

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

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of March, 2014

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant's name into English)

Districto Telefónica, Ronda de la Comunicación s/n,

28050 Madrid, Spain

3491-482 87 00

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(Address of principal executive offices)

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

Form 20-F 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

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Telefónica, S.A.

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Item	Sequential Page Number
1. Telefónica - 2013 Annual Accounts <u>Account Auditor's Report, Annual Financial Statements and Management Report of Telefónica, S.A., all for the Fiscal Year 2013.</u> <u>Account Auditor's Report, Annual Financial Statements and Management Report of the Consolidated Group of Companies, all for the Fiscal Year 2013.</u>	

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Telefónica, S.A. hereby submits the Individual Annual Accounts of Telefónica, S.A. and the Consolidated Annual Accounts of Telefónica S.A. and its Group of Subsidiaries for 2013 financial year, that have been filed with the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores - CNMV).

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

Madrid, March 20th, 2014

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

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Audit Report

TELEFÓNICA, S.A.

Financial Statements and Management Report

for the year ended

December 31, 2013

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Translation of a report and financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 23)

AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of

Telefónica, S.A.

We have audited the financial statements of Telefónica, S.A., which comprise the balance sheet at December 31, 2013, the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended. The Company's Directors are responsible for the preparation of the financial statements in accordance with the regulatory framework for financial information applicable to the entity in Spain (identified in Note 2.a to the accompanying financial statements), and specifically in accordance with the accounting principles and criteria contained therein. Our responsibility is to express an opinion on the aforementioned financial statements taken as a whole, based upon work performed in accordance with prevailing audit regulation in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the financial statements and the evaluation of whether their presentation, the accounting principles and criteria applied and the estimates made are in agreement with the applicable regulatory framework for financial information.

In our opinion, the accompanying 2013 financial statements give a true and fair view, in all material respects, of the equity and financial position of Telefónica, S.A. at December 31, 2013, and of the results of its operations and its cash flow for the year then ended, in conformity with the applicable regulatory framework for financial information in Spain, and specifically the accounting principles and criteria contained therein.

The accompanying 2013 management report contains such explanations as the Directors consider appropriate concerning the situation of the Company, the evolution of its business and other matters; however, it is not an integral part of the financial statements. We have checked that the accounting information included in the aforementioned management report agrees with the 2013 financial statements. Our work as auditors is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the Company's accounting records.

ERNST & YOUNG, S.L.

/s/ Ignacio Viota del Corte
Ignacio Viota del Corte

March 19, 2014

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid - Inscrita en el Registro Mercantil de Madrid al Tomo 12749, Libro 0, Folio 215, Sección 8ª, Hoja M-23123, Inscripción 116. C.I.F. B-78970506. A member firm of Ernst & Young Global Limited.

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TELEFÓNICA, S.A.

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

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2013 Financial Statements

Telefónica, S.A.

Balance sheet at December 31

Millions of euros

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

TOTAL ASSETS	85,140	89,735
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The accompanying Notes 1 to 23 and Appendices I and II are an integral part of these balance sheets

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2013 Financial Statements

Millions of euros

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

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

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2013 Financial Statements

Telefónica, S.A.

Income statements for the years ended December 31

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

PROFIT FOR THE YEAR

664

631

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

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2013 Financial Statements

Telefónica, S.A.

Statements of changes in equity for the years ended December 31

A) Statement of recognized income and expense

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

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

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

Millions of euros	Share capital	Share premium	Treasury shares and own Reserve	Profit for the year	Interim dividend	Net unrealized gains (losses) reserve	Total	
Balance at December 31, 2011	4,564	460	22,454	(1,782)	4,910	(3,394)	(615)	26,597
Total recognized income and expense				631		(790)	(159)	
Transactions with shareholders and owners	(13)		(4,497)	972				(3,538)

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Capital decreases	(84)		(1,237)	1,321			
Dividends paid	71		(2,907)				(2,836)
Transactions with treasury shares or own equity instruments (net)			(353)	(349)			(702)
Other movements			56	22			78
Appropriation of prior year profit (loss)			1,516		(4,910)	3,394	
Balance at December 31, 2012	4,551	460	19,529	(788)	631		(1,405) 22,978
Total recognized income and expense					664		574 1,238
Transactions with shareholders and owners			(1,680)	243			(1,437)
Capital decreases							
Dividends paid			(1,588)				(1,588)
Transactions with treasury shares or own equity instruments (net)			(92)	243			151
Other movements			48				48
Appropriation of prior year profit (loss)			631		(631)		
Balance at December 31, 2013	4,551	460	18,528	(545)	664		(831) 22,827

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

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2013 Financial Statements

Telefónica, S.A.

Cash flow statements for the years ended December 31

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

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

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2013 Financial Statements

TELEFÓNICA, S.A.

Annual financial statements for the ended December 31, 2013

Note 1. Introduction and general information

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

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

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

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

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

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2013 Financial Statements

Note 2. Basis of presentation

a) True and fair view

These financial statements have been prepared from Telefónica, S.A.'s accounting records by the Company's Directors in accordance with the accounting principles and standards contained in the Spanish GAAP in force approved by Royal Decree 1514/2007, on November 16 (PGC 2007), modified by Royal Decree 1159/2010, dated September 17, 2010 and other prevailing legislation at the date of these financial statements, to give a true and fair view of the Company's equity, financial position, results of operations and of the cash flows obtained and applied in 2013.

The accompanying financial statements for the year ended December 31, 2013 were prepared by the Company's Board of Directors at its meeting on February 26, 2014 for submission for approval at the General Shareholders' Meeting, which is expected to occur without modification.

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

b) Comparison of information

In 2012 and 2013 there have not been significant transactions that should be taken into account in order to ensure the comparison of information included in the Annual Financial Statements of both years.

c) Materiality

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

d) Use of estimates

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

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

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

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

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

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

Deferred taxes

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

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

Note 3: Proposed appropriation of profit

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

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

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2013 Financial Statements

Note 4. Recognition and measurement accounting policies

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

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

a) Intangible assets

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

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

b) Property, plant and equipment and investment property

Property, plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment in value.

