

Edgar Filing: CELL THERAPEUTICS INC - Form SC 13G/A

CELL THERAPEUTICS INC
Form SC 13G/A
January 31, 2008

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

SCHEDULE 13G/A

Under the Securities Exchange Act of 1934
(Amendment No. 2)*

Cell Therapeutics, Inc.
(Name of Issuer)

Common Stock, no par value
(Title of Class of Securities)

150934404
(CUSIP Number)

December 31, 2007
(Date of event which requires filing of this statement)

Check the appropriate box to designate the rule pursuant to which this
Schedule is filed:

- Rule 13d-1(b)
 Rule 13d-1(c)
 Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting
person's initial filing on this form with respect to the subject class of
securities, and for any subsequent amendment containing information which would
alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be
deemed to be "filed" for purpose of Section 18 of the Securities Exchange Act of
1934 ("Act") or otherwise subject to the liabilities of that section of the Act
but shall be subject to all other provisions of the Act (however, see the
Notes).

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(1) NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS

Highbridge International LLC

(2) CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP **

(a) [X]
(b) []

(3) SEC USE ONLY

(4) CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands, British West Indies

NUMBER OF (5) SOLE VOTING POWER
SHARES 0

BENEFICIALLY (6) SHARED VOTING POWER
OWNED BY 7.5% Convertible Senior Notes, due 2011, convertible into
EACH 2,049,615 shares of Common Stock

(7) SOLE DISPOSITIVE POWER
REPORTING 0

PERSON WITH (8) SHARED DISPOSITIVE POWER
7.5% Convertible Senior Notes, due 2011, convertible into
2,049,615 shares of Common Stock

(9) AGGREGATE AMOUNT BENEFICIALLY OWNED
BY EACH REPORTING PERSON
7.5% Convertible Senior Notes, due 2011, convertible into
2,049,615 shares of Common Stock

(10) CHECK BOX IF THE AGGREGATE AMOUNT
IN ROW (9) EXCLUDES CERTAIN SHARES **

[]

(11) PERCENT OF CLASS REPRESENTED
BY AMOUNT IN ROW (9)
3.42%

(12) TYPE OF REPORTING PERSON **
OO

** SEE INSTRUCTIONS BEFORE FILLING OUT!

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(1) NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS

Highbridge Statistical Opportunities Master Fund, L.P.

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(2) CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP **

(a) [X]
(b) []

(3) SEC USE ONLY

(4) CITIZENSHIP OR PLACE OF ORGANIZATION

Cayman Islands, British West Indies

NUMBER OF (5) SOLE VOTING POWER
SHARES 0

BENEFICIALLY (6) SHARED VOTING POWER
OWNED BY 57 shares of Common Stock

EACH (7) SOLE DISPOSITIVE POWER
REPORTING 0

PERSON WITH (8) SHARED DISPOSITIVE POWER
57 shares of Common Stock

(9) AGGREGATE AMOUNT BENEFICIALLY OWNED
BY EACH REPORTING PERSON
57 shares of Common Stock

(10) CHECK BOX IF THE AGGREGATE AMOUNT
IN ROW (9) EXCLUDES CERTAIN SHARES **

[]

(11) PERCENT OF CLASS REPRESENTED
BY AMOUNT IN ROW (9)
0.00%

(12) TYPE OF REPORTING PERSON **
PN

** SEE INSTRUCTIONS BEFORE FILLING OUT!

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(1) NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS

Highbridge Capital Management, LLC 20-1901985

(2) CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP **

(a) [X]
(b) []

(3) SEC USE ONLY

(4) CITIZENSHIP OR PLACE OF ORGANIZATION

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State of Delaware

NUMBER OF (5) SOLE VOTING POWER
0
SHARES -----
BENEFICIALLY (6) SHARED VOTING POWER
7.5% Convertible Senior Notes, due 2011, convertible into
2,049,615 shares of Common Stock
57 shares of Common Stock
OWNED BY -----
EACH (7) SOLE DISPOSITIVE POWER
0
REPORTING -----
PERSON WITH (8) SHARED DISPOSITIVE POWER
7.5% Convertible Senior Notes, due 2011, convertible into
2,049,615 shares of Common Stock
57 shares of Common Stock

