TELEFONICA EUROPE B.V.
(Amsterdam)

ANNUAL REPORT
December 31, 2011

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MANAGING DIRECTOR'S REPORT

The management herewith submits the Financial Statements of Telefónica Europe, B.V. ("the Company") for the financial year ended December 31st, 2011.

Result

During the period under review, the Company recorded a profit of EUR 1,595 thousand (2010: EUR 1,697 thousand), which is set out in detail in the enclosed Income and Expenses Statement.

We have recorded a reduction of outstanding amounts of the Syndicated Facility (originally for GBP 18,500 million). The total syndicated facility outstanding amount as per December 31st, 2011 is EUR 2,300,582 thousand and GBP 555,000 thousand, which in total is equivalent to EUR 2,965,014 thousand (12/31/2010: EUR 2,945,368 thousand).

Tranche D continues being fully drawn. Currently, there are three loans outstanding under the tranche: (i) GBP 555,000 thousand, (ii) EUR 1,071,577 thousand and (iii) EUR 766,057 thousand.

Utilization of the GBP 2,100,000 thousand revolving credit facility (Tranche E) has been reduced through out the year 2011. On December 31st, 2010 there were two loans outstanding, both denominated in Euro, which in total account for EUR 486,789 thousand (equivalent to GBP 412,632 thousand). On December 31st, 2011 there are two loans outstanding, both denominated in Euro, which in total account for EUR 462,947 thousand (equivalent to GBP 385,404 thousand).

During 2011 The Company has maintained its activity in the Euro Commercial Paper Market issuing 133 ECP, placed among several investors under its EUR 2,000,000 thousand ECP Programme, for a total notional amount of EUR 6,360,000 thousand, figure smaller than that issued in 2010 (EUR 7,267,000 thousand). The notional outstanding at year end accounted for EUR 1,599,000 thousand.

The Financial Margin has been reduced, from EUR 3,233 thousand in 2010 to EUR 2,926 thousand in 2011, mainly due to the reductions of borrowed and on-lent volumes.

The 2011 net Operational Expenses amounted to EUR 716 thousand (2010: EUR 836 thousand).

Subsequent events

No material subsequent events, affecting the financial statements, have taken place until date of this report.

Future developments

In January 2012, The Company entered into a Facility Agreement with China Development Bank for USD 375,000 thousand at the variable annual interest rate of LIBOR (6 Month) plus 2.14%, irrevocably guaranteed by Telefónica, S.A. The proceeds of the Facility Agreement issued are lent on to the parent company or to other related companies within the group of the parent company (Telefónica, S.A.).

The Company will continue to seek and prospect for new markets and sources of finance for Telefónica Group, in order to extend its investor base, subject always to market conditions.

Risks and uncertainties

Main risks and uncertainties the Company will face during financial year 2011 are the following:

Liquidity and credit risk:

The Company has invested the funds borrowed, in Telefónica, S.A., or in other companies of the group, furthermore most of external debt and bonds issued by the Company are guaranteed by Telefónica, S.A. In addition, the Company tries to diversify the holding of cash positions, by investing them in various financial institutions, with stable and adequate credit ratings.

In summary, any substantial credit or liquidity risk would be related to credit risk of Telefónica, S.A. group.

Interest rate and Foreign Exchange risk:

The Company lends money to related companies denominated in the same currency as the funds it arises in the funding markets. Therefore, the Company implements a natural hedge.

The Company may have, though, limited foreign exchange risk due to the financial margin earned in several currencies different from Euro (mainly GBP, JPY and USD), and also due to some cash positions held in foreign currencies (JPY, USD and GBP). Consequently, foreign exchange fluctuation in exchange rates may have a limited impact on its result.

Currently, the Company policy is to hedge any interest rate exposure arising from funding raised, by investing on the same terms (tenure and type of interest, whether it may be floating or fixed interest rates). Nevertheless, if that would not be eventually possible, or the Company may not consider it appropriate, the Company may look to mitigate any interest rate risk in other ways (by using derivatives or any other suitable instrument), or eventually not to hedge it.