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

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

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

c) Impairment of non-current assets

Non-current assets are assessed at each reporting date for indicators of impairment. Where such indicators exist, or in the case of assets which are subject to an annual impairment test, the Company estimates the asset's recoverable amount as the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows deriving from the use of the asset or its cash generating unit, as applicable, are discounted to their present value in the currency in which they will be generated, using a discount rate appropriate to that currency and reflecting current market assessments of the time value of money and the risks specific to the asset.

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

d) Financial assets and liabilities

Financial investments

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

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

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2013 Financial Statements

Financial investments which the Company intends to hold for an unspecified period of time and could be sold at any time to meet specific liquidity requirements or in response to interest rate movements and which have not been included in the other categories of financial assets defined in the PGC 2007 are classified as available-for-sale. These investments are recorded under Non-current assets, unless it is probable and feasible that they will be sold within 12 months.

Derivative financial instruments and hedge accounting

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

e) Revenue and expenses

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

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

f) Related party transactions

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

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

g) Financial guarantees

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

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

- i) The amount resulting from the application of the rules for measuring provisions and contingencies.
- ii) The amount initially recognized less, when applicable, any amounts taken to the income statement corresponding to accrued income.

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h) Consolidated data

As required under prevailing legislation, the Company has prepared separate consolidated annual financial statements, drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The balances of the main headings of the Telefónica Group's consolidated financial statements for 2013 and 2012 are as follows:

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

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Note 5. Intangible assets

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

2013

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

2012

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

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

At December 31, 2013 and 2012, the Company had 157 million euros and 223 million euros, respectively, of fully amortized intangible assets.

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Note 6. Property, plant and equipment

The movements in the items composing property, plant and equipment and the related accumulated depreciation in 2013 and 2012 are as follows:

2013

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

2012

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

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

At December 31, 2013 and 2012, the Company had 47 million euros and 42 million euros, respectively, of fully depreciated items of property, plant and equipment.

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

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Property, plant and equipment includes the net carrying amount of the land and buildings occupied by Telefónica, S.A. at its Distrito Telefónica headquarters, amounting to 76 million euros and 78 million euros at the 2013 and 2012 year-ends, respectively. Also included is the net carrying amount of the remaining assets (mainly plant and property) of 63 and 88 million euros at December 31, 2013 and 2012, respectively. The land and buildings rented to other Group Companies have been included as Investment properties in Note 7.

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Note 7. Investment properties

The movements in the items composing investment properties in 2013 and 2012 and the related accumulated depreciation are as follows:

2013

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

2012

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

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

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

Total**70****75**

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

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

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

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

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

The main contracts of operating leases in which Telefónica, S.A. acts as lessee and there is no sub-lease are described in Note 19.5.

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Note 8. Investments in group companies and associates

8.1. The movements in the items composing investments in Group companies, joint ventures and associates in 2013 and 2012 are as follows:

2013

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

(1) Fair value at December 31, 2013 of Group companies and associates quoted in an active market (Telefónica Brasil, S.A.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities' business plans.

2012

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

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

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

2013

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

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

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

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

- (i) 2,063 million euros in cash on completion of the sale; and
- (ii) 404 million euros in cash as a deferred payment over four years.

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

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

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

On September 24, 2013, Telefónica and the other shareholders of the Italian company Telco, S.p.A. (which holds a 22.4% stake with voting rights of Telecom Italia, S.p.A.) reached an agreement whereby Telefónica, S.A. subscribed

and paid out a share capital increase in Telco, S.p.A., through a cash contribution of 324 million euros, in exchange for shares with voting rights in Telco, S.p.A.. As a result of this capital increase, the interest held by Telefónica in the voting share capital of Telco, S.p.A. remains unchanged (i.e. 46.18 %, as Telefónica currently holds), although its interest in the total share capital of Telco, S.p.A. is increased to 66% (See Note 20.c.). This amount is recognised as Additions of equity instruments in the accompanying table of movements.

2012

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

Telefónica started to reorganize its business in Latin America during 2012. As part of this process, on October 10, 2012 and November 7, 2012 two new companies, Telefónica América, S.A. and Telefónica Latinoamérica Holding, S.L., were incorporated, both of which are jointly controlled by Telefónica, S.A. and Telefónica Internacional, S.A.U. On December 13, 2012, Telefónica Latinoamérica Holding, S.L. performed two consecutive capital increases. In the first, Telefónica, S.A. contributed its

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shareholding in Latin American Cellular Holdings, B.V. at its carrying amount of 1,749 million euros. In the second, Telefónica Internacional, S.A.U. contributed 100 million euros in cash. Telefónica, S.A. held 94.59% in this company subsequent to the capital increase. This shareholding contribution is not shown in the table of movements attached. In addition, on December 18, 2012, Telefónica, S.A. sold its non-controlling interest in Telefónica de Perú, S.A.A. to Telefónica Latinoamérica Holding, S.L. for 4 million euros. The share transfer was performed at the price quoted on the Peruvian stock market of 2.3 PEN per share, and gave rise to gains of 1 million euros, recognized under the income statement caption "Gains (losses) on disposal and other gains and losses". This transaction is recognized under "Others" in the "Disposals of investments" table in section b) of this Note.

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

Other movements

Movement in "Transfers" in both 2013 and 2012 mainly includes the reclassification between long-term and current loans in accordance with the loan maturity schedule.

The column headed "Dividends" sets out the amounts of dividends paid out by Group companies and associates in respect of earnings generated prior to the effective date of the corresponding shareholding. Dividends comprise those distributed by Telefónica Czech Republic, a.s. totalling 101 million euros in 2013 (30 million euros in 2012), O2 Europe Ltd. totalling 286 million euros (no dividend distribution in 2012) and Panamá Cellular Holdings, B.V. totalling 186 million euros.

