservicios, S.A.U. Telefónica Brasil, S.A. Telefónica de Argentina, S.A.	Non-executive Chairman Director Director
Mr. José Fernando de Almansa Moreno-Barreda	Telefónica Brasil, S.A. Telefónica de Argentina, S.A. Telefónica del Perú, S.A.A. Telefónica Móviles México, S.A. de C.V.	Director Director Director Director
Mr. José María Álvarez-Pallete López	Telefónica Europe, Plc. Telefónica Czech Republic, a.s. Telefónica de Argentina, S.A. Telefónica del Perú, S.A.A. Telefónica Datacorp, S.A.U. (*) Telefónica Móviles Colombia, S.A.	Chairman of the Board of Directors Chairman of Supervisory Board Acting Director Director Director Acting Director
Mr. Luiz Fernando Furlán	Telefónica Brasil, S.A.	Director
Ms. María Eva Castillo Sanz	Telefónica Czech Republic, a.s.	First Vice Chairman of Supervisory Board
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

(*) On February 3, 2012, Mr. José María Álvarez-Pallete López tendered his resignation as Director of Telefónica DataCorp, S.A.U.

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:

Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and subsidiaries comprising the consolidated group:

Financing transactions, with approximately 232 million euros drawn down at December 31, 2011 (323 million euros in 2010).

Derivative transactions, for a total nominal amount of approximately 23,275 million euros at December 31, 2011 (11,062 million euros in 2010).

Time deposits for a total nominal amount of approximately 277 million euros at December 31, 2011 (227 million euros in 2010).

Guarantees granted by BBVA for approximately 0.6 million euros at December 31, 2011 (420 million euros in 2010).

Dividends and other earnings distributed to BBVA in 2011 for 514 million euros (439 million euros in 2010) as a result of the 0.9% shareholding disclosed in Note 9.

Caja de Ahorros y Pensiones de Barcelona (la Caixa), and subsidiaries comprising the consolidated group:

Financing transactions, with approximately 355 million euros drawn down at December 31, 2011 (291 million euros in 2010).

Derivative transactions, for a total nominal amount of approximately 800 million euros at December 31, 2011 (800 million euros in 2010).

Time deposits for a total nominal amount of approximately 298 million euros at December 31, 2011 (118 million euros in 2010).

Dividends and other benefits paid to La Caixa in 2011 for 366 million euros (298 million euros in 2010).

Group companies

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 at December 31, 2011 and 2010 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 e) to these financial statements.

g) Auditors' fees

The fees paid in 2011 and 2010 to the various member firms of the Ernst & Young international organization, to which Ernst & Young, S.L. (the auditors of Telefónica, S.A. in 2011 and 2010) belongs, amounted to 4.34 million and 3.71 million euros, respectively, broken down as follows.

<i>(Millions of euros)</i>	2011	2010
Audit services	4.03	3.29
Audit-related services	0.31	0.42
TOTAL	4.34	3.71

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

h) Environmental matters

As head of the Telefónica Group, Telefónica, S.A. engages in environmental management activities and projects in line with its environmental strategy. In 2011 and 2010, expenditure and investment for non-material amounts were recognized in the income statement and balance sheet, respectively.

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

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

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

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

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

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

And finally, in the area of society, the objective is to promote change in citizens' behavior through Telefónica's actions.

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

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 16.b).

j) Contribution of business unit to Telefónica Digital España, S.L. (formerly Terra Networks Asociadas, S.L.)

On December 14, 2011, the Board of Directors of Telefónica, S.A. authorized the contribution of the digital business unit to Telefónica Digital España, S.L., including assets, accounts receivable and accounts payable, and staff dedicated to that business. The contribution will be finally completed on April 1, 2012.