TELEFONICA EUROPE B.V.
(Amsterdam)

Signing of the financial statements

The members of the Management Board have signed the financial statements in this annual report pursuant to their statutory obligations under art. 5:25c(2) (c) Financial Markets Supervision Act. To the best of their knowledge, the financial statements give a true and fair value of the assets, liabilities, financial position and profit or loss of the Company in accordance with Title 9 Book 2 of the Dutch Civil Code, and the management board's report gives a true and fair view of the position and performance of the business of the Company, and reflects the significant risks related to the business.

Amsterdam, February 20, 2012

/S/ **/S/**

E.J. Álvarez Gómez C.D. Maroto Sobrado

/S/ **/S/**

M.C. van der Sluijs-Plantz A.J. Aleix Argüelles

TELEFONICA EUROPE B.V.
(Amsterdam)

(Expressed in Thousands of Euro)

BALANCE SHEET
December 31, 2011
(before appropriation of the result)

ASSETS

			12/31/11		12/31/10
FIXED ASSETS:					
Tangible fixed assets	(1)	5		10	
Financial fixed assets	(2)	3,557,088		8,266,205	
			3,557,093		8,266,215
CURRENT ASSETS:					
Loans receivable	(3)	6,392,497		1,671,202	
Interest receivable		123,992		123,584	
Corporate income tax		184		51	
Other current assets		407		869	
Cash at bank	(4)	5,404		5,172	
			6,522,484		1,800,878
TOTAL ASSETS			**10,079,577**		**10,067,093**

SHAREHOLDER'S EQUITY AND LIABILITIES

			12/31/11		12/31/10
SHAREHOLDER'S EQUITY:	(5)				
Issued share capital		46		46	
Retained earnings		4,700		4,700	
Result for the period		1,595		1,697	
			6,341		6,443
LONG TERM LIABILITIES:					
Bonds and loans	(6)		3,557,103		8,266,218
CURRENT LIABILITIES:					
Short term loans and bonds	(7)	6,392,497		1,671,202	
Interest payable		123,250		122,822	
Value added tax & wage tax payable		10		35	
Other debts and accrued liabilities		376		373	
			6,516,133		1,794,432
TOTAL EQUITY & LIABILITIES			**10,079,577**		**10,067,093**

(Expressed in Thousands of Euro)

STATEMENT OF INCOME AND EXPENSES
for the year ended December 31, 2011

	Note	01/01/11 – 12/31/11		01/01/10 – 12/31/10	
FINANCIAL INCOME & EXPENSES:					
Net financial result	(8)		2,926		3,233
OPERATIONAL INCOME & EXPENSES:					
Personnel expenses		(136)		(144)	
Administrative expenses		(580)		(692)	
Result from ordinary activities before taxation			2,210		2,397
Taxation	(9)		(615)		(700)
Result after taxation			**1,595**		**1,697**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

General

Telefónica Europe B.V. (“the Company”), having its statutory seat and registered office in Amsterdam, the Netherlands, is engaged in holding and financing activities for related companies. The main office of the Company is located in Amsterdam, the Netherlands.

The Company is a wholly-owned subsidiary of Telefónica S.A., located in Madrid, Spain. Direct or indirect subsidiaries of Telefónica S.A. are referred to as related companies.

The Company was incorporated on October 31st, 1996.

The authorized share capital of the Company consists of 100 shares with a par value of EUR 460 each (EUR 46,000). On December 31st, 2011 and 2010, the issued capital of the Company consists of 100 shares, which have been fully paid and which represent a total paid up capital in the amount of EUR 46,000.

These financial statements are prepared in accordance with Title 9, Book 2, of the Dutch Civil Code. Furthermore, the financial statements of the Company are not consolidated with those of its subsidiary, as a result of the Article 408 exemption. The financial statements of the Company and its subsidiary are included in the consolidated financial statements of Telefónica, S.A., which are filed with the Chamber of Commerce in Amsterdam.