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

a) Acquisitions of investments and capital increases (Additions):**Millions of euros**

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

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

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2013

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

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

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

2012

On September 11 and 13, 2012, the Company completed two capital increases in Telfin Ireland, Ltd. totalling 1,005 million euros. In September 2012, the share capital of Telfisa Global, B.V. was increased by 703 million euros.

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

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

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

In April 2012, Telefónica, S.A. subscribed various share capital increases in Telefónica Móviles México, S.A. de C.V. totalling 1,668 million Mexican pesos (97 million euros) in order to provide the subsidiary with the funds needed to fulfill payment obligation and requirements.

b) Disposals of investments and capital decreases:**Millions of euros**

Companies	2013	2012
Subsidiaries:		
Telefónica O2 Europe, Ltd.		5,729
Telefónica de España, S.A.U.		731
Inversiones Telefónica Móviles Holding, S.A. (Chile)		652
Telefónica Czech Republic, a.s.		114

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Telefónica Móviles Puerto Rico, Inc.		110
Telefónica Móviles Panamá, S.A.	130	
Other companies	65	85
Total Subsidiaries:	195	7,421

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2013

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

2012

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

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

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

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

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

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

At each year end, the Company re-estimates the future cash flows derived from its investments in Group companies and associates. The estimate is made based on the discounted cash flows to be received from each subsidiary in its functional currency, net of the liabilities associated with each investment (mainly net borrowings and provisions) and translated to euros at the official closing rate of each currency at December 31, 2013.

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

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

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

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

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

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

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

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

8.3. The detail of subsidiaries and associates is shown in Appendix I.**8.4. Transactions protected for tax purposes**

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

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

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

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

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

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

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

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

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

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

2013

Millions of euros

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

2012

Millions of euros

Company	2013	2014	2015	2016	2017	2018 and Final balance, subsequent current and years non-current	
Telefónica Móviles España, S.A.U.	971						971
Telefónica Móviles México, S.A. de C.V.	82	1,367					1,449
Telefónica de Contenidos, S.A.U.	72	1,142	79				1,293
Telefónica de España, S.A.U.	384						384
Telefónica Global Technology, S.A.U.	5	5	1	14	14	139	178
Telco, S.p.A.	19	808					827
Telefónica Emisiones, S.A.U.	268	197	56				521
Telefónica Europe, B.V.	84					18	102
Telefónica Internacional, S.A.U.	1,588						1,588
Otras	135	39	46	6	6	51	283

Total	3,608	3,558	182	20	20	208	7,596
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The main loans granted to Group and associated companies are described below:

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

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

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

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

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

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

- a) A 340 million-euro participating loan awarded in 2013 and maturity date in February 2015, all of which has been drawn down. This loan replaces a previous participating loan of 1,142 million euros which has been settled in 2013. Interest on this loan is calculated according to the performance of Telefónica de Contenidos, S.A.U. At December 31, 2013, no accrued interest is receivable (70 million euros in 2012), which forms part of the current balance receivable.
- b) A 79 million-euro participating loan extended in 2005 and maturing in 2015; and

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

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

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

- a) A credit facility signed on January 19, 2010 for 19 million euros with an outstanding balance at December 31, 2013 of 5 million euros (10 million euros in 2012).
- b) A number of long-term financing agreements under participating loans which bear interest based on the business performance of the company, with an outstanding balance at December 31, 2013 of 207 million euros (168 million euros in 2012). This amount includes a contract amounting to 53 million euros signed in 2013, 40 million euros of which had been drawn down at the 2013 year end.

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

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

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

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

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

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

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

The Company has also extended 355 million euros (814 million euros in 2012) of loans in connection with the taxation of Telefónica, S.A. as the head of the tax group pursuant to the consolidated tax regime applicable to corporate groups (see Note 17). The most significant amounts have already been disclosed through this Note. All these amounts fall due in the short term.

Disposals of current loans to group companies and associates includes the cancellation of balances receivable from subsidiaries on account of their membership of Telefónica, S.A.'s tax group against debts held by these same subsidiaries totaling 827 million euros (665 million euros in 2012).

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

8.6. Other financial assets with Group companies and associates

This includes rights to collect amounts from other Group companies related to share-based payment plans involving Telefónica, S.A. shares offered by subsidiaries to their employees maturing in 2014, 2015 and 2016 (see Note 19.3).

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Note 9. Financial investments

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

2013

Millions of euros	Assets at fair value				Assets at amortized cost				Subtotal	Subtotal	Total	Total
	Available-for-sale financial assets	Financial assets held for trading	Hedge fair value	Subtotal	Level 1	Level 2	Level 3	Other				
Non-current financial investments	591	1,699	778	3,068	699	2,369	13	1	14	14	3,082	3,082
Equity instruments	591			591	591						591	591
Derivatives (Note 16)		1,591	778	2,369		2,369					2,369	2,369
Loans to third parties and other financial assets		108		108	108		13	1	14	14	122	122
Current financial investments		323	14	337		337	45	63	108	108	445	445
Loans to third parties							45	63	108	108	108	108
Derivatives (Note 16)		323	14	337		337					337	337
Total financial investments	591	2,022	792	3,405	699	2,706	58	64	122	122	3,527	3,527

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2012

	Assets at fair value				Assets at amortized cost				Subtotal assets at amortized cost	Subtotal liabilities at fair value	Total carrying amount	Total fair value
	Available-for-sale financial assets	Financial assets held for trading	Hedges	Subtotal assets at fair value	Level 1: quoted prices in active markets	Level 2: Estimates based on observable inputs	Level 3: Estimates based on unobservable inputs	Other financial assets				
Non-current financial investments	433	2,093	1,952	4,478	433	4,045	39	14	53	53	4,531	4,531
Equity instruments	433			433	433						433	433
Derivatives (Note 16)		2,093	1,952	4,045		4,045					4,045	4,045
Loans to third parties and other financial assets							39	14	53	53	53	53
Current financial investments		222	60	282		282	9	99	108	108	390	390
Loans to third parties							9	99	108	108	108	108
Derivatives (Note 16)		222	60	282		282					282	282
Total financial investments	433	2,315	2,012	4,760	433	4,327	48	113	161	161	4,921	4,921

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

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

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9.2 Held-for-trading financial assets and hedges

These two categories include the fair value of outstanding derivative financial instruments at December 31, 2013 and 2012 (see Note 16).

