ACTION BY UNANIMOUS WRITTEN CONSENT

OF THE

BOARD OF DIRECTORS

OF

TELEFÓNICA FINANCE USA, LLC

The undersigned, being all the directors of Telefónica Finance USA, LLC, a Delaware Limited Liability Company (the "Company"), hereby adopt the following as a resolution of the board of directors of the Company:

RESOLVED, the audited financial statements for the years ended December 31, 2012 and December 31, 2011 and the report of independent certified public accountants prepared by Ernst & Young LLP and dated April 29, 2013 are hereby approved and accepted.

IN WITNESS WHERE OF, the undersigned have executed this Unanimous Written Consent as of the 29th day of April 2013.

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Fernando Rodriguez Alvarez-Cantón

____

Donald J. Puglisi

Management Report and Financial Statements

Telefónica Finance USA, L.L.C.
For the Years Ended December 31, 2012 and 2011
With Report of Independent Certified Public Accountants

Ernst & Young LLP

Ernst & Young

Telefónica Finance USA, L.L.C.

Management Report and Financial Statements

For the Years Ended December 31, 2012 and 2011

Contents

1304-1067068

Management Report

1304-1067068

Telefonica Finance USA, L.L.C.

Management Report

Management herewith submits the Financial Statements of Telefónica Finance USA, L.L.C. (the Company) for the financial year ended December 31, 2012.

Significant Changes During 2012

On October 31, 2012, Telefónica S.A. (ultimate parent company of Telefónica Finance USA. L.L.C. or Ultimate Parent) launched a public offer to all holders of preferred capital securities of the Company to purchase all preferred capital securities of the Company which were guaranteed by the Ultimate Parent in exchange for 76,4 million common shares of Telefónica S.A. at €10,1624 per share and 1,94 million newly issued unsecured debentures of Telefónica S.A., with a nominal value of €600 each. As a result of the offer, 1.941.235 preferred capital securities were purchased by the Ultimate Parent. Subsequently, on November 29, 2012, the Company purchased the preferred capital securities from Telefónica S.A. in the amount of €1.954.629.522 at the nominal rate of €1.000 plus dividend of €6,90 per preferred capital security corresponding to the accrued dividend on the purchased securities accumulated since the last dividend payment date. The preferred capital securities were subsequently retired on December 3, 2012.

As of December 31, 2012, the carrying amount of the preferred capital securities outstanding after the transaction described above is €58.765.000. On November 26, 2012, the Company and Telefónica Europe B.V. amended the Promissory Note agreement dated December 30, 2002 (Old Note) to allow for an earlier repayment prior to the note's maturity date of December 30, 2012. An early partial repayment was subsequently received in the amount of €1.941.235.000 on November 29, 2012 and the note outstanding balance was reduced to €58.765.000.

On December 30, 2012 the Company and Telefónica Europe B.V. (Borrower) entered into a Term Loan Agreement (New Loan) where the outstanding balance for Old Note was replaced by a New Loan in the amount of €58.765.000. The maturity date of the New Loan is December 30, 2017. The loan agreement allows for an earlier repayment at the discretion of the borrower. The New Loan bears an Interest Rate at an Effective Annual Rate equal to the 3-month Euribor rate plus a margin of 4,82%. Interest is payable quarterly in arrears on March 30, June 30, September 30 and December 30.

Net Income

For 2012, the Company's net income totaled €76.267.251, which represents a decrease from 2011 net income of €83.721.222, which is set out in detail in the accompanying Financial Statements.

As in previous years, during 2012 the sole income source of the Company is generated from the Promissory Note dated December 30, 2002 and the Term Loan Agreement dated December 30, 2012. During 2012, the Company generated interest income of €87.366.948, as compared to €95.820.000 for 2011. The reduction in interest income earned was a direct result of the reduction of the outstanding Promissory Note balance from €2 billion to €58.765.000 on November 29, 2012.

While market interest rates generally declined in 2012 versus 2011, this did not have an impact on interest income as the interest rate on the loan itself was unchanged, due to an interest floor in the Old Note contract with Telefónica Europe B.V.