(21) CASH FLOW ANALYSIS

Profit before tax in 2011 amounted to 3,999 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 mainly relate to:

Impairments to investments in Group companies, associates and other investments of 1,606 million euros (impairment in 2010 of 1,985 million euros),

Declared dividends as income in 2011 for 6,967 million euros (6,474 million euros in 2010), interest accrued on loans granted to subsidiaries of 275 million euros (378 million euros in 2010) and a net financial loss of 2,314 million euros (1,711 million euros in 2010), adjusted initially to include only movements related to cash inflows or outlooks during the year under Other cash flows from operating activities.

Other cash flows from operating activities amounted to 6,305 million euros (6,753 million euros in 2010). The main items included are:

- a) Net interest paid: Payments of net interest and other financial expenses amounted to 1,405 million euros (1,061 million euros in 2010), including:

net interest received from external credit entities of 130 million euros (net payments of 609 million euros in 2010), and

interest and hedges paid to Group companies of 1,535 million euros (452 million euros in 2010). The main interest payments in 2011 were to Telefónica Emisiones, S.A.U., for 1,365 million euros, and to Telefónica Europe, B.V., for 352 million euros, although these amounts are reduced by hedges contracted.

- b) Dividends received:

The main receipts relate to:

<i>(Millions of euros)</i>	2011	2010
Telefónica de España, S.A.U.	2,430	2,827
Telefónica Móviles España, S.A.U.	1,980	2,190
Telefónica Europe, plc.	715	708
Telefónica Czech Republic, a.s.	360	365
Vivo Participações	517	
Telefónica Brasil, S.A. (Telesp)	151	
Telefónica Móviles Argentina Group	179	42
Sao Paulo Telecomunicações	170	
Other dividends received	571	489
Total	7,073	6,621

The figures disclosed are dividends recognized as revenue in 2011 (see Note 19.1) and collected in the same year.

- 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. As indicated in Note 17, no payments were made on account of income tax in 2011. In any event, taxes passed on to companies within the tax group are as follows:

Telefónica Móviles España, S.A.U.: 235 million euros, comprising income tax for 2010. In 2010, a payment of 625 million euros was recognized, 309 million euros for 2009 corporate income tax and 316 million euros for payments on account of corporate income tax in 2010.

Telefónica de España, S.A.U.: 369 million euros, comprising income tax for 2010. In 2010, a payment of 874 million euros was recognized, 314 million euros for 2009 corporate income tax and 560 million euros for corporate income tax in 2010.

Payments on investments under Cash flows used in investing activities included a total payment of 3,554 million euros (10,521 million euros in 2010). The main transactions to which these payments refer are as follows:

Acquisition of 50% of Brasilcel, N.V. In October 2011 the last deferred payment for this transaction was made (see Note 18.b).

Several capital increases for a total amount of 458 million euros, primarily in Telefónica Móviles Costa Rica for 127 million euros and in Telefónica Móviles México for 176 million euros, among others. These cash flows are disclosed fully in Note 8.1.a.

Acquisition of bonds issued by Telefónica Emisiones, S.A.U. for 103 million euros (see Note 8.5).

This caption also includes payments in respect of share options.

In addition, Proceeds from disposals includes the repayment of loans granted by Telefónica, S.A. to subsidiaries, the most significant amounts of which, in 2011, were received from Telefónica de España, S.A.U. (681 million euros), Telefónica Internacional, S.A.U. (700 million euros), and Inversiones Telefónica Móviles Holding, Ltd (50 million euros). In addition, 786 million euros was received from Telefónica Internacional, S.A.U. for the sale of 25% of Telefónica Móviles Argentina Holding, S.A. (see Note 8.1.b).

In 2010 the main proceeds recognized under this heading came from Telefónica de España, S.A.U. (698 million euros), Telefónica Internacional, S.A.U. (795 million euros), Telefónica Móviles Argentina, S.A. (118 million euros), and Telefónica Móviles España, S.A.U. (352 million euros).