9.3 Available-for-sale financial assets.

This category mainly includes the fair value of investments in listed companies (equity instruments) over which the Company does not have significant control or influence. The movement of items composing this category at December 31, 2013 and 2012 are as follows:

December 31, 2013

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

December 31, 2012

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

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

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

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

At December 31, 2013 Telefónica, S.A. s investment in Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) represents 0.76% of that company s share capital.

Amper, S.A. and Zon Multimedia Serviços de Telecomunicações e Multimedia, SGPS, S.A. were sold off in 2012. The 21 million euro loss on these transactions was recognized under Gain (loss) on available-for-sale financial assets recognized in the period .

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9.4 Other financial assets and loans to third parties

The breakdown of investments included in this category at December 31, 2013 and 2012 is as follows:

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

9.4.1 Loans to third parties

Non-current loans to third parties included in 2012 the cost of the financial instrument arranged to partially cover share-based payment schemes involving Telefónica, S.A. shares (Manager and Senior Executive Options Remuneration Plan Performance & Investment Plan (PIP)) for 37 million euros, which will mature in 2014 (see Note 19.3). In 2013 the concept has been transferred to Current loans to third parties.

9.4.2. Other non-current financial assets

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

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Note 10. Trade and other receivables

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

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

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

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

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

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Note 11. Equity**11.1 Capital and reserves****a) Share capital**

At December 31, 2013, Telefónica, S.A.'s share capital amounted to 4,551,024,586 euros and consisted of 4,551,024,586 fully paid ordinary shares of a single series, per value of 1 euro, all recorded by the book-entry system and traded on the Spanish electronic trading system (Continuous Market), where they form part of the Ibex 35 Index, on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) and listed on the New York, London, Buenos Aires and Lima Stock Exchanges.

On May 25, 2012, the deed of capital reduction through the cancellation of 84,209,363 treasury shares previously acquired by Telefónica, S.A. was executed. As a result, article 5 of the Corporate Bylaws relating to the amount of share capital was amended accordingly to show 4,479,787,122 euros. At the same time, a reserve was recorded for the cancelled shares described in the section on Retained earnings .

On June 8, 2012, a share capital increase of 71,237,464 euros was involved, during which 71,237,464 ordinary shares with a par value of 1 euro each were issued, with a charge to reserves, as part of the scrip dividend shareholder remuneration deal. Share capital amounts to 4,551,024,586 euros subsequent to this increase.

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

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

In addition, at the May 31, 2013 Shareholders Meeting, authorization was given for the Board of Directors to issue fixed-income securities and preferred shares at one or several times within a maximum period of five years from that date. These securities may be in the form of debentures, bonds, promissory notes or any other kind of fixed-income security, plain or, in the case of debentures and bonds, convertible into shares of the Company and/or exchangeable for shares of any of the Group companies. They may also be preferred shares. The total maximum amount of the securities issuable agreed under this authorization is 25,000 million euros or the equivalent in another currency. For

promissory notes, the outstanding balance of promissory notes issued under this authorization will be calculated for purposes of the aforementioned limit. As at December 31, 2013, the Board of Directors had not exercised these powers, being approved the programs to issue corporate promissory notes for 2014 in January of this same year.

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

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

(1) Millions of euros

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

(1) Millions of euros

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

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

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

Acquisitions

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

Disposals

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

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

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

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

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

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

- a) 40% of the amount in treasury shares of Telefónica, S.A.
- b) 60% of the amount shall be used to subscribe a bond issue with a face value of 600 euros, issued at par, the characteristics of which are described in Note 13.

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

Other equity instruments

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

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

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b) Legal reserve

According to the text of the Corporate Enterprises Act, companies must transfer 10% of profit for the year to a legal reserve until this reserve reaches at least 20% of share capital. The legal reserve can be used to increase capital by the amount exceeding 10% of the increased share capital amount. Except for this purpose, until the legal reserve exceeds the limit of 20% of share capital, it can only be used to offset losses, if there are no other reserves available. At December 31, 2013, the Company had duly set aside this reserve.

c) Other reserves

Other reserves includes:

The Revaluation reserve which arose as a result of the revaluation made pursuant to Royal Decree-Law 7/1996 dated June 7. The revaluation reserve may be used, free of tax, to offset any losses incurred in the future and to increase capital. From January 1, 2007, it may be allocated to unrestricted reserves, provided that the capital gain has been realized. The capital gain will be deemed to have been realized in respect of the portion on which the depreciation has been recorded for accounting purposes or when the revalued assets have been transferred or derecognized. In this respect, at the end of 2013, an amount of 7 million euros corresponding to revaluations reserves subsequently considered unrestricted has been reclassified to Other reserves (10 million euros in 2012). The balance of this reserve at December 31, 2013 and 2012 was 109 million euros and 116 million euros, respectively.

Reserve for cancelled share capital: In accordance with Section 335.c) of the Corporate Enterprises Act and to render null and void the right of opposition provided for in Section 334 of the same Act, whenever the Company decreases capital it records a reserve for cancelled share capital for an amount equal to the par value of the cancelled shares, which can only be used if the same requirements as those applicable to the reduction of share capital are met. In 2012, a reserve for cancelled share capital amounting to 84 million euros was recorded, the same amount as the capital reduction made in the year. The cumulative amount of the reserve for cancelled share capital at December 31, 2013 and 2012 was 582 million euros.

Pursuant to the provisions of Royal Decree 1514/2007, since 2008, after the distribution of profits for each year, the Company sets aside a non-distributable reserve of 2 million euros for goodwill amortization. The balance of this reserve at December 31, 2013 was 9 million euros. The proposed appropriation of 2013 profit (see Note 3) includes an allocation of 2 million euros to this restricted reserve.