The Company's expenses come mainly from the paid fees of a liquidity agreement signed together with the underwriters of our preferred capital securities. The Company's administrative expenses have increased by €56.809 primarily due to rating agency fees.

Dividends Payment

€76.304.315 of preferred dividends were paid during 2012, compared with €83.680.000 preferred dividends that were paid during 2011. The decrease in preferred dividends paid of €7.375.685 was a direct result of the purchase of preferred stock which occurred in November 2012.

Assets

€58.765.000 was outstanding under the New Loan compared to €2 billion outstanding under the Old Note, respectively as of December 31, 2012 and 2011.

Liabilities

There have been no notable changes in our current liabilities. The Company has not incurred any long-term liabilities.

Equity

The change in Company's equity is a result of the redemption of the preferred capital securities outstanding.

Risk Management

Company operations have always been structured taking into account potential risk variables.

Foreign Currency Risk

Since the Company's functional currency is the Euro (EUR), and there are no significant foreign currency denominated financial assets or liabilities in the Balance Sheets, fluctuations in foreign exchange rates will not have a significant impact on the Financial Statements.

Interest Rate Risk

The Company's preferred capital securities pay preferred dividends quarterly. These dividends are indexed to the three-month-Euribor (European Interbank Offered Rate). Preferred capital securities were issued including a cap of 6,823% for the calculation of the dividend, as well as a floor on 4,184%. Effective December 31, 2012, the dividends are indexed to an Effective Annual Rate equal to the three-month-Euribor plus a margin of 4,0% with no cap or floor.

The Company also incorporated the same cap and floor on its Promissory Note dated December 30, 2002, thus avoiding potential cash-flow mismatches with respect to interest rate fluctuations. The Promissory Note dated December 30, 2002 earned interest based on the three-month Euribor plus a margin (0,607%) and was subject to a cap and a floor as previously mentioned. The margin on the Promissory Note dated December 30, 2002 was changed from 0,603% to 0,607% on December 30, 2009.

The interest rate on the New Loan agreement dated December 30, 2012 is an Effective Annual Rate equal to the three-month-Euribor plus a margin of 4,82%, with no cap or floor.

Future Developments

No significant variation of granted loans or outstanding liabilities is expected.

There are no plans for any new intercompany loans, but it could change during 2013 fiscal year attending to the Telefónica group financing needs. Telefónica Finance USA, L.L.C. is a wholly owned subsidiary of Telefónica Europe B.V., which, in turn, is a wholly owned subsidiary of Telefónica, S.A.

Delaware, April 29, 2013

Financial Statements With Report of Independent Certified Public Accountants

1304-1067068

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Report of Independent Certified Public Accountants

The Board of Trustees and Securityholders
Telefónica Finance USA, L.L.C.

We have audited the accompanying financial statements of Telefónica Finance USA, L.L.C., which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, cash flows, and changes in stockholders' equity for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant 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.

ERNST & YOUNG

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Telefónica Finance USA, L.L.C. at December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

April 29, 2013

Telefónica Finance USA, L.L.C.

Balance Sheets

	December 31	
	2012	**2011**
Assets		
Current assets:		
Cash	€ **52.340**	€ 78.470
Loan to Telefónica Europe B.V. *(Note 3)*	–	2.000.000.000
Prepaid expenses	–	11.604
Accrued interest receivable	–	532.333
Total current assets	**52.340**	2.000.622.407
Loan to Telefónica Europe B.V. *(Note 3)*	**58.765.000**	–
Total assets	€ **58.817.340**	€ 2.000.622.407
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	€ **12.013**	€ 13.469
Preferred dividends payable	–	464.889
Liquidity fee payable	–	66.658
Total current liabilities	**12.013**	545.016
Stockholders' equity:		
Common capital *(Note 4)*	**95**	95
Preferred capital securities *(Note 5)*	**58.765.000**	2.000.000.000
Retained earnings	**40.232**	77.296
Total stockholders' equity	**58.805.327**	2.000.077.391
Total liabilities and stockholders' equity	€ **58.817.340**	€ 2.000.622.407

See accompanying notes.

Telefónica Finance USA, L.L.C.

