TELEFONICA S A
Form 20-F
March 29, 2012

As filed with the Securities and Exchange Commission on March 29, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-09531

TELEFÓNICA, S.A.
(Exact name of Registrant as specified in its charter)

KINGDOM OF SPAIN
(Jurisdiction of incorporation or organization)

Distrito Telefónica, Ronda de la Comunicación, s/n
28050 Madrid, Spain
(Address of principal executive offices)

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(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
| --- | --- |
| Ordinary Shares, nominal value €1.00 per share* | New York Stock Exchange |
| American Depositary Shares, each representing one Ordinary Share | New York Stock Exchange |
| Guarantees** by Telefónica, S.A. of the $750,000,000 Fixed Rate Guaranteed Senior Notes Due 2013; $850,000,000 Floating Rate Guaranteed Senior Notes Due 2013; $1,200,000,000 Fixed Rate Guaranteed Senior Notes Due 2013; $1,250,000,000 Fixed Rate Notes Due 2015; $900,000,000 Fixed Rate Guaranteed Senior Notes Due 2015; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; $700,000,000 Fixed Rate Guaranteed Senior Notes Due 2017; $1,000,000,000 Fixed Rate Notes Due 2019; $1,400,000,000 Fixed Rate Guaranteed Senior Notes Due 2020; $1,500,000,000 Fixed Rate Guaranteed Senior Notes Due 2021; $2,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2036; each of Telefónica Emisiones, S.A.U. | New York Stock Exchange |

* Not for trading, but only in connection with the listing of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.

** Not for trading, but only in connection with the listing of the $750,000,000 Fixed Rate Guaranteed Senior Notes Due 2013; $850,000,000 Floating Rate Guaranteed Senior Notes Due 2013; $1,200,000,000 Fixed Rate Guaranteed Senior Notes Due 2013; $1,250,000,000 Fixed Rate Notes Due 2015; $900,000,000 Fixed Rate Guaranteed Senior Notes Due 2015; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; $700,000,000 Fixed Rate Guaranteed Senior Notes Due 2017; $1,000,000,000 Fixed Rate Notes Due 2019; ; $1,400,000,000 Fixed Rate Guaranteed Senior Notes Due 2020; $1,500,000,000 Fixed Rate Guaranteed Senior Notes Due 2021; $2,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2036; each of Telefónica Emisiones, S.A.U. (a wholly-owned subsidiary of Telefónica, S.A.)

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each class of capital stock of Telefónica, S.A. at December 31, 2011 was:

Ordinary Shares, nominal value €1.00 per share: 4,563,996,485

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes o Nox

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o Noo

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as Issued by the international Accounting Standards Board x Other o

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 o

If this is an annual report indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No x

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this Annual Report can be identified, in some instances, by the use of words such as "will," "expect," "aim," "hope," "anticipate," "intend," "believe" and similar language or the negative thereof or by the forward-looking nature of discussions of strategy, plans or intentions. These statements appear in a number of places in this Annual Report including, without limitation, certain statements made in "Item 3. Key Information—Risk Factors," "Item 4. Information on the Company," "Item 5. Operating and Financial Review and Prospects" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk" and include statements regarding our intent, belief or current expectations with respect to, among other things:

- the effect on our results of operations of competition in telecommunications markets;
- trends affecting our financial condition or results of operations;
- acquisitions or investments which we may make in the future;
- our capital expenditures plan;
- our estimated availability of funds;
- our ability to repay debt with estimated future cash flows;
- our shareholder remuneration policies;
- supervision and regulation of the telecommunications sectors where we have significant operations;
- our strategic partnerships; and
- the potential for growth and competition in current and anticipated areas of our business.

Such forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties, and actual results may differ materially from those anticipated in the forward-looking statements as a result of various factors. The risks and uncertainties involved in our business that could affect the matters referred to in such forward-looking statements include but are not limited to:

- changes in general economic, business or political conditions in the domestic or international markets in which we operate or have material investments that may affect demand for our services;
- changes in currency exchange rates, interest rates or in credit risk in our treasury investments or in some of our financial transactions;
- existing or worsening conditions in the international financial markets;
-

the impact of current, pending or future legislation and regulation in countries where we operate, as well as any failure to renew or obtain the necessary licenses, authorizations and concessions to carry out our operations and the impact of limitations in spectrum capacity;

- the actions of existing and potential competitors in each of our markets as well as the potential effects of technological changes;
- failure of suppliers to provide necessary equipment and services on a timely basis;
- the impact of unanticipated network interruptions;

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- the effect of reports suggesting that radio frequency emissions cause health problems;
- the impact of impairment charges on our goodwill and assets as a result of changes in the regulatory, business or political environment; and
- the outcome of pending litigation.

Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date of this Annual Report including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

CERTAIN TERMS AND CONVENTIONS

Our ordinary shares, nominal value €1.00 per share, are currently listed on each of the Madrid, Barcelona, Bilbao and Valencia stock exchanges and are quoted through the Automated Quotation System under the symbol "TEF." They are also listed on various foreign stock exchanges such as the London and Buenos Aires stock exchanges. American Depositary Shares ("ADSs"), each representing the right to receive one ordinary share, are listed on the New York Stock Exchange and on the Lima Stock Exchange. ADSs are evidenced by American Depositary Receipts ("ADRs") issued under a Deposit Agreement with Citibank, N.A., as Depositary. During 2011 our shares were delisted from the Tokyo Stock Exchange, and our BDRs were delisted from the Sao Paulo Stock Exchange.

As used herein, "Telefónica," "Telefónica Group," "Group" and terms such as "we," "us" and "our" mean Telefónica, S.A. and consolidated subsidiaries, unless the context requires otherwise.

As used herein, "Atento" means Atento Holding, Inversiones y Teleservicios, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

Below are definitions of certain technical terms used in this Annual Report:

- "Access" refers to a connection to any of the telecommunications services offered by us. We present our customer base using this model because the integration of telecommunications services in bundled service packages has changed the way residential and corporate customers contract for our services. Because a single customer may contract for multiple services, we believe it is more accurate to count the number of accesses, or services a customer has contracted for, as opposed to only counting the number of our customers. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than a single customer. In addition, we fully count the accesses of all companies over which we exercise control. The following are the main categories of accesses:

  - Fixed telephony accesses: includes public switched telephone network, or PSTN, lines (including public use telephony), and integrated services digital network, or ISDN, lines and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines in service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, x20 or x10); 2/6 digital accesses (x30).

  - Internet and data accesses: includes broadband accesses (retail asymmetrical digital subscriber line "ADSL," very high bit-rate digital subscriber line "VDSL", satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (Internet service through the PSTN lines) and other accesses, including the remaining non-broadband final client circuits. "Naked ADSL" allows customers to subscribe for a broadband connection without a monthly fixed line fee.

  - Pay TV: includes cable TV, direct to home satellite TV, or DTH, and Internet Protocol TV, or IPTV.

  - Mobile accesses: includes accesses to mobile network for voice and/or data services (including connectivity). Mobile broadband includes Internet access from devices used to make voice calls and smartphones (mobile Internet), and Internet access from devices that complement fixed broadband, such as PCCards/dongles, and enable large amounts of data to be downloaded on the move (mobile connectivity). Mobile accesses are categorized into contract and prepay accesses.

  - Unbundled local loop, or ULL: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL) or only DSL service (shared unbundled loop, "shared UL").

- Wholesale ADSL: means wholesale asymmetrical digital subscriber line.
- Other: includes other circuits for other operators.

Certain technical terms used with respect to our business are as follows:

- "ARPU" is the average revenues per user per month. ARPU is calculated by dividing total service revenues (excluding inbound roaming revenues) from sales to customers for the preceding 12 months by the weighted average number of accesses for the same period, and then divided by 12 months. ARPU is calculated using gross service revenues before deduction of wholesale discounts.

- "CDMA" means Code Division Multiple Access, which is a type of radio communication technology.

- "Cloud computing" is the delivery of computing as a service rather than a product, whereby shared resources, software, and information are provided to computers and other devices as a utility over a network (typically the Internet).

- "Commercial activity" includes the addition of new lines, replacement of handsets, migrations and changes in types of contracts.

- "Customer revenue" means service revenues less interconnection revenues.

- "Duo bundle" means broadband plus voice and/or TV service. We measure "duo bundles" in terms of units, where each bundle of broadband and voice service counts as one unit.

- "Digital Dividend" refers to the amount of spectrum that will be freed up in the switchover from analogue to digital terrestrial TV.