Euro Medium Term Note Debt Programme

In 1996, the Company entered into a USD 1,500 million EMTN Debt Issuance Programme, arranged by Morgan Stanley & Co. International Limited, irrevocably guaranteed by Telefónica, S.A. Under the Programme, the Company may from time to time issue instruments in different currencies up to a maximum aggregate principal amount of USD 1,500 million. The total maximum aggregate principal amount was increased in 1998 to USD 2,000 million. In 2000, the total maximum aggregate principal amount was increased to EUR 8,000 million and finally, in July 2003, the maximum aggregate principal amount was increased again to EUR 10,000 million. The proceeds of the notes issued are lent on to the parent company or to other related companies within the group of the parent company (Telefónica, S.A.).

As at December 31st, 2011, the EMTN Debt Issuance Programme includes:

Euro Notes due 2033	EUR	500,000,000
Euro Notes due 2013	EUR	1,500,000,000

The notes are listed on the London Stock Exchange. The Company has not issued any notes under this programme since 2003.

Global bonds

On September 21st, 2000, Telefónica Europe, B.V. issued notes with an application to be listed on the Luxembourg Stock Exchange for the amounts of USD 1,250,000,000 7.35% and EUR 1,000,000 6,125% due and repaid in 2005, USD 2,500,000,000 7.75% due and repaid 2010 and USD 1,250,000,000 8.25% due 2030. These bonds are irrevocably guaranteed by the parent company (Telefónica SA).

As at December 31st, 2011 there is only one outstanding note under the programme (USD 1,250 million maturing on 2030).

Euro Commercial Paper Programme

On June 29th, 2000, the Company entered into a Euro Commercial Paper Programme with a maximum aggregate principal amount of EUR 2,000,000,000 or its equivalent in alternative currencies. The programme was updated in May 2005.

The first Commercial Paper issue took place in February 2001 and such Programme is currently active. The Euro Commercial Paper issues are unconditionally and irrevocably guaranteed by the parent company. Notes may have any denomination, subject to compliance with any applicable legal and regulatory requirements. The initial minimum denominations are EUR 500,000, USD 500,000, JPY100,000,000, and GBP100,000. The tenure of the notes shall be not less than one nor more than 365 days.

The notional outstanding amount as at December 31st, 2011 is EUR 1,599 million. In the balance sheet, where the ECP issues are stated at their discounted notional amounts and at year end, they were accounting for EUR 1,592 million.

Samurai JPY Bonds

The Company had to file with the Minister of Finance of Japan, the fourth and final amendment to SRS (Securities Registration Statement, as amended four times), on July 11th, 2007, and finally issued the notes on July 19th, 2007. The notes hereby issued are not listed on any stock exchange.

The Company issued two tranches of JPY 15,000 million each, being the main conditions: (i) Floating Rate Note bearing variable interest of 6 months JPY Libor plus a margin of 40 basis points, and maturing on July 19th, 2012 and (ii) A fixed rate Bond with a semi-annual coupon of 2.11% per year, also maturing on July 19th, 2012. Both tranches were classified as short term debt in the balance sheet as at July 19th, 2011.

JPY Dual Currency Loan

The Company borrowed a total of JPY 15,000 million in three loans from a Japanese investor with maturity on July 2037. Under this agreement interests are payable in USD on a semi-annual basis at a fix annual rate of 4,75%.

Intercompany loans

The Company received EUR 2,000 million through an intercompany Promissory Note issued on December 30th, 2002, from its subsidiary Telefónica Finance USA LLC, with a maturity of 10 years. The Promissory Note was classified as short term debt in the balance sheet as at December 31st, 2011.

Intercompany Credit Facility

On April 10th, 2003, the Company entered into a short-term credit facility agreement of EUR 100 million. The lender is Casiopea RE S.A., an insurance company belonging to the same group of companies as Telefónica Europe, B.V. The drawn amount as at December 31st, 2011 was EUR 1 million.