Statements of Operations

	Year Ended December 31	
	2012	**2011**
Revenues:		
Interest income	€ **87.366.948**	€ 95.820.000
Operating expenses:		
Liquidity fee	**10.941.393**	12.000.000
Administrative expenses	**155.656**	98.847
Total operating expenses	**11.097.049**	12.098.847
Other expense:		
Loss on currency exchange	**2.648**	69
Net income	**76.267.251**	83.721.222
Preferred dividends	**(76.304.315)**	(83.680.000)
Net income (loss) attributable to common securityholder	€ **(37.064)**	€ 41.222

See accompanying notes.

Telefónica Finance USA, L.L.C.

Statements of Changes in Stockholders' Equity

	Preferred Capital Securities Outstanding	Common Stock	Preferred Capital Securities (1.000 Par)	Retained Earnings	Total Stockholders' Equity
December 31, 2010	2.000.000 €	95 €	2.000.000.000 €	36.074 €	2.000.036.169
Net income				83.721.222	83.721.222
Dividends on preferred capital securities				(83.680.000)	(83.680.000)
December 31, 2011	2.000.000	95	2.000.000.000	77.296	2.000.077.391
Redemption of shares of preferred capital securities	(1.941.235)		(1.941.235.000)		(1.941.235.000)
Net income				76.267.251	76.267.251
Dividends on preferred capital securities				(76.304.315)	(76.304.315)
December 31, 2012	58.765 €	95 €	58.765.000 €	40.232 €	58.805.327

See accompanying notes.

Telefónica Finance USA, L.L.C.

Statements of Cash Flows

	Year Ended December 31 2012	2011
Operating activities		
Net income	€ **76.267.251**	€ 83.721.222
Adjustments to reconcile net income to cash provided by operations:		
Changes in operating assets and liabilities:		
Increase (decrease) in prepaid expenses	**11.604**	8.444
Increase (decrease) in accrued interest receivable	**532.333**	15.635
(Decrease) increase in payables	**(533.003)**	(33.102)
Cash provided by operating activities	**76.278.185**	83.712.199
Investing activities		
Repayment on loan to Telefónica Europe B.V.	**1.941.235.000**	–
Cash provided by investing activities	**1.941.235.000**	–
Financing activities		
Purchase for redemption of preferred capital securities	**(1.941.235.000)**	–
Payment of preferred dividends	**(76.304.315)**	(83.680.000)
Cash used in financing activities	**(2.017.539.315)**	(83.680.000)
Decrease in cash	**(26.130)**	32.199
Cash – beginning of year	**78.470**	46.271
Cash – end of year	€ **52.340**	€ 78.470
Supplemental disclosure of noncash financing activities		
Accrued dividends on preferred capital securities	€ **–**	€ 464,889

See accompanying notes.

Telefónica Finance USA, L.L.C.

Notes to the Financial Statements

December 31, 2012

1. General

Telefónica Finance USA, L.L.C. (the Company) was formed under the laws of the State of Delaware on June 27, 2002. The Company commenced operations on December 30, 2002. The Company is a wholly owned subsidiary of Telefónica Europe B.V. (Telefónica Europe), which, in turn, is a wholly owned subsidiary of Telefónica, S.A. (Telefónica). Telefónica is a corporation that operates in the telecommunications, internet, and media businesses. The Company was established for the purpose of issuing preferred capital securities and common capital securities and to use substantially all of the proceeds thereof to enter into loan agreements with Telefónica Europe or other non-U.S. affiliates of Telefónica.

Significant Changes During 2012

On October 31, 2012, Telefónica S.A. (ultimate parent company of Telefónica Finance USA, L.L.C. or Ultimate Parent) launched an offer to purchase preferred capital securities of the Company which were guaranteed by the Ultimate Parent in exchange for 76,4 million common shares of Telefónica S.A. at €10,1624 per share and 1,94 million newly issued unsecured debentures of Telefónica S.A., with a nominal value of €600 each. As a result of the offer, 1.941.235 preferred capital securities were purchased by the Ultimate Parent. Subsequently, on November 29, 2012, the Company purchased the preferred capital securities from Telefónica S.A. in the amount of €1.954.629.522 at the nominal rate of €1.000 plus dividend of €6,90 per preferred capital security corresponding to the accrued dividend on the purchased securities since the last dividend payment date. The preferred capital securities were subsequently retired on December 3, 2012

As of December 31, 2012, the carrying amount of the preferred capital securities outstanding after the transaction described above is €58.765.000.