(9) AGGREGATE AMOUNT BENEFICIALLY OWNED
BY EACH REPORTING PERSON
7.5% Convertible Senior Notes, due 2011, convertible into
2,049,615 shares of Common Stock
57 shares of Common Stock

(10) CHECK BOX IF THE AGGREGATE AMOUNT
IN ROW (9) EXCLUDES CERTAIN SHARES ** []

(11) PERCENT OF CLASS REPRESENTED
BY AMOUNT IN ROW (9)
3.42%

(12) TYPE OF REPORTING PERSON **
OO - Limited Liability Company

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(1) NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS

Glenn Dubin

(2) CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP **
(a) [X]
(b) []

(3) SEC USE ONLY

(4) CITIZENSHIP OR PLACE OF ORGANIZATION

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United States

NUMBER OF (5) SOLE VOTING POWER
SHARES 0

BENEFICIALLY (6) SHARED VOTING POWER
7.5% Convertible Senior Notes, due 2011, convertible into
2,049,615 shares of Common Stock
57 shares of Common Stock
OWNED BY -----
EACH (7) SOLE DISPOSITIVE POWER
REPORTING 0

PERSON WITH (8) SHARED DISPOSITIVE POWER
7.5% Convertible Senior Notes, due 2011, convertible into
2,049,615 shares of Common Stock
57 shares of Common Stock

(9) AGGREGATE AMOUNT BENEFICIALLY OWNED
BY EACH REPORTING PERSON
7.5% Convertible Senior Notes, due 2011, convertible into
2,049,615 shares of Common Stock
57 shares of Common Stock

(10) CHECK BOX IF THE AGGREGATE AMOUNT
IN ROW (9) EXCLUDES CERTAIN SHARES ** []

(11) PERCENT OF CLASS REPRESENTED
BY AMOUNT IN ROW (9)
3.42%

(12) TYPE OF REPORTING PERSON **
IN

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(1) NAMES OF REPORTING PERSONS
I.R.S. IDENTIFICATION NO. OF ABOVE PERSONS
Henry Swieca

(2) CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP **
(a) [X]
(b) []

(3) SEC USE ONLY

(4) CITIZENSHIP OR PLACE OF ORGANIZATION

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United States

NUMBER OF (5) SOLE VOTING POWER
SHARES 0

BENEFICIALLY (6) SHARED VOTING POWER
7.5% Convertible Senior Notes, due 2011, convertible into
2,049,615 shares of Common Stock
57 shares of Common Stock
OWNED BY -----
EACH (7) SOLE DISPOSITIVE POWER
REPORTING 0

PERSON WITH (8) SHARED DISPOSITIVE POWER
7.5% Convertible Senior Notes, due 2011, convertible into
2,049,615 shares of Common Stock
57 shares of Common Stock

(9) AGGREGATE AMOUNT BENEFICIALLY OWNED
BY EACH REPORTING PERSON
7.5% Convertible Senior Notes, due 2011, convertible into
2,049,615 shares of Common Stock
57 shares of Common Stock

(10) CHECK BOX IF THE AGGREGATE AMOUNT
IN ROW (9) EXCLUDES CERTAIN SHARES ** []

(11) PERCENT OF CLASS REPRESENTED
BY AMOUNT IN ROW (9)
3.42%

(12) TYPE OF REPORTING PERSON **
IN

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This Amendment No. 2 (this "Amendment") amends the statement on Schedule 13G filed on May 5, 2006, as amended by Amendment No. 1 filed on February 14, 2007 (as amended, the "Schedule 13G") with respect to shares of Common Stock, no par value ("Common Stock") of Cell Therapeutics, Inc., a Washington corporation (the "Company"). Capitalized terms used herein and not otherwise defined in this Amendment have the meanings set forth in the Schedule 13G. This Amendment amends and restates Items 2(a), 2(b), 2(c), 2(e), 4, 5 and 10 in their entirety as set forth below.