- "FTTx" is a generic term for any broadband network architecture that uses optical fiber to replace all or part of the metal local loop typically used for the last mile of telecommunications wiring.

- "Final client accesses" means accesses provided to residential and corporate clients.

- "Gross adds" means the gross increase in the customer base measured in terms of accesses in a period.

- "HSDPA" means High Speed Downlink Packet Accesses, which is a 3G mobile telephony communications protocol in the High-Speed Packet Access (HSPA) family, which allows networks based on UMTS to have higher data transfers speeds and capacity.

- "Interconnection revenues" means revenues received from other operators which use our networks to connect to our customers.

- "ISP" means Internet service provider.

- "IT", or information technology, is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications.

- "LMDS" means local multipoint distribution service.

- "LTE" means Long Term Evolution, a mobile access technology.

- "Local loop" means the physical circuit connecting the network termination point at the subscriber's premises to the main distribution frame or equivalent facility in the fixed public telephone network.

- "M2M", or machine to machine, refers to technologies that allow both mobile and wired systems to communicate with other devices of the same ability.

- "MVNO" means mobile virtual network operator, which is a mobile operator that is not entitled to use spectrum for the provision of mobile services. Consequently, an MVNO must subscribe to an access agreement with a mobile network operator in order to provide mobile access to their customers. An MVNO pays such mobile network operator for using the infrastructure to facilitate coverage to their customers.

- "Net adds" means the difference between the customer base measured in terms of accesses at the end of the period and the beginning of the period.
- "Non SMS data revenues" means data revenues excluding SMS revenues.
- "OTT (over the top) services" means TV services over the Internet.
- "Push to talk" is a method of conversing over half-duplex communication lines, including two-way radio, using a button to switch from voice reception mode to transmit mode.
- "Revenues" means net sales and revenues from rendering of services.
- "Service revenues" means revenues less revenues from handset sales.
- "Traffic" means voice minutes used by our customers over a given period, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic (free minutes included in commercial promotions) is included. Traffic not associated with our mobile customers (roaming-in; MVNOs; interconnection of third parties and other business lines) is excluded. To arrive at the aggregate traffic for a given period, the individual components of traffic are not rounded.
- "Trio bundle" means broadband plus voice service plus TV. We measure "trio bundles" in terms of units, where each bundle of broadband, voice service and TV counts as one unit.
- "UMTS" means Universal Mobile Telecommunications System.
- "VoIP" means voice over Internet protocol.
- "Wholesale accesses" means accesses we provide to our competitors, who then sell services over such accesses to their residential and corporate clients.

In this Annual Report we make certain comparisons in local currency or on a "constant euro basis" or "excluding foreign exchange rate effects" in order to present an analysis of the development of our results of operations from year-to-year without the effects of currency fluctuations. To make comparisons on a local currency basis, we compare financial items in the relevant local currency for the periods indicated as recorded in the relevant local currency for such periods. To make comparisons on a "constant euro basis" or "excluding foreign exchange rate effects," we convert the relevant financial item into euro using the prior year's average euro to relevant local currency exchange rate. In addition, we present certain financial information excluding the effects of Venezuela being considered a hyperinflationary economy in 2009, 2010 and 2011 by eliminating all adjustments made as a result of such consideration.

## PRESENTATION OF CERTAIN FINANCIAL INFORMATION

In this Annual Report, references to “US dollars,” “dollars” or “$,” are to United States dollars, references to “pounds sterling,” “sterling” or “£” are to British pounds sterling, references to “reais” refer to Brazilian reais and references to “euro” or “€” are the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union pursuant to the treaty establishing the European Community, as amended from time to time.

Our consolidated financial statements as of December 31, 2010 and 2011, and for the years ended December 31, 2009, 2010 and 2011 included elsewhere in this Annual Report including the notes thereto (the “Consolidated Financial Statements”), are prepared in conformity with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

# PART I

## Item 1. Identity of Directors, Senior Management and Advisors

### A. Directors and Senior Management

Not applicable.

### B. Advisers

Not applicable.

### C. Auditors

Not applicable.

## Item 2. Offer Statistics and Expected Timetable

Not applicable.