On November 26, 2012, the Company and Telefónica Europe B.V. amended the Promissory Note agreement dated December 30, 2002 (Old Note) to allow for an earlier repayment prior to the note's maturity date of December 30, 2012. An early partial repayment was subsequently received in the amount of €1.941.235.000 on November 29, 2012 and the note outstanding balance was reduced to €58.765.000.

1. General (continued)

On December 30, 2012 the Company and Telefónica Europe B.V. (Borrower) entered into a new term loan agreement (New Loan) where the outstanding balance for the loan receivable under the Old Note was replaced by a New Loan in the amount of €58.765.000. The maturity date of the New Loan is December 30, 2017. The terms of the New Loan agreement allow for an earlier repayment at the discretion of the borrower. The Interest Rate on the new loan is an Effective Annual Rate equal to the 3-month Euribor rate plus a margin of 4,82%. Interest is payable quarterly in arrears on March 30, June 30, September 30 and December 30.

2. Summary of Significant Accounting Policies

The Company's functional currency is the Euro. The following summarizes the significant accounting policies:

Cash

Cash represents cash with original maturities of three months or less.

Revenue Recognition

The Company's sole source of revenue is interest income earned on the note receivable from Telefónica Europe B.V. Interest income is recognized as earned, based upon the principal amount outstanding on an accrual basis.

Fair Value of Financial Instruments

Effective January 1, 2008, the Company adopted ASC Topic 820, *Fair Value Measurements and Disclosures* (ASC 820), to measure the fair value of our financial assets and financial liabilities. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

2. Summary of Significant Accounting Policies (continued)

ASC 820 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under ASC 820 are described below:

> Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities. The Company used Level 1 assumptions for our cash. The valuations are based on quoted prices that are readily and regularly available in an active market, and accordingly, a significant degree of judgment is not required.
>
> Level 2: Directly or indirectly observable market based inputs used in models or other valuation methodologies. The Company used Level 2 assumptions for the valuation of our loan receivable, using directly or indirectly observable market based inputs used in models or other valuation methodologies. These inputs include interest rates, yield curves, credit risk, and liquidity risk.
>
> Level 3: Unobservable inputs that are supported by little or no market data and require the use of significant management judgment. As of December 31, 2011, we did not have any Level 3 financial assets or liabilities.

Presented below is a brief summary of the significant management estimates relating to the fair value of financial instruments:

> *Cash* – The recorded amounts of cash approximate fair value due to the short-term nature of these instruments.
>
> *Loan to Telefónica Europe B. V.* – The fair value of the New Loan to Telefónica Europe B.V. in accordance with ASC 820 as of December 31, 2012, was €58.765.000 compared to a carrying amount of €58.765.000. The loan was issued at fair value on December 30, 2012 (issuance date) and there have been no significant changes in fair value as of December 31, 2012.

2. Summary of Significant Accounting Policies (continued)

The fair value of the Old Note to Telefónica Europe B.V. as of December 31, 2011 of €2.021.810.323 compared to a carrying amount of €2.000.000.000. The estimated fair value for the loan receivable was based on directly or indirectly observable market based inputs used in models or other valuation methodologies.

Allowance for Credit Losses on Financing Receivables

The allowance for credit losses is an amount that management believes will be adequate to absorb possible losses on existing financing receivables that may become uncollectible based on management's best estimates, taking into consideration items such as but not limited to, the age of the outstanding receivable, evaluation of collection probability, market conditions, and prior credit loss experience. As all amounts receivable are current, there was no allowance for credit losses on financing receivables recorded as of December 31, 2012 and 2011.

Comprehensive Loss

Net income or loss is the only component of comprehensive loss.

Concentrations of Credit Risk

The Company is subject to credit risk as its only source of income is related to the interest on the outstanding loan entered into with Telefónica Europe B.V (Parent). In the event that the Parent defaults under the terms of the loan agreement, the Company will not be able to make liquidity fee payments on its outstanding preferred shares, as well as declare dividends and redeem its preferred stock shares. The risk is mitigated by the fact that Telefónica S.A. (Ultimate Parent) is the guarantor of the preferred stock securities.