Multicurrency Syndicated Facility

The Company signed on October 31st, 2005 a Multicurrency Facility Agreement with Citibank Global Markets Ltd., Goldman Sachs International and Royal Bank of Scotland Plc, as Underwriters, and Guaranteed by Telefónica, S.A. with a total amount of GBP 18,500 million.

The purpose of the Facility was to finance the acquisition of O2 directly or indirectly. The Facility is divided in two Facilities with different maturities: (i) Facility A with maturity of October 31st, 2006, but extendable at the option of the Company for up to an additional period of 18 months and (ii) Facility B with Maturity on October 31st, 2008.

The Facility was syndicated among other Banks in two stages: (i) Sub-Underwriters Syndication, stage that was successfully finished on December 14th, 2005 and (ii) General Syndication which was finalized on February 17th, 2006. The initial limit of the facility was reduced on December 14th, 2005 from GBP 18,500 million to GBP 18,000 million, and subsequently the limit amount of the Facility was reduced to GBP 14,325 million on February 3rd, 2006. Furthermore, the limit of the Facility was reduced to GBP 14,175 million on February 16th, 2006.

As of April 28th, 2006 the Company amortized, and cancelled an amount of EUR 758 million corresponding to Facility A. Subsequently, as of June 30th, 2006 the Company amortized EUR 3,700 million of Facility B.

As of December 14th, 2006 the Syndicated Facility Agreement was amended in order to include three more tranches, increase maturities of all tranches and revise the margin to be paid (more detail in Note 6).

On December 14th, 2009 the Company amortized Tranche B reducing the outstanding amount by EUR 1,196 Million.

The total outstanding amount as at December 31st, 2011 under this Syndicated Facility amounted to GBP 555 million equivalent to EUR 664 million (12/31/2010: GBP 555 million equivalent to EUR 645 million) and EUR 2,301 million (12/31/2010: EUR 2,301 million) in total EUR 2,965 million (12/31/2010: EUR 2,946 million) in equivalent Euro terms at year end.

Investments of the company

Substantially all the proceeds from the principal or notional amounts obtained or borrowed by the Company under its financing activities have been lent on to the parent company or to companies belonging to Telefónica Group.

Cash flow statement

No cash flow statement is presented in these financial statements as the ultimate parent company provides all the capital of the Company and the financial statements of the ultimate parent company, containing a cash flow statement, are available at the Company's office in the Netherlands.

Accounting policies

General

These financial statements have been prepared in accordance with the Dutch generally accepted accounting principles and guidelines.

The accounting principles of the Company are summarized below. These accounting principles have all been applied consistently throughout the year and the preceding year.

Assets and liabilities are stated at face value, unless indicated otherwise.

Foreign currencies

Assets and liabilities, denominated in foreign currencies are translated into the reporting currency at exchange rates prevailing at the Balance Sheet date. Any resulting exchange differences are recorded in the Statement of Income and Expenses.

Revenues and expenses in the year under review, which are denominated in foreign currencies, are translated into the reporting currency at exchange rates in effect on the transaction date.

Tangible fixed assets

Tangible fixed assets are stated at their historical cost less accumulated depreciation. Depreciation is provided over the expected useful live of the related asset under the straight line method. The estimated useful lives are:

Furniture and office equipment: 3 to 5 years

Financial fixed assets

Investments in participating interest are stated at acquisition cost or, in case of a permanent impairment of the value, at lower equity value as determined on the basis of the financial statements of the participating interest.

Long term receivables from related companies

Long term receivables from related companies are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the loans are derecognized or impaired, as well as through the amortisation process.

Bonds and loans

Bonds and loans are carried at amortised cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognised as well as through the amortisation process.

Accounting policies in respect of result determination

Result

Profits on transactions are recognized in the year they are realized. Losses are recognized when foreseen.

Other operating expenses

Expenses are based on the historical cost convention and attributed to the financial year to which they pertain.

Taxation

Taxation is calculated on the reported pre-tax result, at the prevailing tax rates, taking account of any losses carried forward from previous financial years and tax-exempt items and non-deductible expenses and using tax facilities.