Item 2(a). Name of Person Filing
Item 2(b). Address of Principal Business Office
Item 2(c). Citizenship

HIGHBRIDGE INTERNATIONAL LLC

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c/o Harmonic Fund Services
The Cayman Corporate Centre, 4th Floor
27 Hospital Road
Grand Cayman, Cayman Islands, British West Indies
Citizenship: Cayman Islands, British West Indies

HIGHBRIDGE STATISTICAL OPPORTUNITIES MASTER FUND, L.P.
c/o Harmonic Fund Services
The Cayman Corporate Centre, 4th Floor
27 Hospital Road
Grand Cayman, Cayman Islands, British West Indies
Citizenship: Cayman Islands, British West Indies

HIGHBRIDGE CAPITAL MANAGEMENT, LLC IRS #: 20-1901985
9 West 57th Street, 27th Floor
New York, New York 10019
Citizenship: State of Delaware

GLENN DUBIN
c/o Highbridge Capital Management, LLC
9 West 57th Street, 27th Floor
New York, New York 10019
Citizenship: United States

HENRY SWIECA
c/o Highbridge Capital Management, LLC
9 West 57th Street, 27th Floor
New York, New York 10019
Citizenship: United States

Due to a change in the reporting structure of Highbridge Capital Management, LLC, Highbridge Master L.P., Highbridge Capital Corporation, Highbridge Capital L.P., Highbridge GP, Ltd. and Highbridge GP, LLC, are no longer Reporting Persons.

Item 2(e) CUSIP Number

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Item 4. Ownership

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a) Amount beneficially owned:

As of the date of this filing, (i) Highbridge International LLC owns 2,049,615 shares of Common Stock issuable upon conversion of the 7.5% Convertible Senior Notes due 2011, (ii) Highbridge Statistical Opportunities Master Fund, L.P. owns 57 shares of Common Stock and (iii) each of Highbridge Capital Management, LLC, Glenn Dubin and Henry Swieca may be deemed the beneficial owner of the 2,049,615 shares of Common Stock issuable to Highbridge International LLC upon conversion of the 7.5% Convertible Senior Notes due 2011 and the 57 shares of Common Stock owned by Highbridge Statistical Opportunities Master Fund, L.P.

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Highbridge Capital Management, LLC is the trading manager of Highbridge International, LLC and Highbridge Statistical Opportunities Master Fund, L.P. Glenn Dubin is the Chief Executive Officer of Highbridge Capital Management, LLC. Henry Swieca is the Chief Investment Officer of Highbridge Capital Management, LLC. The foregoing should not be construed in and of itself as an admission by any Reporting Person as to beneficial ownership of shares of Common Stock owned by another Reporting Person. In addition, each of Highbridge Capital Management, LLC, Glenn Dubin and Henry Swieca disclaims beneficial ownership of Common Stock owned by Highbridge International LLC and Highbridge Statistical Opportunities Master Fund, L.P.

(b) Percent of class:

The Company's Definitive Proxy Statement on Schedule 14A filed on December 21, 2007, indicates there were 57,841,193 shares of Common Stock outstanding as of December 12, 2007. Therefore, based on the Company's outstanding shares of Common Stock and the Common Stock issuable upon the conversion of the 7.5% Convertible Senior Notes due 2011, issued by the Company (i) Highbridge International LLC owns approximately 3.42% of the outstanding shares of Common Stock of the Company, (ii) Highbridge Statistical Opportunities Master Fund, L.P. owns approximately 0.00% of the outstanding shares of Common Stock of the Company and (iii) each of Highbridge Capital Management, LLC, Glenn Dubin and Henry Swieca may be deemed to beneficially own approximately 3.42% of the outstanding shares of Common Stock of the Company. The foregoing should not be construed in and of itself as an admission by any Reporting Person as to beneficial ownership of shares of Common Stock owned by another Reporting Person.

(c) Number of shares as to which such person has:

(i) Sole power to vote or to direct the vote

0

(ii) Shared power to vote or to direct the vote

See Item 4(a)

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(iii) Sole power to dispose or to direct the disposition of

0

(iv) Shared power to dispose or to direct the disposition of

See Item 4(a)

Item 5. Ownership of Five Percent or Less of a Class

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following: [X]

Item 10. Certification

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By signing below each of the undersigned certifies that, to the best of its knowledge and belief, the securities referred to above were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

Exhibits:

Exhibit I: Joint Filing Agreement, dated as of January 31, 2008, by and among Highbridge International LLC, Highbridge Statistical Opportunities Master Fund, L.P., Highbridge Capital Management, LLC, Glenn Dubin and Henry Swieca.