Estimates and Assumptions

Preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the financial statements and related notes. Actual results may differ from those estimates.

2. Summary of Significant Accounting Policies (continued)

Income Taxes

The Company is a domestic limited liability company and is considered a pass through entity for U.S. federal income tax purposes. As such, the income tax effects of the results of operations of the Company accrue directly to the owners. Accordingly, the accompanying financial statements do not include any effects for income taxes.

Limitation of Securityholders Liability

Except as otherwise provided by the Delaware Act, all debts, obligations and liabilities of the Company shall not be considered debts, obligations and liabilities of the Securityholders. The Securityholders shall have no liability in excess of the amount of their contributions, their share of any assets and undistributed profits of the Company, any amounts required to be paid pursuant to the LLC agreement and the amount wrongfully distributed to the Securityholders to the extent set forth in the Delaware Act.

New Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*, that amends existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. Also, items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. In December 2011, a new accounting standard was issued that indefinitely defers the effective date for the requirement to present the reclassification of items from comprehensive income to net income. Both standards require retrospective application, and are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. On January 1, 2012, the Company adopted ASU 2011-05 and the adoption of this guidance did not have an impact of the Company's financial statements, as net income is the only component of comprehensive income.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not expected to have a material impact on our financial position, results of operations or cash flows.

2. Summary of Significant Accounting Policies (continued)

Subsequent Events

The Company has evaluated subsequent events through April 29, 2013, the date the financial statements were available to be issued, and has determined there are no significant events to report.

3. Loan to Telefónica Europe B.V.

On December 30, 2002, the Company made a loan of €2 billion to Telefónica Europe in exchange for a promissory note. The note, which matured on December 30, 2012, bore an interest at a rate equal to the three-month Euro Interbank Offered Rate (Euribor) plus a margin of 0,603%, provided, however, that the three-month Euribor effective rate shall in no event be less than 4,184% or more than 6,823%. The margin on the note was changed from 0,603% to 0,607% on December 30, 2009.

On November 26, 2012, the Company and Telefónica Europe B.V. amended the Promissory Note agreement dated December 30, 2002 (Old Note) to allow for an earlier repayment prior to the note's maturity date of December 30, 2012. An early repayment was subsequently received in the amount of €1.941.235.000 on November 29, 2012 and the note's outstanding balance was reduced to €58.765.000.

On December 30, 2012 the Company and Telefónica Europe B.V. (Borrower) entered into a new term loan agreement (New Loan) where the outstanding balance for the loan receivable under the Old Note was replaced by a New Loan in the amount of €58.765.000. The maturity date of the New Loan is December 30, 2017. The loan agreement allows for an earlier repayment at the discretion of the borrower. The Interest Rate on the new loan is an Annual Effective Rate equal to the 3-month Euribor rate plus a margin of 4,82%. Interest is payable quarterly in arrears on March 30, June 30, September 30 and December 30.

4. Common Capital

The Company has authorized, issued and has outstanding 10 common capital securities, no par value, to Telefónica Europe. Common capital securities are allocated 100% of all net losses of the Company (in the event such should occur) and all gains and losses resulting from the disposition of assets from the Company. The net profits of the Company are allocated to the preferred capital securities until the amount so allocated equals the amount of dividends declared

4. Common Capital (continued)

for the year on the preferred capital securities. Any net profits in excess of the amount allocated to the preferred capital securities are allocated to the common capital securities. Allocations of net income (loss) to Common Capital securityholder in 2012 or 2011 were equal to €(37.067) and €41.222, respectively.

5. Preferred Capital Securities

The Company is authorized to issue and sell 2 million shares of preferred capital securities having an aggregate initial liquidation preference of €2 billion. This amount may be amended or restated by resolution of the Board of Directors. Holders of preferred capital securities are entitled to receive, when and if declared by the Board of Directors out of the Company's net profits, cash dividends that will be paid at such rates as will be determined by the Board of Directors prior to the first issuance of these securities. The holders should not be entitled to receive any dividend or other distribution with respect to any dividend payment date and such would not be considered due and payable, irrespective of whether those were declared by the Board of Directors, until the Company has funds legally available for the payment. Dividends on the preferred capital securities are noncumulative.