Temporary differences between taxation on the result as shown in the Statement of Income and Expense and the taxation on the fiscal result are added or deducted from the provision for deferred taxation.

Financial Instruments

General

The information included in the notes for financial instruments is useful to estimate the extent of risks relating to on-balance sheet financial instruments.

The Company's primary financial instruments, not being derivatives, serve to finance the Telefónica's Group operating activities. The principal risks, arising from the Company's financing operations are, liquidity, credit, interest and foreign exchange risks. These risks to mitigate, are set out in detail below:

Liquidity and credit risk

The Company has invested the funds borrowed, in Telefónica, S.A., furthermore most of external debt and loans issued by the Company are guaranteed by Telefónica, S.A. In addition, the Company tries to diversify the holding of cash positions, by investing them in various financial institutions, with adequate credit ratings. Summarizing, any substantial credit or liquidity risk would be related to credit risk of Telefónica, S.A. group.

Interest rate and Foreign Exchange risk

The Company lends money denominated in the same currency as the funds it arises in the funding markets. Therefore, the Company implements a natural hedge.

The Company may have, though, limited foreign exchange risk due to the financial margin earned in several currencies different from Euro (mainly GBP, JPY and USD), and also due to some cash positions held in foreign currencies (JPY, USD and GBP). Consequently, foreign exchange fluctuation in exchange rates may have a very limited impact on its result.

Currently, the Company policy is to hedge any interest rate exposure arising from funding raised, by investing on the same terms (tenors and type of interest, whether it may be floating or fixed interest rates).

(1) Tangible fixed assets

The tangible fixed assets are comprised as follows:

	12/31/11	12/31/10
The tangible fixed assets:	**5**	**10**

The movement in the tangible fixed assets is as follows:

	2011	2010
Carrying value		
Balance January 1st	81	79
Additions	1	2
Balance December 31st	82	81
Accumulated amortization		
Balance January 1st	(71)	(67)
Change for the period	(6)	(4)
Balance December 31st	(77)	(71)
Net book value December 31st	**5**	**10**

(2) Financial fixed assets

	12/31/11	**12/31/10**
Long term receivables from related companies	3,557,088	8,266,205
Holdings in group companies (*)	-	-
	3,557,088	**8,266,205**

The movement in the financial fixed assets is as follows:

	2011	**2010**
Balance January 1st	8,266,205	8,263,804
Deferred Commissions amortization	5,377	5,432
Repayments	(199,070)	(512,835)
New Loans	87,769	343,400
Foreign Exchange result	27,512	166,404
Reclassification to short term	(4,630,705)	-
Balance December 31st	**3,557,088**	**8,266,205**

(*) The Company is wholly-owner of Telefónica Finance USA L.L.C, entity having its statutory seat in Delaware, duly incorporated and existing under the laws of the State of Delaware (USA).

Since the holding in Telefónica Finance USA L.L.C. is valued at less than 1000 Euros no amount is disclosed in the Financial Statements.

Long term receivables from related companies:

The Long Term Receivables from related companies represent loans to the shareholder and are comprised as follows:

	12/31/11	12/31/10
USD 1,250,000,000, 8.28125%, maturity September 15, 2030	958,430	927,977
EUR 1,058,304,023, Euribor + 0.26158%, maturity December 14, 2012	-	1,056,596
GBP 555,000,000, Libor + 0.27158%, maturity December 14, 2012	-	643,728
EUR 429,355,018, Euribor + 0.29908%, maturity December 13, 2013	426,097	424,801
EUR 500,000,000, 5.90625%, maturity February 14, 2033	491,984	491,823
EUR 1,500,000,000, 5.15625%, maturity February 14, 2013	1,498,311	1,497,093
EUR 2,000,000,000, Euribor + 0.63825%, maturity December 30, 2012	-	2,000,000
JPY 15,000,000,000, 2.138%, maturity July 19, 2012	-	137,896
JPY 15,000,000,000, Libor + 0.425%, maturity July 19, 2012	-	137,900
JPY 5,000,000,000/USD 42,640,287, 4.7741% on USD basis, maturity July 27, 2037	49,645	45,780
JPY 5,000,000,000/USD 42,640,287, 4.7741% on USD basis, maturity July 27, 2037	49,645	45,780
JPY 5,000,000,000/USD 42,640,287, 4.7741% on USD basis, maturity July 27, 2037	49,645	45,780
EUR 755,798,598, Euribor + 0.26158%, maturity December 14, 2012	-	754,533
EUR 33,592,434, Euribor + 0.29908%, maturity December 13, 2013	33,331	56,518
Total long term receivable from related companies	**3,557,088**	**8,266,205**