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

d) Dividends

Dividends paid in 2013

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

Dividends paid in 2012

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

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

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

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

11.2 Unrealized gains (losses) reserve

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

2013

Millions of euros	Opening balance	Valuation at market value	Tax effect of additions	Amounts transferred to		Closing balance
				income statement	Tax effect of transfers	
Available-for-sale financial assets (Note 9.3)	(34)	74	(22)	44	(13)	49
Cash flow hedges (Note 16)	(1,371)	588	(177)	114	(34)	(880)
Total	(1,405)	662	(199)	158	(47)	(831)

2012

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

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Note 12. Financial liabilities

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

2013

Millions of euros	LIABILITIES AT FAIR VALUE MEASUREMENT HIERARCHY				LIABILITIES AT AMORTIZED COST				
	Financial liabilities held for trading	Hedges	Subtotal financial liabilities at fair value quoted	Level 1: observable inputs	Level 2: Estimates based on other directly observable inputs	Level 3: Estimates based on other directly observable inputs	Subtotal liabilities at fair value	TOTAL CARRYING AMOUNT	TOTAL FAIR VALUE
Non-current financial liabilities	1,223	1,454	2,677	2,677	44,002	48,226	46,679	50,903	
Payable to Group companies and associates					37,583	41,748	37,583	41,748	
Bank borrowings					6,079	6,167	6,079	6,167	
Bonds and other marketable debt securities					177	148	177	148	
Derivatives (Note 16)	1,223	1,454	2,677	2,677			2,677	2,677	
Other financial liabilities					163	163	163	163	
Current financial liabilities	91	4	95	95	14,756	14,724	14,851	14,819	
Payable to Group companies and associates					12,982	13,000	12,982	13,000	
Bank borrowings					831	763	831	763	
Bonds and other marketable debt securities					943	961	943	961	
Derivatives (Note 16)	91	4	95	95			95	95	
Other financial liabilities									
Total financial liabilities	1,314	1,458	2,772	2,772	58,758	62,950	61,530	65,722	

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**LIABILITIES AT FAIR VALUE
MEASUREMENT HIERARCHY**

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

**Total financial
liabilities**

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

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

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Note 13. Bonds and other marketable debt securities

13.1 The balances and movements in issues of debentures, bonds and commercial paper at December 31, 2013 and 2012 are as follows:

2013

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

2012

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

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

2013

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

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

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

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

2012

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

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

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

(1)

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For 2013 and 2015 the figures include a maturity of 500 million in both years, without a contractual obligation for these maturities, based on expectations of improvements in financial market conditions.

13.2. The detail of the maturities and redemption values of zero-coupon debentures and bonds at December 31, 2013 and 2012 is as follows:

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

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

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13.3 At December 31, 2013, Telefónica, S.A. had a corporate promissory note program registered with the CNMV, with the following features:

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

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

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

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Note 14. Interest-bearing debt and derivatives

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

December 31, 2013**Millions of euros**

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

December 31, 2012**Millions of euros**

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

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

Description	Value Date	Maturity Date	Currency	Limit 12/31/13 (millions)	Balance (million of euros)
Syndicated facility *	04/21/06	04/21/17	EUR	700	700
ECA structured facility *	02/12/10	11/30/19	USD	296	215
Syndicated loan Tranche A2 **	07/28/10	07/28/14	EUR	2,000	2,000
Syndicated loan Tranche A3	07/28/10	07/28/16	EUR	2,000	2,000
ECA structured facility *	05/03/11	07/30/21	USD	341	247
Bilateral Loan	02/27/12	02/27/15	EUR	200	200
Syndicated loan Tranche D2	03/02/12	12/14/15	EUR	923	923
Vendor Loan *	02/21/13	02/21/16	EUR	206	206
Vendor Loan*	02/22/13	01/31/23	USD	1,001	336

* Facilities with amortization schedule.

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

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

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

** These credit facilities have a repayment schedule

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

December 31, 2013

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

December 31, 2012

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

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

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

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

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

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

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

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

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14.5 Average interest on loans and borrowings

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

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

14.6 Unused credit facilities

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

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

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

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Note 15. Payable to group companies and associates**15.1 The breakdown at December 31, 2013 and 2012 is as follows:****December 31, 2013**

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

December 31, 2012

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

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

December 31, 2013

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

December 31, 2012

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

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

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

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

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

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

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

The issuance price was established at 100% of the face value of the loan, in an amount of 600 million pounds sterling (approximately 720 million euros), with long-term maturity. This loan will accrue interest at an annual rate of 6.782% as from the issuance date (inclusive) up to November 26, 2020. From November 26, 2020 (inclusive), it will accrue a fixed rate of interest equal to the applicable 5 year swap rate resettable every five years plus a margin of:

(i) 4.490% per year as from November 26, 2020 up to November 26, 2025 (not inclusive); (ii) 4.740% per year as from November 26, 2025 up to November 26, 2040 (not inclusive); and (iii) 5.490% per year as from November 26, 2040 (inclusive).

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

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

Financing raised by Telefónica, S.A. through Telefónica Emisiones, S.A.U. at December 31, 2013 was 35,930 million euros (36,677 million euros in 2012). This financing is arranged as loans from these companies on the same terms as those of the issuance programs. The average interest rate in 2013 was 5.09% (5.16% in 2012). The financing arranged includes, as a related cost, the fees or premiums taken to the income statement for the period corresponding to the financing based on the corresponding effective interest rates. Telefónica Emisiones, S.A.U. raised financing in 2013 mainly by tapping the European and US capital markets, issuing the following bonds totaling 4,883 million euros (5,148 million euros in 2012):

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

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

Part of the amount owed by Telefónica, S.A. to Telefónica Emisiones, S.A.U. and to Telefónica Europe, B.V. includes restatements to amortized cost at December 31, 2013 and 2012 as a result of fair value interest rate and exchange rate hedges.