Cash flows from financing activities includes the following:

- i. Payments for equity instruments of 377 million euros (883 million in 2010), relating to the net amount of treasury shares acquired in 2011 (Note 11).

ii. Payments of financial liabilities

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

<i>(Millions of euros)</i>	2011	2010
8bn syndicated loan (Note 14.2)	2,000	6,000
EKN credit facility (Note 14.2)	267	
Telefónica Emisiones, S.A.U. (Note 15)	4,387	5,484
Telefónica Europe, B.V. commercial paper (Note 20.a)		1,062
Telfisa Global, B.V. financing (Note 15)	742	1,630
Equity swaps by Portugal Telecom (Note 14.4)		541
Other collections	137	131
Total	7,533	14,848

b) **Amortización y cancelación de deuda: The main payments comprising this heading are as follows:**

<i>(Millions of euros)</i>	2011	2010
Cesky syndicate loan (Note 14.2)	300	5,700
Telefónica Europe, B.V.	15	2,779
Telefónica Finanzas, S.A.U.	1,262	
Telefónica Emisiones, S.A.U. (Note 15)	2,954	1,348
Cancellation of debentures and bonds (Note 13)		19
Promissory note program (Note 13)	255	217
Telefónica Móviles España, S.A.U. (Note 15)		300
Other payments	335	722
Total	5,121	11,085

The 8 billion euro increase in the amount of the syndicated loan reflects a drawdown of 2,000 million in 2011, for the purpose of honoring the final payment obligation in respect of the acquisition of Brasilcel, N.V. (see Note 18.b).

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 short-term investment of surplus cash or financed balances payable.

In 2010, the cancellation of Telefónica Europe, B.V. debt mainly comprises the repayment of a loan and hedges contracted to cover this debt.

iii. Payments of dividends for 6,852 million euros (5,872 million euros in 2010) (see movements in Note 11.1.d)

(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:

On January 5, 2012, Telefónica Europe, B.V. arranged financing guaranteed by Telefónica, S.A. with China Development Bank (CDB) for an aggregate amount of 375 million US dollars (equivalent to approximately 290 million euros) at a floating rate and maturing in 2022. This financing was paid on February 15, 2012.

On February 7, 2012, Telefónica Emisiones, S.A.U., as part of the European Medium Term Note (EMTN) registered with the Financial Services Authority (FSA) in London and updated on June 20, 2011, extended the issue of bonds made on February 7, 2011 for an initial aggregate amount of 1,200 million euros maturing on February 7, 2017, by 120 million euros. These bonds are guaranteed by Telefónica, S.A.

On February 21, 2012, Telefónica Emisiones, S.A.U., as part of the European Medium Term Note (EMTN) registered with the Financial Services Authority (FSA) in London and updated on June 20, 2011, issue bonds for an aggregate amount of 1,500 million euros maturing on February 21, 2018. These bonds are guaranteed by Telefónica, S.A.

(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 22, 2012. In the event of a discrepancy, the Spanish-language version prevails.

APPENDIX I

**Details of subsidiaries and
associates at December 31, 2011**

DETAILS OF SUBSIDIARIES AND ASSOCIATES AT DECEMBER 31, 2011 (millions of euros)

Name and corporate purpose	% Ownership		Share capital	Reserves	Dividends received	Income (loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Telefónica Europe plc (UNITED KINGDOM) <i>Wireless communications services operator</i> <i>Wellington Street, Slough, SL1 1YP</i>	100.00%		13	7,656	715	(33)	8,215	25,300
Telefónica Internacional, S.A. (SPAIN) <i>Investment in the telecommunications industry</i> <i>abroad</i> <i>Gran Vía, 28 28013 Madrid</i>	100.00%		2,839	7,925		(299)	937	8,132
Telefónica Móviles España, S.A.U. (SPAIN) <i>Wireless communications services provider</i> <i>Plaza de la Independencia, 6 Pta. 5 28001 Madrid</i>	100.00%		423	498	1,980	1,996	1,435	5,775
Telfin Ireland Limited (IRELAND) <i>Intragroup financing</i> <i>28/29 Sir John Rogerson s Quay, Dublin 2</i>	100.00%			3,410	58	(1)	105	3,410
Telefónica de España, S.A.U. (SPAIN) <i>Telecommunications service provider in Spain</i> <i>Gran Vía, 28 28013 Madrid</i>	100.00%		1,024	1,923	2,430	597	298	3,034
Telefónica Móviles México, S.A. de C.V. (MEXICO) (1) <i>Holding company</i> <i>Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, Mexico D.F. CP.05349</i>	100.00%		3,047	(2,436)		210	(66)	2,795
Telefónica de Contenidos, S.A.U. (SPAIN) <i>Organization and operation of multimedia service-related activities and businesses</i> <i>Don Ramón de la Cruz, 84 4ª Pta.- 28006 Madrid</i>	100.00%		1,865	(1,675)		(7)	22	2,242
Latin American Cellular Holdings, B.V. (NETHERLANDS) <i>Holding company</i> <i>Strawinskylaan 3105, Atium 7th, Amsterdam</i>	100.00%		281	2,708	218		586	1,747