The Preferred Shares, parts of the Syndicated O2 Loan Facility and the JPY Samurai loans, were taken up on the Balance Sheet as short term debt as at December 31, 2011.

The valuation of the funds from the Syndicated Loan Facility that were lent on to the shareholder includes a fee income. The fee income is deferred and amortised to the profit and loss account over the period of the underlying transactions, instead of at amortised cost, using the IRR method. The difference however is not significant.

(3) Loans receivable

The loans receivable are comprised as follows:

	12/31/11	12/31/10
Short Term Loans to Telefónica S.A. (Agreement May 26, 2005)	1,592,205	1,608,202
EUR Credit Facility 1 year Euribor + 0.03159%	1,000	63,000
EUR 1,071,576,876, Euribor +0.27408%, maturity Dec 14, 2012	1,070,717	-
GBP 555,000,000, Libor +0.28408%, maturity Dec 14, 2012	663,899	-
EUR 2,000,000, Euribor +0.63825%, maturity Dec 30, 2012	2,000,000	-
JPY 15,000,000,000, 2.138%, maturity Jul 19, 2012	149,639	-
JPY 15,000,000,000, Libor +0.425%, maturity Jul 19, 2012	149,640	-
EUR 766,057,486, Euribor +0.27408%, maturity Dec 14,2012	765,397	-
Total loans receivable	**6,392,497**	**1,671,202**

The Preferred Shares, parts of the Syndicated O2 Loan Facility and the JPY Samurai loans, were taken up on the Balance Sheet as short term debt at December 31, 2011.

In 2002, the Company started a subsidiary (Telefónica Finance USA LLC) which has issued Preferred Capital Securities to third parties, which possess no voting rights, for a notional amount of EUR 2,000,000,000 on December 30th, 2002. The Company has lent on these funds to Telefónica S.A. through an Inter Company loan that expires on December 30, 2012.

The valuation of the funds from the Syndicated Loan Facility that were lent on to the shareholder includes a fee income. The fee income is deferred and amortised to the profit and loss account over the period of the underlying transactions, instead of at amortised cost, using the IRR method. The difference however is not significant.

As a result of the O2 loan regularization as described in note 7 the interest percentage applied for the loans maturing on December 14, 2012 has been reduced with 2.5 bp. The total impact of EUR 1.2 million has been recognized in the interest income and the interest receivables per 31 December 2011.

(4) Cash at bank

The cash at bank balances on December 31st, 2011 include deposits for EUR 0 million (2010: 4 Million EUR) which have maturity date within three months and are at free disposal of the Company, subject to any other legal or contractual obligation that the Company may have. The Cash at Bank is comprised as follows:

	12/31/11	12/31/10
Current bank account balances	5,404	5,172

(5) Shareholder's equity

The movements in the Shareholder's Equity are comprised as follows:

	Issued share capital	Retained earnings	Result of the period	Total
Balance as at January 1, 2010	46	4,700	1,899	6,645
Allocation of result	-	1899	(1,899)	-
Result for the period	-	-	1,697	1,697
Dividend payment	-	(1,899)	-	(1,899)
Balance as at December 31, 2010	**46**	**4,700**	**1,697**	**6,443**
Allocation of result	-	1,697	(1,697)	-
Result for the period	-	-	1,595	1,595
Dividend payment	-	(1,697)	-	(1,697)
Balance as at December 31, 2011	**46**	**4,700**	**1,595**	**6,341**