Meanwhile, at December 31, 2013, Telefónica, S.A. had raised financing from Telefónica Finanzas, S.A.U., in charge of the integrated cash management of the companies comprising the Telefónica Group in Spain, amounting to 3,635 million euros (5,774 million euros at December 31, 2012) in a series of loans bearing interest at market rates.

Telfisa Global, B.V. centralizes and handles cash management and flows for the Telefónica Group in Latin America, the United States and Europe. The balance payable to this subsidiary is formalized through several Deposit Agreements accruing interest at market rates and amounting to 3,455 million euros in 2013 and 1,822 million euros in 2012.

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

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15.2 The balance of Payable to subsidiaries due to taxation on a consolidated basis was 437 million euros and 506 million euros at December 31, 2013 and 2012, respectively. This basically includes payables to Group companies for their contribution of taxable income (tax losses) to the tax group headed by Telefónica, S.A. (see Note 17). The current- or non-current classification is based on the Company's projection of maturities.

The main amounts are those relating to Telefónica Internacional, S.A.U. for 104 million euros (322 million euros in 2012), Telefónica Móviles España, S.A.U. for 116 million euros (123 million euros in 2012) and Latin American Cellular Holdings, S.L for 154 million euros. This company has been aggregated to the Tax Group in 2013 and therefore had not amounts in 2012.

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Note 16. Derivate financial instruments and risk management policies**a) Derivative financial instruments**

During 2013, the Group continued to use derivatives to limit interest and exchange rate risk on otherwise unhedged positions, and to adapt its debt structure to market conditions.

At December 31, 2013, the total outstanding balance of derivatives transactions was 139,000 million euros (121,514 million euros in 2012), of which 109,390 million euros related to interest rate risk and 29,610 million euros to foreign currency risk. In 2012, 96,532 million euros related to interest rate risk and 24,982 million euros to foreign currency risk.

It should be noted that at December 31, 2013, Telefónica, S.A. had transactions with financial institutions to hedge exchange rate risk for other Telefónica Group companies amounting to 1,429 million euros (507 million euros in 2012). At year-end 2013 and 2012, the Company had no transactions to hedge interest rate risk for other Group companies. These external trades are matched by intra-group hedges with identical terms and maturities between Telefónica, S.A. and Group companies, and therefore involve no risk for the Company. External derivatives not backed by identical intragroup transactions consist of hedges on net investment and future acquisitions that, by their nature, cannot be transferred to Group companies and/or transactions to hedge financing raised by Telefónica, S.A. as parent company of the Telefónica Group, which are transferred to Group subsidiaries in the form of financing rather than via derivative transactions.

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The breakdown of Telefónica, S.A.'s interest rate and exchange rate derivatives at December 31, 2013, their notional amounts at year end and the expected maturity schedule is as follows:

2013

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

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

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

The breakdown by average maturity is as follows:

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

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

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

2012

Millions of euros Type of risk	Value in Euros	Telefónica receives		Telefónica pays	
		Carrying	Currency	Carrying	Currency
Euro interest rate swaps	72,164				
Fixed to fixed	55	55	EUR	55	EUR
Fixed to floating	24,380	24,380	EUR	24,380	EUR
Floating to fixed	47,679	47,679	EUR	47,679	EUR
Floating to floating	50	50	EUR	50	EUR
Foreign currency interest rate swaps	22,157				
Fixed to floating					
CHFCHF	331	400	CHF	400	CHF
CZKCZK	50	1,250	CZK	1,250	CZK
GBPGBP	3,498	2,855	GBP	2,855	GBP
JPYJPY	150	17,000	JPY	17,000	JPY
USDUSD	14,364	18,951	USD	18,951	USD
Floating to fixed					
CZKCZK	50	1,250	CZK	1,250	CZK
GBPGBP	1,445	1,180	GBP	1,180	GBP
USDUSD	2,269	2,994	USD	2,994	USD
Exchange rate swaps	13,719				
Fixed to fixed					
EURBRL	203	222	EUR	546	BRL
EURCLP	60	50	EUR	37,800	CLP
EURCZK	622	631	EUR	15,641	CZK
Fixed to floating					
USDEUR	95	132	USD	95	EUR
Floating to floating					
CHFEUR	332	400	CHF	332	EUR
EURCZK	327	322	EUR	8,228	CZK
EURGBP	496	588	EUR	405	GBP
GBPEUR	829	700	GBP	829	EUR
JPYEUR	167	17,000	JPY	167	EUR
USDEUR	10,588	14,196	USD	10,588	EUR
Forwards	7,399				
ARSUSD	14	110	ARS	19	USD
CLPEUR	64	40,428	CLP	64	EUR

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CZKEUR	115	2,906	CZK	115	EUR	
EURBRL	18	18	EUR	49	BRL	
EURCOP	1	1	EUR	3,100	COP	
EURCZK	541	550	EUR	13,612	CZK	
EURGBP	1,345	1,356	EUR	1,098	GBP	
EURPEN			EUR	1	PEN	
EURMXN	80	81	EUR	1,361	MXN	
EURUSD	2,092	2,137	EUR	2,760	USD	
GBPEUR	1,904	1,539	GBP	1,904	EUR	
GBPUSD	45	36	GBP	59	USD	
USDARS		17	19	USD	110	ARS
USDBRL		27	34	USD	71	BRL
USDCLP		5	6	USD	2,964	CLP
USDCOP		1	2	USD	2,796	COP
USDEUR		1,101	1,443	USD	1,101	EUR
USDGBP		28	37	USD	23	GBP
USDPEN		1	1	USD	2	PEN
Spot		111				
CZKEUR		106	2,672	CZK	106	EUR
EURGBP		5	5	EUR	3	GBP
Subtotal		115,550				

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Millions of euros

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

The breakdown by average maturity is as follows:

Millions of euros

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

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

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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.

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

b) Risk management policy

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

The main market risks affecting Telefónica are as follows:

Exchange rate risk

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

Interest rate risk

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

Share price risk

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

Other risks

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

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

Risk management

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

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

Exchange rate risk

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

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

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

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

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

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

Interest rate risk

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

instruments, primarily swaps and interest rate options.