## Item 3. Key Information

### A. Selected Financial Data

The following table presents certain selected consolidated financial data. It is to be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and the Consolidated Financial Statements. The consolidated income statement and cash flow data for the years ended December 31, 2009, 2010 and 2011 and the consolidated statement of financial position data as of December 31, 2010 and 2011 set forth below are derived from, and are qualified in their entirety by reference to the Consolidated Financial Statements. The consolidated income statement and cash flow data for the years ended December 31, 2007 and 2008 and the consolidated statement of financial position data as of December 31, 2007, 2008 and 2009 set forth below are derived from Telefónica, S.A.'s consolidated financial statements for such years, which are not included herein.

Our Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB.

The basis of presentation and principles of consolidation are described in detail in Notes 2 and 3(q), respectively, to our Consolidated Financial Statements.

| | As of or for the year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 |
| | (in millions of euro, except share and per share data) | | | | |
| Revenues | 56,441 | 57,946 | 56,731 | 60,737 | 62,837 |
| Other income | 4,264 | 1,865 | 1,645 | 5,869 | 2,107 |
| Supplies | (17,907) | (17,818) | (16,717) | (17,606) | (18,256) |
| Personnel expenses | (7,893) | (6,762) | (6,775) | (8,409) | (11,080) |
| Other expenses | (12,081) | (12,312) | (12,281) | (14,814) | (15,398) |
| Depreciation and amortization | (9,436) | (9,046) | (8,956) | (9,303) | (10,146) |
| Operating income | 13,388 | 13,873 | 13,647 | 16,474 | 10,064 |
| Share of profit (loss) of associates | 140 | (161) | 47 | 76 | (635) |
| Net finance expense | (2,851) | (2,821) | (2,767) | (2,537) | (2,782) |
| Net exchange differences | 7 | 24 | (540) | (112) | (159) |
| Net financial expense | (2,844) | (2,797) | (3,307) | (2,649) | (2,941) |
| Profit before tax from continuing operations | 10,684 | 10,915 | 10,387 | 13,901 | 6,488 |
| Corporate income tax | (1,565) | (3,089) | (2,450) | (3,829) | (301) |
| Profit for the year from continuing operations | 9,119 | 7,826 | 7,937 | 10,072 | 6,187 |
| Profit after taxes from discontinued operations | — | — | — | — | — |
| Profit for the year | 9,119 | 7,826 | 7,937 | 10,072 | 6,187 |
| Non-controlling interests | (213) | (234) | (161) | 95 | (784) |
| Profit for the year attributable to equity holders of the parent | 8,906 | 7,592 | 7,776 | 10,167 | 5,403 |
| Weighted average number of shares (thousands) | 4,758,707 | 4,645,852 | 4,552,656 | 4,522,228 | 4,511,165 |
| Basic and diluted earnings per share from continuing operations attributable to equity holders (euro)(1) | 1.87 | 1.63 | 1.71 | 2.25 | 1.20 |
| Basic and diluted earnings per share attributable to equity holders of the parent (euro)(1) | 1.87 | 1.63 | 1.71 | 2.25 | 1.20 |
| Earnings per ADS (euro)(1)(2) | 1.87 | 1.63 | 1.71 | 2.25 | 1.20 |
| Weighted average number of ADS (thousands)(2) | 4,758,707 | 4,645,852 | 4,552,656 | 4,522,228 | 4,511,165 |
| Cash dividends per ordinary share (euro) | 0.65 | 0.90 | 1.00 | 1.30 | 1.52 |
| Consolidated Statement of Financial Position Data | | | | | |
| Cash and cash equivalents | 5,065 | 4,277 | 9,113 | 4,220 | 4,135 |
| Property, plant and equipment | 32,460 | 30,545 | 31,999 | 35,797 | 35,463 |
| Total assets | 105,873 | 99,896 | 108,141 | 129,775 | 129,623 |
| Non-current liabilities | 58,044 | 55,202 | 56,931 | 64,599 | 69,662 |
| Equity (net) | 22,855 | 19,562 | 24,274 | 31,684 | 27,383 |
| Capital stock | 4,773 | 4,705 | 4,564 | 4,564 | 4,564 |
| Consolidated Cash Flow Data | | | | | |
| Net cash from operating activities | 15,551 | 16,366 | 16,148 | 16,672 | 17,483 |
| Net cash used in investing activities | (4,592) | (9,101) | (9,300) | (15,861) | (12,497) |
| Net cash used in financing activities | (9,425) | (7,765) | (2,281) | (5,248) | (4,912) |

(1) The per share and per ADS computations for all periods presented have been presented using the weighted average number of shares and ADSs, respectively, outstanding for each period, and have been adjusted to reflect the stock dividends which occurred during the periods presented, as if these had occurred at the beginning of the earliest period presented.