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SIGNATURES

After reasonable inquiry and to the best of its knowledge and belief, each of the undersigned certifies that the information with respect to it set forth in this statement is true, complete, and correct.

Dated: January 31, 2008

HIGHBRIDGE INTERNATIONAL LLC

HIGHBRIDGE STATISTICAL OPPORTUNITIES
MASTER FUND, L.P.

By: Highbridge Capital Management, LLC
its Trading Manager

By: Highbridge Capital Management, LLC
its Trading Manager

By: /s/ Noah Greenhill

Name: Noah Greenhill
Title: Managing Director

By: /s/ Noah Greenhill

Name: Noah Greenhill
Title: Managing Director

HIGHBRIDGE CAPITAL MANAGEMENT, LLC

/s/ Glenn Dubin

GLENN DUBIN

By: /s/ Noah Greenhill

Name: Noah Greenhill
Title: Managing Director

/s/ Henry Swieca

HENRY SWIECA

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EXHIBIT I

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JOINT FILING AGREEMENT

This will confirm the agreement by and among the undersigned that the Schedule 13G filed with the Securities and Exchange Commission on or about the date hereof with respect to the beneficial ownership by the undersigned of the Common Stock, no par value, of Cell Therapeutics, Inc., is being filed, and all amendments thereto will be filed, on behalf of each of the persons and entities named below in accordance with Rule 13d-1(k) under the Securities Exchange Act of 1934, as amended. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Dated as of January 31, 2008

HIGHBRIDGE INTERNATIONAL LLC

HIGHBRIDGE CAPITAL MANAGEMENT, LLC

By: /s/ Noah Greenhill

 Name: Noah Greenhill
 Title: Managing Director

By: /s/ Noah Greenhill

 Name: Noah Greenhill
 Title: Managing Director

HIGHBRIDGE STATISTICAL OPPORTUNITIES
 MASTER FUND, L.P.

By: Highbridge Capital Management, LLC
 its Trading Manager

/s/ Henry Swieca

 HENRY SWIECA

By: /s/ Noah Greenhill

 Name: Noah Greenhill
 Title: Managing Director

/s/ Glenn Dubin

 GLENN DUBIN

LAY: inline; FONT-FAMILY: arial; FONT-SIZE: 8pt"> - -

Fixed rate	(15) - - 1 - - (14) (14) - (14)
Interest rate	4.23% - - - - - - - - - -
Rate cap	- - - - - - - - - -
Instruments in ARS	171 5 4 4 - 10 194 171 23 194
Floating rate	- - - - - - - - - -
Spread	- - - - - - - - - -

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Fixed rate										
Interest rate										
Rate cap										
Instruments in BRL										
	(303)	927	494	351	255	196	1,920	1,084	590	1,674
Floating rate										
	(966)	432	199	253	70	196	184	(309)	167	(142)
Spread										
	(0.31)%	1.17%	2.91%	3.36%	12.03%	10.77%	-	-	-	-
Fixed rate										
	663	495	295	98	185	-	1,736	1,393	423	1,816
Interest rate										
	9.32%	9.47%	9.82%	9.71%	7.84%	-	-	-	-	-
Rate cap										

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Instruments in

CLP	(297)	102	329	263	287	—	684	695	(199)	496
Floating rate	57	22	69	263	287	—	698	85	105	190
Spread	2.26 %	1.48 %	1.09 %	0.98 %	1.45 %	—	—	—	—	—
Fixed rate	(354)	80	260	—	—	—	(14)	610	(304)	306
Interest rate	0.76 %	3.66 %	5.97 %	—	—	—	—	—	—	—
Rate cap	—	—	—	—	—	—	—	—	—	—

Instruments in

UFC	(3)	2	2	2	1	—	4	338	(8)	330
Floating rate	—	—	—	—	—	—	—	—	—	—
Spread	—	—	—	—	—	—	—	—	—	—
Fixed rate	(3)	2	2	2	1	—	4	338	(8)	330
Interest rate	(3.54)%	6.00 %	5.43 %	6.00 %	6.00 %	—	—	—	—	—
Rate cap	—	—	—	—	—	—	—	—	—	—