(6) Bonds and loans

	12/31/11	12/31/10
Long term bonds and loans	3,557,103	8,266,218

The movement in long term liabilities is as follows:

	2011	2010
Balance January 1st	8,266,218	8,263,816
Prepaid Commissions amortization	5,379	5,433
Repayments	(199,070)	(512,835)
New Loans	87,769	343,400
Foreign Exchange result	27,512	166,404
Reclassification to short term	(4,630,705)	-
Balance December 31st	**3,557,103**	**8,266,218**

Long term bonds and Loans are comprised as follows:

	12/31/11	12/31/10
Global USD 1,250,000,000, 8.25%, maturity September 15, 2030	958,435	927,981
Multicurrency Syndicated Facility, Tranche D, EUR1,058,304,023, Libor + 0.2375%, maturity December14, 2012	-	1,056,596
Multicurrency Syndicated Facility, Tranche D, GBP 555,000,000, Libor + 0.2475%, maturity December14, 2012	-	643,728
Multicurrency Syndicated Facility, Tranche E, EUR 429,355,018, Euribor + 0.2750%, maturity December 13, 2013	426,097	424,801
EMTN EUR 500,000,000, 5.8750%, maturity February 14, 2033	491,989	491,828
EMTN EUR 1,500,000,000, 5.125%, maturity February 14, 2033	1,498,314	1,497,096
Loan EUR 2,000,000,000, Euribor + 0.607%, maturity December 30, 2012	-	2,000,000
JPY 'Samurai' Bond JPY 15,000,000,000, 2,11%, maturity July 19, 2012	-	137,896
JPY 'Samurai' Bond JPY 15,000,000,000, Libor + 0.40%, maturity July 19, 2012	-	137,900
JPY/USD Dual Currency Loan A JPY 5,000,000,000/USD 42,640,287, 4.75% on USD basis, maturity July 27, 2037	49,645	45,780
JPY/USD Dual Currency Loan B JPY 5,000,000,000/USD 42,640,287, 4.75% on USD basis, maturity July 27, 2037	49,645	45,780
JPY/USD Dual Currency Loan C JPY 5,000,000,000/USD 42,640,287, 4.75% on USD basis, maturity July 27, 2037	49,645	45,780
Multicurrency Syndicated Facility, Tranche D, EUR 755,798,598, Libor + 0.2375%, maturity December 14, 2012	-	754,534
Multicurrency Syndicated Facility, Tranche E, EUR 33,592,434 Euribor + 0.2750%, maturity December 13, 2013	33,333	56,518
Total long term bonds and loans	**3,557,103**	**8,266,218**

The valuation of the Syndicated Loan Facility includes the issuance costs, discounts, fees and commissions paid in connection with the offering of the Syndicated Loan Facility. Such costs are amortised on a straight line basis over the period up to the maturity date of the loans, instead of at amortised cost, using the IRR method. The difference however is not significant.

(7) Short term loans and bonds

	12/31/11	12/31/10
EUR 100,000,000 Credit Facility, 1 year Euribor	1,000	63,000
EUR 2,000,000,000 ST European Commercial Paper Program	1,592,205	1,608,202
EUR 1,071,576,876, Euribor +0.25%, Maturity Dec 14, 2012	1,070,717	-
GBP 555,000,000, Libor +0.26%, Maturity Dec 14, 2012	663,899	-
EUR 2,000,000, Euribor +0.607%, Maturity Dec 30, 2012	2,000,000	-
JPY 15,000,000,000, 2.11%, Maturity Jul 19, 2012	149,639	-
JPY 15,000,000,000, Libor +0.40%, Maturity Jul 19, 2012	149,640	-
EUR 766,057,486, Euribor +0.25%, Maturity Dec 14, 2012	765,397	-
Balance December 31st	**6,392,497**	**1,671,202**

The Company identified that the interest percentage applied on the O2 facility should have been reduced per December 2009 in accordance with the terms of the O2 loan facility, As a result the Company has done a regularization of the O2 loan facility resulting in a reduction of margin 2.5 bp. The total impact of this regularization in the amount of EUR 1.2 million has been recognized in the interest expenses and interest payables per 31 December 2011.