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

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

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

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

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

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

Share price risk

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

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

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

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

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

Liquidity risk

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

1. The Telefónica Group's average maturity of net financial debt is intended to stay above 6 years, or be restored above that threshold in a reasonable period of time if it eventually falls below it. This principle is considered as a guideline when managing debt and access to credit markets, but not a rigid requirement. When calculating the average maturity for the net financial debt and part of the undrawn credit lines can be considered as offsetting the shorter debt maturities, and extension options on some financing facilities may be considered as exercised, for calculation purposes.
2. The Telefónica Group must be able to pay all commitments over the next 12 months without accessing new borrowing or tapping the capital markets (although drawing upon firm credit lines arranged with banks), assuming budget projections are met.

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Country risk

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

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

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

Credit risk

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

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

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

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

This management approach relies on the continuous monitoring of the risk assumed and the resources necessary to optimize the risk-reward balance to grant the adequate separation between the risk ownership areas and risk

management areas. Customer-financing products and those debtors that could cause a material impact on the Group's financial statements are subject to specific management practices to mitigate exposure to credit risk, according to the segment and risk profile of the customer.

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

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

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

Capital management

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

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

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

Telefónica's derivatives policy emphasizes the following points:

Derivatives based on a clearly identified underlying.

Matching of the underlying to one side of the derivative.

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

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

Sale of options only when there is an underlying exposure.

Hedge accounting

Hedges can be of three types:

Fair value hedges

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

Hedges of net investment in a foreign operation.

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

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

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

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

2013

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

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

(**) Positive amounts indicate payables.

2012

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

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

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

(**) Positive amounts indicate payables.

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Note 17. Income tax

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

Tax balances are as follows:

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

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

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

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

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

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

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

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

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17.1 Movement in deferred tax assets and liabilities

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

2013

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

2012

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17.3 Tax inspections and tax-related lawsuits

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

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

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

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

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Note 18. Trade and other payables

The breakdown of Trade and other payables is as follows:

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

Trade payables

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

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

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

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

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

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

2013

Millions of euros	Amount	%
Payments made on time	298	98

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

2012

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

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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.

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Note 19. Revenue and expenses**19.1 Revenue****a) Rendering of services**

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

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

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

b) Dividends from Group companies and associates

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

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

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c) Interest income on loans to Group companies and associates

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

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

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

19.3 Personnel expenses and employee benefits

The breakdown of Personnel expenses is as follows:

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

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

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

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

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

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

Individual and financial capitalization systems.

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

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

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

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

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

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

The share-based payment plans are the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2012

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

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

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19.5 External services.

The items composing Finance revenue are as follows:

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

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

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

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

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19.6 Finance revenue

The items composing Finance revenue are as follows:

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

19.7 Finance costs

The breakdown of Finance costs is as follows:

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

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

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

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

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

19.8 Exchange differences:

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

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

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

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

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

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Note 20. Other information**a) Financial guarantees**

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

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

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

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

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

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

b) Litigation

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

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

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

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

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

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

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

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

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

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

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

jurisdiction by the General Court, requesting the return of the lawsuit to the instance.

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

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

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

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

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c) Commitments**Atento**

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

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

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

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

Agreement for the acquisition of E-Plus

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (a) The entry of a new shareholder in Vivo, sharing with Telefónica the control of Vivo in conditions identical to those that were applicable to the PT Companies when they had a participation in Brasilcel N.V., or
- (b) That Telefónica ceases to have any direct or indirect financial interest in TIM Participações S.A.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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d) Directors and senior executives compensations and other benefits**Board of Directors compensation**

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

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

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

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

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

Compensation of members of the Board of Directors and Board Committees

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

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

Individual breakdown

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

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

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

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

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

(**) Shareholding of the total number of ordinary shares.

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

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

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

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

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

(1)

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

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f) Related-party transactions*Significant shareholders*

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

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

(1) As of December 31, 2013 Telefónica holds 0.76% investment in BBVA (See Note 9.3.).

(2) See the policies of derivative instruments of the Group in Note 16.

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

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

Group companies and Associates

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

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

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Directors and senior executives

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

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

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

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

g) Auditors fees

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

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

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

h) Environmental matters

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

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

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i) Trade and other guarantees

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

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Note 21. Cash flow analysis**Cash flows from/(used in) operating activities**

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

These adjustments relate mainly to:

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

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

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

a) Net interest paid:

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

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

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

b) Dividends received:

The main receipts relate to:

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

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

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

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

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

Cash flows from/(used in) investing activities

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

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

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

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

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

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

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

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

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

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

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

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

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Cash flows from/(used in) financing activities

This caption includes the following items:

- i. Payments for equity instruments of 244 million euros (590 million euros in 2012), relating to the net amount of treasury shares acquired in 2013.
- ii. Proceeds from financial liabilities:
 - a) Debt issues: The main collections comprising this heading are as follows:

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

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

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

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

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

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

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

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Note 22. Events after the reporting period

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

Financing

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

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

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

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

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

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

Sale of Telefónica Czech Republic, a.s.

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

Telefónica new organization structure

On February 26, 2014, the Board of Directors of Telefónica, S.A. has approved the implementation of a new organizational structure completely focused on clients and that incorporates the digital offering as the main focus for commercial policies. The structure gives greater visibility to local operations, bringing them closer to the corporate

decision-making centre, simplifying the global structure and strengthening the transverse areas to improve flexibility and agility in decision makings.