Instruments in

PEN	148	161	163	86	123	300	981	971	—	971
Floating rate	(8)	(5)	(5)	(5)	(5)	189	161	161	—	161
Spread	3.55 %	3.47 %	3.47 %	3.47 %	3.47 %	3.48 %	—	—	—	—
Fixed rate	156	166	168	91	128	111	820	810	—	810
Interest rate	6.51 %	6.60 %	7.35 %	7.48 %	7.35 %	7.37 %	—	—	—	—
Rate cap	—	—	—	—	—	—	—	—	—	—

Instruments in

COP	918	171	211	68	43	21	1,432	1,272	130	1,402
Floating rate	287	134	143	56	31	—	651	650	—	650
Spread	3.78 %	3.24 %	3.20 %	3.22 %	3.31 %	—	—	—	—	—
Fixed rate	631	37	68	12	12	21	781	622	130	752
Interest rate	4.47 %	6.48 %	6.71 %	5.22 %	5.22 %	5.30 %	—	—	—	—
Rate cap	—	—	—	—	—	—	—	—	—	—

Instruments in

UVR	—	35	—	119	132	2,437	2,723	2,723	—	2,723
Floating rate	—	35	—	119	132	2,437	2,723	2,723	—	2,723
Spread	—	—	—	—	—	—	—	—	—	—
Fixed rate	—	—	—	—	—	—	—	—	—	—
Interest rate	—	—	—	—	—	—	—	—	—	—
Rate cap	—	—	—	—	—	—	—	—	—	—

Instruments in

VEB	(1,653)	(4)	(3)	—	—	—	(1,660)	(1,671)	—	(1,671)
Floating rate	—	—	—	—	—	—	—	—	—	—
Spread	—	—	—	—	—	—	—	—	—	—
Fixed rate	(1,653)	(4)	(3)	—	—	—	(1,660)	(1,671)	—	(1,671)
Interest rate	1.68 %	14.19 %	16.00 %	—	—	—	—	—	—	—
Rate cap	—	—	—	—	—	—	—	—	—	—

Instruments in

UDI	(32)	(32)	(32)	(76)	(21)	91	(102)	876	60	936
Floating rate	(32)	(32)	(32)	(76)	(21)	91	(102)	876	60	936
Spread	3.63 %	5.21 %	5.26 %	4.66 %	6.50 %	(3.18)%	—	—	—	—
Fixed rate	—	—	—	—	—	—	—	—	—	—
Interest rate	—	—	—	—	—	—	—	—	—	—

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Rate cap	-	-	-	-	-	-	-	-	-	-
Instruments in										
MXN	451	54	276	54	54	791	1,680	920	(166)	754
Floating rate	(2)	-	-	-	-	58	56	248	(26)	222
Spread	-	-	-	-	-	0.74 %	-	-	-	-
Fixed rate	453	54	276	54	54	733	1,624	672	(140)	532
Interest rate	10.13 %	3.70 %	5.19 %	3.70 %	3.70 %	3.95 %	-	-	-	-
Rate cap	-	-	-	-	-	-	-	-	-	-

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Instruments in											
GTQ	(6)	-	-	-	-	-	(6)	(19)	-	(19)	
Floating rate	(6)	-	-	-	-	-	(6)	(6)	-	(6)	
Spread	1.00 %	-	-	-	-	-	-	-	-	-	
Fixed rate	-	-	-	-	-	-	-	(13)	-	(13)	
Interest rate	-	-	-	-	-	-	-	-	-	-	
Rate cap	-	-	-	-	-	-	-	-	-	-	
ASIA	-	-	-	-	-	-	-	520	(532)	(12)	
Instruments in											
JPY	-	-	-	-	-	-	-	520	(532)	(12)	
Floating rate	-	-	-	-	-	-	-	150	(150)	-	
Spread	-	-	-	-	-	-	-	-	-	-	
Fixed rate	-	-	-	-	-	-	-	370	(382)	(12)	
Interest rate	-	-	-	-	-	-	-	-	-	-	
Rate cap	-	-	-	-	-	-	-	-	-	-	
TOTAL	-	-	-	-	-	-	55,854	58,535	(2,230)	56,305	
Floating rate	-	-	-	-	-	-	10,172	18,353	(6,448)	11,905	
Fixed rate	-	-	-	-	-	-	41,988	36,543	4,218	40,761	
Rate cap	-	-	-	-	-	-	3,694	3,639	-	3,639	
Currency											
options	-	-	-	-	-	-	22	-	22	22	
Other	-	-	-	-	-	-	-	-	-	-	