(8) Net financial result

The Net Financial Result is comprised as follows:

	01/01/11-12/31/11	01/01/10-12/31/10
Interest income	356,352	439,703
Interest expense	(353,434)	(436,489)
Currency exchange result	8	19
Net Financial Result	**2,926**	**3,233**

(9) Taxation

The tax charge on the profit can be broken down as follows:

	01/01/11-12/31/11	01/01/10-12/31/10
Corporate income tax 2011	608	-
Corporate income tax 2010	-	703
Corporate income tax other years	7	(3)
Total	**615**	**700**

The Company is subject to Dutch taxation and tax calculations are made in accordance with an Advance Pricing Agreement signed with the Tax Authorities, which has entered into effect as of January 1, 2005, as amended in 2010.

The effective and applicable tax rates do not differ significantly from those of previous fiscal year. The applicable tax rate for current financial statements is 25% (2010: 25.5%) and the effective tax rate is 27.8% (2010: 29.2%).

Average number of employees:

During the period under review the Company employed on average 2 persons (2010: 2).

Auditor's fees

An amount of EUR 25 thousand (2010: 24 thousand) has been charged related to auditor's fees (only relating to audit services).

Subsequent events

No material subsequent events, affecting the financial statements, have occurred to date.

Board of directors

The Company's board of directors consists of four directors, who served without remuneration (2010: 0).

Amsterdam, February 20, 2012

/S/	**S/**
E.J. Álvarez Gómez	C.D. Maroto Sobrado
/S/	**/S/**
M.C. van der Sluijs-Plantz	A.J. Aleix Argüelles

OTHER INFORMATION
December 31, 2011

Auditor's report

The auditor's report is set out on the next page.

Statutory provision regarding appropriation of Result

In accordance with Article 14 of the Articles of Association, profit shall be at the disposal of the Annual General Meeting of Shareholders. Profit distribution can only be made to the extent that Shareholder's Equity exceeds the issued and paid-up share capital and legal reserves.

Appropriation of Result

The net income together with the retained earnings is at the disposal of the General Meeting of Shareholders.

Independent auditor's report

To: The Managing Directors and Shareholder of Telefónica Europe B.V.

Report on the financial statements

We have audited the accompanying financial statements 2011 of Telefónica Europe B.V., Amsterdam, which comprise the balance sheet as at December 31, 2011, the profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility
Management is responsible for the preparation and fair presentation of these financial statements and for the preparation of the Managing Directors' Report, both in accordance with Part 9 of Book 2 of the Dutch Civil Code . Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion with respect to the financial statements
In our opinion, the financial statements give a true and fair view of the financial position of Telefónica Europe B.V. as at December 31, 2011 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the Managing Directors' Report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the Managing Director's Report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, February 20, 2012

Ernst & Young Accountants LLP

signed by S. van den Ham

Telefónica

Telefónica Europe, B.V.

RESPONSIBILITY STATEMENT FOR THE ANNUAL FINANCIAL REPORT

The members of the Telefónica Europe B.V. Board of Directors hereby declare that, to the best of their knowledge, the financial statements for the year ended December 31, 2011, approved at the Board of Directors meeting held on February 21, 2012 and prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of Telefónica Europe B.V., and the management report includes a fair review of the development and performance of the business and the position of Telefónica Europe B.V. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that Telefónica Europe B.V. faces.

Amsterdam, April 27th, 2012

/S/	*/S/*
C.D.Maroto Sobrado *Director*	*M. Escrig Melia* *Director*
/S/	*/S/*
A. Aleix Argüelles *Director*	*M.C. van der Sluijs-Plantz* *Director*