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

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

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Note 23. Additional note for English translation

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

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

MILLIONS OF EUROS	% OWNERSHIP		INCOME (LOSS)				Gross carrying amount	
	Direct	Indirect	Capital Reserves	Dividends	From operations	For the year		
Telefónica Europe plc (UNITED KINGDOM) Wireless communications services operator Wellington Street, Slough, SL1 1YP	100.00%		13	14,405	1,309	(12)	1,288	25,310
Telefónica Internacional, S.A.U. (SPAIN) Investment in the telecommunications industry abroad Gran Vía, 28 - 28013 Madrid	100.00%		2,839	3,022	4,500	(155)	797	8,132
Telefónica Móviles España, S.A.U. (SPAIN) Wireless communications services provider Plaza de la Independencia, 6 - Pta. 5 - 28001 Madrid	100.00%		423	498	1,081	1,393	994	5,775
Telfin Ireland Limited (IRELAND) Intragroup financing 28/29 Sir John Rogerson's Quay, Dublin 2	100.00%			4,726			130	4,491
O2 (Europe) Ltd. (UNITED KINGDOM) Holding company Wellington Street, Slough, SL1 1YP	100.00%		1,239	5,952		(1,458)	(1,177)	2,764
Telefónica Móviles México, S.A. de C.V. (MEXICO) (1) Holding company Prolongación Paseo de la Reforma 1200 Col. Cruz Manca, México D.F. CP.05349	100.00%		4,313	(2,738)		(115)	(205)	4,061
Telefónica de España, S.A.U. (SPAIN) Telecommunications service provider in Spain Gran Vía, 28 - 28013 Madrid	100.00%		1,024	1,484	1,600	2,739	2,030	2,303
Telefónica de Contenidos, S.A.U. (SPAIN)	100.00%		1,865	(1,623)		86	25	2,242

Organization and operation of multimedia
service-related activities and businesses
Don Ramón de la Cruz, 84 4ª Pta.- 28006
Madrid

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

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

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

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

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

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

Wireline telephony operator in Sao Paulo
Sao Paulo

Colombia Telecomunicaciones, S.A. ESP**(COLOMBIA) (1)**

18.51% 51.49% 485 (1,300) 136 (113) 272

Wireless operator
Calle 100, N° 7-33, Piso 15,
Bogotá, Colombia

Pléyade Peninsular, Correduría de**Seguros y Reaseguros del grupo****Telefónica, S.A. (SPAIN)**

16.67% 83.33% 1 5 5

Distribution, promotion or preparation of
insurance contracts, operating as a broker
Distrito Telefónica, Avda. Ronda de la
Comunicación, s/n Edificio Oeste 1 28050
Madrid

Telefónica Móviles Argentina, S.A.**(SPAIN)**

15.40% 84.60% N/D N/D N/D N/D N/D 139

Wireless communications and services
operator
Ing Enrique Butty 240, piso 20-Capital
Federal-Argentina

Telefónica Gestión de Servicios**Compartidos, S.A. (ARGENTINA)**

4.99% 95.00% 2 4 3

Management and administrative services
rendered
Av. Ing. Huergo 723 PB - Buenos Aires

Inversiones Telefónica Móviles Holding,**Ltd. (CHILE))**

3.11% 96.89% 461 (22) (1) 130 89

Holding company
Miraflores, 130 - 12° - Santiago de Chile

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

Internet portal - In liquidation

Richard Holkade 36, 2033 PZ Haarlem

PAISES BAJOS

Torre de Collçerola, S.A. (SPAIN)	30.40%		6					2
Operation of telecommunicatios mast and technical assistance and consulting services.								
Ctra. Vallvidrera-Tibidabo, s/n° - 08017 Barcelona								
Other investments	N/D	N/D	N/D	N/D	206	N/D		339
Total group companies and associates					10,078			80,107

(1) Consolidated data.

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

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Appendix II Board of Directors Compensation

TELEFÓNICA, S.A.

(Euros)

Director	Wage / Compensation¹	Fixed payment²	Attendance fees³	Short term variable compensation⁴	Fixed payments Board Committees⁵	Other items⁶	Total
Mr. César Alierta Izuel	2,230,800	240,000		3,497,448	80,000	204,655	6,252,903
Mr. Isidro Fainé Casas		200,000			80,000	8,000	288,000
Mr. José María Abril Pérez		200,000	8,000		95,867		303,867
Mr. Julio Linares López		200,000	7,000		19,600		226,600
Mr. José María Alvarez-Pallete López	1,923,100			1,626,713		128,330	3,678,143
Mr. Fernando de Almansa Moreno-Barreda		120,000	17,000		38,267	8,000	183,267
Ms. Eva Castillo Sanz	1,264,000			323,647		49,741	1,637,388
Mr. Carlos Colomer Casellas		120,000	25,000		139,733	8,000	292,733
Mr. Peter Erskine		120,000	29,000		124,800		273,800
Mr. Santiago Fernández Valbuena							
Mr. Alfonso Ferrari Herrero		120,000	44,000		163,067	8,000	335,067
Mr. Luiz Fernando Furlán		120,000			4,667		124,667
Mr. Gonzalo Hinojosa Fernández de Angulo		120,000	44,000		159,334	8,000	331,334
Mr. Pablo Isla Álvarez de Tejera		120,000	9,000		35,467		164,467
Mr. Antonio Massanell Lavilla		120,000	17,000		56,000	8,000	201,000
Mr. Ignacio Moreno Martínez		120,000	9,000		19,600		148,600
Mr. Javier de Paz Mancho		120,000	13,000		118,267		251,267
Mr. Chang Xiaobing		120,000					120,000

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

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

TELEFÓNICA, S.A. ADVISORY OR CONTROL COMMITTEES

(Euros)

Director	Audit and Control	Nomination and Compensation Governance	Human Resources, Reputation and Corporate Responsibility	Service Quality and Customer Affairs	International Affairs¹	Innovation	Strategy	Institutional Affairs¹	TOTAL 2013
Mr. César Alierta Izuel									
Mr. Isidro Fainé Casas									
Mr. José María Abril Pérez					5,667	18,200			23,867
Mr. Julio Linares López							9,533	17,067	26,600
Mr. José María Álvarez-Pallete López									
Mr. José Fernando de Almansa Moreno-Barreda			14,200		10,334		20,200	10,533	55,267
Ms. Eva Castillo Sanz									
Mr. Carlos Colomer Casellas	19,933	18,200		13,200		33,400			84,733
Mr. Peter Erskine		22,200				20,200	31,400		73,800
Mr. Santiago Fernández Valbuena									