(2) Until January 20, 2011, each ADS represented the right to receive three ordinary shares. Since January 21, 2011, each ADS represents the right to receive one ordinary share. The above figures have been restated accordingly. Figures do not include any charges of the Depositary.

Exchange Rate Information

As used in this Annual Report, the term "Noon Buying Rate" refers to the rate of exchange for euro, expressed in U.S. dollars per euro, in the City of New York for cable transfers payable in foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes. The Noon Buying Rate certified by the New York Federal Reserve Bank for the euro on March 23, 2012 was $1.3263 = €1.00. The following tables describe, for the periods and dates indicated, information concerning the Noon Buying Rate for the euro. Amounts are expressed in U.S. dollars per €1.00.

| | Noon Buying Rate | | | |
|---|---|---|---|---|
| Year ended December 31, | Period end | Average (1) | High | Low |
| 2007 | 1.4603 | 1.3797 | 1.4862 | 1.2904 |
| 2008 | 1.3919 | 1.4698 | 1.6010 | 1.2446 |
| 2009 | 1.4332 | 1.3955 | 1.5100 | 1.2547 |
| 2010 | 1.3269 | 1.3261 | 1.4536 | 1.1959 |
| 2011 | 1.2973 | 1.4002 | 1.3875 | 1.2926 |
| 2012 (through March 23, 2012) | 1.3263 | 1.3105 | 1.3463 | 1.2682 |

Source: Federal Reserve Bank of New York.

(1) The average of the Noon Buying Rates for the euro on the last day reported of each month during the relevant period.

| | Noon Buying Rate | |
|---|---|---|
| Month ended | High | Low |
| September 30, 2011 | 1.4283 | 1.3446 |
| October 31, 2011 | 1.4172 | 1.3281 |
| November 30, 2011 | 1.3803 | 1.3244 |
| December 31, 2011 | 1.3487 | 1.2926 |
| January 31, 2012 | 1.3192 | 1.2682 |
| February 29, 2012 | 1.3463 | 1.3087 |
| March 31, 2012 (through March 23, 2012) | 1.3320 | 1.3025 |

Source: Federal Reserve Bank of New York.

Monetary policy within the member states of the euro zone is set by the European Central Bank. The European Central Bank has set the objective of containing inflation and will adjust interest rates in line with this policy without taking account of other economic variables such as the rate of unemployment. It has further declared that it will not set an exchange rate target for the euro.

Our ordinary shares are quoted on the Spanish stock exchanges in euro. Currency fluctuations may affect the dollar equivalent of the euro price of our shares listed on the Spanish stock exchanges and, as a result, the market price of our ADSs, which are listed on the New York Stock Exchange. Currency fluctuations may also affect the dollar amounts received by holders of ADSs on conversion by the depositary of any cash dividends paid in euro on the underlying shares.

Our consolidated results are affected by fluctuations between the euro and the currencies in which the revenues and expenses of some of our consolidated subsidiaries are denominated (principally the Brazilian real, the pound sterling, the Venezuelan Bolivar fuerte (see Note 2 to our Consolidated Financial Statements), the Argentine peso, the Chilean peso, the Czech koruna (crown), the Peruvian nuevo sol, the Mexican peso and the Colombian peso).

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

In addition to the other information contained in this Annual Report, prospective investors should carefully consider the risks described below before making any investment decision. The risks described below are not the only ones that we face. Additional risks not currently known to us or that we currently deem immaterial may also impair our business and results of operations. Our business, financial condition, results of operations and cash flow could be materially adversely affected by any of these risks, and investors could lose all or part of their investment.

Risks Relating to Our Business

A material portion of our operations and investments are located in Latin America, and we are therefore exposed to risks inherent in operating and investing in Latin America.