The table below is an extract of the previous table that shows the sensitivity to interest rates originated by the Group's position on interest rate swaps categorized into instruments entered into for trading purposes and instruments entered into for purposes other than trading at December 31, 2011:

Interest rate swaps													
Millions of euros													
	Maturity												
	2012		2013		2014		2015		2016		Subsequent	Total	Fair
Trading purposes											years		value
EUR													(78)
Fixed to fixed													27
Receiving leg	(2,023)	-	(35)	(20)	-	-	-	-	-	-	-	(2,078)	(2,081)
Average interest rate	1.60 %	-	-	-	-	-	-	-	-	-	-	1.56 %	-
Paying leg	2,023	-	35	20	-	-	-	-	-	-	-	2,078	2,108
Average spread	1.60 %	-	1.12 %	1.63 %	-	-	-	-	-	-	-	1.60 %	-
Fixed to floating													(527)
Receiving leg	(475)	(1,405)	(1,447)	(745)	(2,145)	(6,626)	(12,843)	(8,061)					
Average interest rate	15.34 %	2.76 %	2.22 %	3.15 %	0.41 %	3.15 %	2.99 %						
Paying leg	475	1,405	1,447	745	2,145	6,626	12,843	7,534					
Average spread	0.17 %	0.85 %	1.35 %	0.60 %	2.57 %	-	0.71 %						
Floating to fixed													408
Receiving leg	(7,458)	(710)	(1,325)	-	(3,485)	(1,325)	(14,303)	(12,663)					
Average spread	(0.05)%	1.56 %	-	-	1.22 %	-	0.35 %						

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Paying leg	7,458	710	1,325	–	3,485	1,325	14,303	13,071
Average interest rate	0.92 %	2.35 %	3.14 %	–	1.54 %	7.80 %	1.99 %	–
Floating to floating	–	–	–	–	–	–	–	14
Receiving leg	(4,123)	–	–	(50)	–	–	(4,173)	(4,191)
Average interest rate	(0.08)%	–	–	–	–	–	(0.08)%	–
Paying leg	4,123	–	–	50	–	–	4,173	4,205
Average spread USD	(0.08)%	–	–	0.28 %	–	–	(0.08)%	–
								54

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Fixed to floating	-	-	-	-	-	-	-	-	(42)
Receiving leg	-	-	(39)	(39)	(124)	(286)	(488)	(529)	(529)
Average interest rate	-	-	1.04 %	1.66 %	1.15 %	3.61 %	2.62 %	-	-
Paying leg	-	-	39	39	124	286	488	487	487
Average spread	-	-	-	-	-	-	-	-	-
Floating to fixed	-	-	-	-	-	-	-	-	96
Receiving leg	(128)	(464)	(100)	(105)	(19)	(1,021)	(1,837)	(655)	(655)
Average spread	2.57 %	3.61 %	-	-	-	-	1.09 %	-	-
Paying leg	128	464	100	105	19	1,021	1,837	751	751
Average interest rate	-	-	0.92 %	2.52 %	1.07 %	3.31 %	2.05 %	-	-
GBP									(3)
Fixed to floating	-	-	-	-	-	-	-	-	(11)
Receiving leg	-	-	60	48	108	341	557	559	559
Average interest rate	-	-	-	-	-	-	-	-	-
Paying leg	-	-	(60)	(48)	(108)	(341)	(557)	(570)	(570)
Average spread	-	-	1.53 %	1.46 %	1.75 %	2.25 %	2.01 %	-	-
Floating to fixed	-	-	-	-	-	-	-	-	8
Receiving leg	-	-	156	-	-	269	425	434	434
Average spread	-	-	1.31 %	-	-	2.40 %	2.00 %	-	-
Paying leg	-	-	(156)	-	-	(269)	(425)	(426)	(426)
Average interest rate	-	-	-	-	-	-	-	-	-

Interest rate swaps

Millions of euros

Maturity

Non trading

purposes

2012

2013

2014

2015

2016

Subsequent
years

Total

Fair
value

EUR

522

Fixed to floating

-

-

-

-

-

(70)