Name and corporate purpose	% Ownership		Share capital	Reserves	Dividends received	Income (loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Telefónica Datacorp, S.A.U. (SPAIN) <i>Telecommunications service provider and operator</i> <i>Gran Via, 28 28013 Madrid</i>	100.00%		700	70		55	44	1,343
Telefónica Móviles Argentina Holding, S.A. (ARGENTINA) <i>Holding company</i> <i>Ing Enrique Butty 240, piso 20-Capital</i> <i>Federal-Argentina</i>	75%	25%	306	674	143	536	318	856
Inversiones Telefónica Móviles Holding, Ltd. (CHILE) <i>Holding company</i> <i>Miraflores, 130 12° Santiago de Chile</i>	100.00%		752	(152)			249	741
Ecuador Cellular Holdings, B.V. (NETHERLANDS) <i>Holding company</i> <i>Strawinskylaan 3105, Atium 7th, Amsterdam</i>	100.00%		46	(59)	58		31	581
Atento Inversiones y Teleservicios, S.A. (SPAIN) <i>Telecommunications service provider</i> <i>C/Santiago de Compostela, 94 28035 Madrid</i>	100.00%		24	20	34	(30)	24	256
O2 (Europe) Ltd. (UK) <i>Wireless communications services operator</i> <i>Wellington Street, Slough, SL1 1YP</i>	100.00%		1,239	6,453			(97)	8,779
Telefónica Centroamérica de Guatemala Holdings, S.A. (GUATEMALA) (1) <i>Holding company</i> <i>Bulevar Los Próceres 5-56 Zona 10, Unicentro nivel 10 Guatemala City</i>	100.00%		280	(109)	24	36	26	238
Panamá Cellular Holdings, B.V. (NETHERLANDS) <i>Holding company</i> <i>Strawinskylaan 3105, Atium 7th, Amsterdam</i>	100%		40	44	2		21	238

Name and corporate purpose	% Ownership		Share capital	Reserves	Dividends received	Income (loss)		Gross carrying amount
	Direct	Indirect				From operations	For the year	
Telefónica El Salvador Holding, S.A. de C.V. (EL SALVADOR) (1) <i>Holding company</i> <i>Alameda Roosevelt y Avenida Sur. Torre Telefónica nivel 10 San Salvador</i>	100.00%		149	(66)		(1)	161	
Telefónica Móviles Puerto Rico, Inc. (PUERTO RICO) <i>Ownership of shareholdings in cellular operators in Puerto Rico</i> <i>Metro Office Park Calle Edificio #17, Suite 600 00968 Guaynabo</i>	100.00%		107	(107)			110	
Telefónica Global Technology, S.A. (formerly Ateseco Comunicación, S.A.) (SPAIN) <i>Gloabl management and operation of IT systems</i> <i>Gran Vía, 28 28013 Madrid</i>	100.00%		10	53	(4)	(5)	121	
Telefónica Digital España, S.L. (formerly Terra Networks Asociadas, S.L.) (SPAIN)	100.00%							