At December 31, 2011, approximately 48.5% of our assets were located in our Latin America segment. In addition, approximately 46.5% of our revenues for 2011 were derived from our Latin American segment operations. At December 31, 2011, 54.5% of Latin America assets and 49.0% of Latin America revenues were derived from our operations in Brazil. Our business is thus particularly sensitive to any of the risks relating to Latin America discussed in this section to the extent they arise or manifest themselves in Brazil. Our operations and investments in Latin America (including the revenues generated by these operations, their market value and the dividends and management fees expected to be received therefrom) are subject to various risks linked to the economic, political and social conditions of these countries, including risks related to the following:

- government regulation or administrative polices may change unexpectedly, including changes that modify the terms and conditions of concessions and their renewal, which could negatively affect our interests in such countries;

- the effects of inflation or currency depreciation or currency restrictions and other restraints on transfers of funds that may be imposed;

- governments may expropriate or nationalize assets or increase their participation in the economy and companies; and

- economic downturns, political instability and civil disturbances may negatively affect our operations.

Our financial condition and results of operations may be adversely affected if we do not effectively manage our exposure to foreign currency exchange rate, interest rate or financial investment risks.

We are exposed to various types of market risk in the normal course of our business, including, above all, the impact of changes in interest rates of foreign currency exchange rates. We use a variety of strategies to manage this risk, mainly through the use of financial derivatives, which themselves are suceptible to risks, including counterparty risk. Our risk management strategies may not achieve their desired effect, which could adversely affect our business, financial condition and results of operations.

For a more detailed description of our financial derivatives transactions, see “Item 11. Quantitative and Qualitative Disclosures about Market Risk” and Note 16 to our Consolidated Financial Statements.

Adverse economic conditions could reduce purchases of our products and services.

Our business is impacted by general economic conditions in each of the countries in which we operate. The current uncertainty about whether the economic recovery will continue may negatively affect the level of demand of existing and prospective customers, as our services may not be deemed critical for these customers. The principal macroeconomic factors that could have an adverse impact on consumption and, accordingly, demand for our services include access to credit, unemployment rates, consumer confidence and other general macroeconomic factors.

Existing or worsening conditions in the international financial markets may limit our ability to carry out our business plan.

The operation, expansion and upgrading of our networks, the development and distribution of our services as well as the development and implementation of new technologies or license award renewal processes, require substantial financing.

International financial markets continue to be affected by current uncertainties surrounding the pace of economic recovery, the health of the international banking system and increasing concerns regarding burgeoning public deficits in certain European countries. Worsening conditions in the international credit markets due to any of these factors may make it more difficult and more expensive to refinance our financial debt (at December 31, 2011, our net average debt scheduled to mature in the next six years was approximately €6,850 million per year) or to incur additional debt, if needed.

In addition, if our credit ratings were downgraded, our capacity to raise capital in the international capital markets could be impaired, in terms of access and cost. Although following recent downgrades in our long-term debt we have successfully tapped the capital markets in several instances, we can give no assurance regarding our ability to raise capital in the international capital markets on a timely basis or at all, or at interest rates acceptable to us.

Furthermore, market conditions may make it more difficult to renew our unused bilateral credit facilities, 24% of which as of December 31, 2011 are scheduled to mature prior to December 31, 2012. Finally, the current financial situation may also make it more difficult and costly for us to raise additional equity capital.

Risks Relating to Our Industry

We operate in a highly regulated industry, which could adversely affect our businesses, and we depend on government concessions.

As a multinational telecommunications company that operates in regulated markets, we are subject to different laws and regulations in each of the jurisdictions in which we provide services. Such laws and regulations are promulgated and enforced to varying degrees by supranational regulators such as the European Union and national, state, regional and local authorities. Regulation is particularly strict in the markets of those countries in which we hold a significant market position. In this respect, regulatory authorities regularly intervene in the retail and wholesale offering and pricing of our products and services and throughout 2011 generally placed downward pressure on wholesale and retail voice rates, roaming rates, termination rates and SMS messaging rates. Additional regulations could require us to further reduce roaming prices and termination rates in mobile and/or fixed line networks, require us to offer access to our network to other operators and result in the imposition of fines if we fail to fulfill our service commitments. Such regulations and regulatory actions could place significant competitive and pricing pressure on our operations, and could have a material adverse effect on our business, financial condition, results of operations and cash flow.