Preferred capital securities possess no voting rights. However, in the event that the Company fails to pay dividends in full on the preferred capital securities (and the guarantor fails to make a corresponding payment under the guarantee) for five consecutive dividend periods, then the holders of the preferred capital securities have the right to alter the composition of the Board of Directors as prescribed in the Amended and Restated Limited Liability Company Agreement of the Company (the Agreement).

Preferred capital securities may not be sold or otherwise transferred to persons in the United States of America except pursuant to sales or other transfers that satisfy the requirements of Regulation S under the Securities Act of 1933 (the Securities Act) or that are otherwise exempt from the registration requirements of the Securities Act.

In the event of any voluntary or involuntary liquidation of the Company, the holders of the preferred capital securities will be entitled to receive out of the assets of the Company available for distribution to security holders, an amount equal to the liquidation preference per preferred capital security, plus accrued and unpaid dividends thereon for the then-current dividend period, if any, to the date of liquidation. This distribution will occur before any distribution of assets is made to holders of common capital securities or any other class of securities ranking junior to the preferred capital securities.

5. Preferred Capital Securities (continued)

On December 30, 2002, the Company completed the issuance of two million preferred capital securities and received proceeds of €2 billion from the issuance. All costs related to this transaction were incurred by Telefónica S.A. and were not charged to the Company. Telefónica S.A. (ultimate parent company of Telefónica Finance USA, L.L.C. or Ultimate Parent) is the guarantor of these securities.

Preferred capital security holders were entitled to receive dividends at a rate equal to the three-month Euribor effective rate, provided that the three-month Euribor effective rate was no less than 4,184% or more than 6,823% until December 30, 2012. Starting December 31, 2012, the dividends are indexed to an Effective Annual Rate equal to the three-month-Euribor plus a margin of 4,0% with no cap or floor. The effective rate for the dividends was 4,185% and 4,184% as of December 31, 2012 and 2011 respectively. Dividends are payable quarterly in arrears on March 30, June 30, September 30, and December 30.

On October 31, 2012, Telefónica S.A. launched a public offer to all holders of preferred capital securities of the Company to purchase all preferred capital securities of the Company which were guaranteed by the Ultimate Parent in exchange for 76,4 million common shares of Telefónica S.A. at €10,1624 per share and 1,94 million newly issued unsecured debentures of Telefónica S.A., with a nominal value of €600 each. As a result of the offer, 1.941.235 preferred capital securities were purchased by the Ultimate Parent. Subsequently, on November 29, 2012, the Company purchased the preferred capital securities from Telefónica S.A. in the amount of €1.954.629.522 at the nominal rate of €1.000 plus dividend of €6,90 per preferred capital security corresponding to the accrued dividend on the purchased securities since the last dividend payment date. The preferred capital securities were subsequently retired on December 3, 2012.

As of December 31, 2012, the carrying amount of the preferred capital securities outstanding after the transaction described above is €58.765.000.

Starting December 31, 2012 and going forward, preferred capital security holders are entitled to receive dividends at an Annual Effective Rate equal to the three-month Euribor rate plus 4,0%.

6. Liquidity Fee

In December 2002, the Company entered into a Contrato de Liquidez (the Liquidity Fee Agreement) with the underwriters of its preferred capital securities offering. Pursuant to the Liquidity Fee Agreement, the Company is committed to pay a quarterly liquidity fee of 0,15% of the outstanding principal amount of the preferred capital securities to certain financial institutions. Liquidity fees paid in 2012 and 2011 were €10.941.393 and €12.000.000, respectively.

7. Related-Party Transactions

Pursuant to the Agreement, Telefónica Europe is responsible for, and will pay substantially all expenses of the Company to the extent such expenses are not paid by the Company. The expenses covered by the Agreement include administrative and organization costs as well as any costs resulting from any litigation against the Company. There have been no expenses paid by Telefónica S.A. on behalf of Telefónica Finance USA, LLC during the years ended December 31, 2012 and 2011.

As discussed in Note 3, the Company's loan to Telefónica Europe B.V. is with a related party.

Puglisi & Associates, under the terms of a Vendor Agreement dated October 24, 2002, provides accounting, accounts payable, treasury functions, and related administrative functions for the Company. The related vendor fee amounts to $28.500 per year. Under the terms of a Lease Agreement dated October 24, 2002, Puglisi & Associates also provides office space to the Company. The office lease expense amounts to $1.500 per year. Puglisi & Associates is a sole proprietorship owned by Donald J. Puglisi, who is a director of Telefónica Finance USA, LLC. The related director fee amounts to $6.000 per year.

Had the Company operated autonomously, the financial position, results of operations, and cash flows may have differed from what is presented here in these financial statements.

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com

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29 de abril de 2013

Ref.: Informe Anual de Gobierno Corporativo de Telefónica Finance USA, L.L.C.

Con el objeto de dar cumplimiento a lo establecido en la Norma 5ª de la *Circular 1/2004, de 17 de marzo de la Comisión Nacional del Mercado de Valores, sobre el Informe Anual de Gobierno Corporativo de las sociedades anónimas cotizadas y otras entidades emisoras de valores, y otros instrumentos de las sociedades anónimas cotizadas* (la "Circular"), les comunicamos:

a) Que la entidad Telefónica Finance USA, L.L.C. es una entidad domiciliada en el Estado de Delaware de los Estados Unidos de América, que en diciembre de 2002 realizó una emisión de Participaciones Preferentes, por importe de 1.500 millones de euros ampliable a 2.000 millones de euros, según consta en el Folleto Informativo registrado en fecha 5 de diciembre de 2002 con motivo de dicha emisión. Las Participaciones Preferentes se encuentran admitidas a cotización en AIAF Mercado de Renta Fija. El 31 de octubre de 2012, Telefónica lanzó una oferta para adquirir y amortizar las participaciones preferentes según se describe en la Nota sobre los valores relativa a la oferta de compra de participaciones preferentes de Telefónica Finance USA LLC y simultánea oferta de venta de acciones propias en autocartera y de suscripción de obligaciones simples de nueva emisión de Telefónica, S.A. inscrita con fecha 31 de octubre de 2012 en los registros oficiales de la CNMV. El 97% de los tenedores aceptó la oferta. El nominal vivo a fecha actual asciende a 58.765 millones de euros.

b) Que Telefónica Finance USA, L.L.C. es una sociedad controlada en su totalidad por Telefónica, S.A. (a través de la sociedad Telefónica Europe, B.V.).

c) Que Telefónica, S.A. ha elaborado su Informe Anual de Gobierno Corporativo correspondiente al ejercicio 2012, que fue remitido a esa Comisión mediante Hecho Relevante número 184051 y registrado el 21 de marzo de 2013.

d) Que, de acuerdo con lo anterior, y tal y como indica la Circular, Telefónica Finance USA, L.L.C. justifica, mediante el presente escrito, la no elaboración de un Informe Anual de Gobierno Corporativo y se remite, tal y como se ha indicado en el punto c) anterior, al Informe presentado por Telefónica, S.A como sociedad dominante de Telefónica Finance USA, L.L.C.

TELEFÓNICA FINANCE USA, L.L.C.
Corporation Trust Center
1209 Orange Street,
City of Wilmington, County of New Castle
Delaware 19801, U.S.A.

COMISIÓN NACIONAL DEL MERCADO DE VALORES
- MADRID -

RESPONSABILITY STATEMENT TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012.

(Article 8.1.b. of Royal Decree 1.362/2007)

The members of the Board of Directors of Telefónica Finance USA, L.L.C. hereby declare that, to the best of their knowledge:

(i) the Annual Financial Statements for the year ended December 31, 2012, approved at the meeting held on April 29, 2013, 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 Finance USA, L.L.C.

(ii) the management report includes a fair review of the development and performance of the business and the position of Telefónica Finance USA, L.L.C. and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that Telefónica Finance USA, L.L.C. faces.

On April 29, 2013

Mr. Fernando Rodríguez Álvarez-Cantón
Director of Telefónica Finance USA, L.L.C.

Mr. Donald J.Puglisi
Director of Telefónica Finance USA, L.L.C.