We provide most of our services under licenses, authorizations and concessions and, as such, are substantially dependent upon them. Regulatory authorities may adopt further regulations or take additional actions that could adversely affect us, including revocation of or failure to renew any of our licenses, authorizations or concessions, implementation of changes to the spectrum allocated to us or the granting or new licenses, authorizations or concessions to our competitors to offer services in the relevant markets. While we pursue license renewals to the extent provided by their contractual terms, we cannot guarantee that we will always complete this process successfully or on beneficial terms for us. In many cases we must satisfy certain obligations, including, among others, minimum specified quality standards, service and coverage conditions and capital investment thresholds in order to qualify for renewal. Failure to comply with these obligations could result in the imposition of fines or even revocation or forfeiture of the license, authorization or concession.

In addition, because we hold a leading market share in many of the counties where we operate, we could face regulatory actions by antitrust or competition authorities. These authorities could prohibit us from taking further actions such as making further acquisitions or continuing to engage in particular practices or impose fines or other penalties on us, which, if significant, could result in loss of market share and harm to our financial performance and future growth.

For further information regarding the matters discussed above and other aspects of the regulatory environments in which our businesses operate, see "Item 4. Information on the Company—Business Overview—Regulation."

We operate in highly competitive markets and the industry in which we operate is subject to rapid technological changes, which requires us to continuously adapt to such changes and to upgrade our existing networks.

We operate in markets that are highly competitive and subject to constant technological development. Therefore, we are subject to the effects of actions by competitors in these markets and rely on our ability to anticipate and adapt to constant technological changes taking place in the industry.  To compete effectively with our competitors, we need to successfully market our products and services and respond to both commercial actions by competitors and other competitive factors affecting these markets, anticipating and adapting promptly to technological changes, changes in consumer preferences and general economic, political and social conditions. Failure to do so effectively could have an adverse impact on our business, results of operations and financial condition. See "Item 4. Information on the Company—Business Overview—Competition."

New products and technologies arise constantly while the development of existing products and technologies can render obsolete the products and services we offer and the technologies we use. This can force us to investment in the development of new products, technology and services so that we can continue to compete effectively with current or future competitors.  Such investments can reduce the revenue margins we obtain. In this respect, margins from traditional voice and data business are shrinking, while new sources of revenues are arising from mobile Internet.  One technology that telecommunications operators, including us (in Spain and Latin America), are focused on is the new FTTx-type network, which offers broadband access using optical fiber with superior services, such as high speed Internet and HD television services. However, significant investment is required to deploy these networks, which entails fully or partially substituting the copper wire with fiber optic cables. Currently, minimal demand for the capabilities offered by these new networks to end users could make it difficult to quantify the return on investment and justify the high investment. In addition, many of these networks upgrade tasks and the ability to offer new products or services are not entirely under our control and may be affected by applicable regulations.

Spectrum capacity may become a limiting and costly factor.

Our mobile operations in a number of countries may rely on spectrum availability.  Failure to obtain sufficient or adequate spectrum coverage and the costs related to obtaining this capacity could have a material adverse impact on the quality of our services, on our ability to provide new services and on our cash flow, adversely affecting our business, financial condition and results of operations.  For further information regarding the matters discussed above and other aspects of the regulatory environments in which our businesses operate, see "Item 4. Information on the Company—Business Overview—Regulation—Licenses and Concessions."

Our business could be adversely affected if our suppliers fail to provide necessary equipment and services on a timely basis.

As a mobile and fixed telephony operator and provider of telecommunications services and products, we like other companies in the industry we depend upon a small number of major suppliers for essential products and services, mainly network infrastructure and mobile handsets.  These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. If these suppliers fail to deliver products and services on a timely basis, it could jeopardize our network deployment and expansion plans, which could adversely affect our ability to satisfy our license terms and requirements and have a material, adverse effect on our businesses, results of operations and financial condition.

We may be adversely affected by unanticipated network interruptions.

Unanticipated network interruptions as a result of system failures whether accidental or otherwise, including due to network, hardware or software failures, which affect the quality of or cause an interruption in our service, could result in customer dissatisfaction, reduced revenues and traffic and costly repairs, penalties or other measures imposed by regulatory authorities, and could harm our reputation. We attempt to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and building security. However, these measures are not effective under all circumstances and cannot avert every action or event that could damage or disrupt our technical infrastructure.&#