(70)

(1,039)

Receiving leg

(594)

(1,654)

(2,815)

(1,005)

(3,093)

(2,650)

(11,811)

(12,717)

Average interest

rate

4.26 %

4.69 %

3.26 %

2.32 %

2.80 %

3.41 %

3.35 %

-

Paying leg

594

1,654

2,815

1,005

3,093

2,580

11,741

11,678

Average spread

0.04 %

0.03 %

0.01 %

0.03 %

0.01 %

-

0.02 %

-

Floating to fixed

-

-

-

-

-

-

-

1,561

Receiving leg

(4,776)

(4,476)

(2,330)

(6,302)

(3,120)

(13,303)

(34,307)

(24,704)

Average spread

1.03 %

0.65 %

0.74 %

0.32 %

-

-

0.34 %

-

Paying leg

4,776

4,476

2,330

6,302

3,120

13,303

34,307

26,265

Average interest

rate

0.92 %

1.33 %

1.62 %

2.70 %

3.13 %

3.19 %

2.43 %

-

Floating to

floating

-

-

-

-

-

-

-

-

Receiving leg

(42)

-

-

-

-

-

(42)

(43)

Average spread

0.43 %

-

-

-

-

-

0.43 %

-

Paying leg

42

-

-

-

-

-

42

43

Average interest

rate

(0.10)%

-

-

-

-

-

(0.10)%

-

USD

(1,916)

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Fixed to floating	-	-	-	-	-	-	-	-	(1,949)
Receiving leg	(222)	(1,711)	(79)	(1,973)	(5,103)	(5,356)	(14,444)	(12,663)	
Average interest rate	0.61 %	2.97 %	3.07 %	3.04 %	3.25 %	4.45 %	3.59 %	-	
Paying leg	222	1,711	79	1,973	5,103	5,356	14,444	10,714	
Average spread	2.27 %	0.14 %	-	0.17 %	1.90 %	-	0.75 %	-	
Floating to fixed	-	-	-	-	-	-	-	33	

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Receiving leg	(28)	(685)	(28)	(28)	(28)	—	(797)	(800)
Average spread	—	—	—	—	—	—	—	—
Paying leg	28	685	28	28	28	—	797	833
Average interest rate	4.34 %	3.35 %	4.34 %	4.34 %	4.34 %	—	3.49 %	—
MXN								(9)
Floating to fixed	—	—	—	—	—	—	—	(9)
Receiving leg	—	—	(222)	—	(166)	—	(388)	(417)
Average spread	—	—	0.55 %	—	5.38 %	—	2.62 %	—
Paying leg	—	—	222	—	166	—	388	408
Average interest rate	—	—	5.55 %	2.66 %	2.66 %	—	4.31 %	—
GBP								(174)
Fixed to floating	—	—	—	—	—	—	—	(248)
Receiving leg	—	—	(599)	—	—	(1,257)	(1,856)	(2,106)
Average interest rate	—	—	5.25 %	—	—	3.73 %	4.22 %	—
Paying leg	—	—	599	—	—	1,257	1,856	1,858
Average spread	—	—	—	—	—	—	—	—
Floating to fixed	—	—	—	—	—	—	—	74
Receiving leg	—	—	—	—	(484)	—	(484)	(484)
Average spread	—	—	—	—	—	—	—	—
Paying leg	—	—	—	—	484	—	484	558
Average interest rate	—	—	—	—	4.96 %	—	4.96 %	—
JPY								(10)
Fixed to floating	—	—	—	—	—	—	—	(10)
Receiving leg	(150)	—	—	—	(70)	—	(220)	(230)
Average interest rate	—	—	—	—	—	—	—	—
Paying leg	150	—	—	—	70	—	220	220
Average spread	0.34 %	—	—	—	2.82 %	—	1.13 %	—
CLP								(8)
Fixed to floating	—	—	—	—	—	—	—	(7)
Receiving leg	—	(22)	(31)	—	(171)	—	(224)	(246)
Average interest rate	—	4.12 %	4.51 %	—	6.51 %	—	6.00 %	—
Paying leg	—	22	31	—	171	—	224	239
Average spread	—	—	—	—	1.66 %	—	1.27 %	—
Floating to fixed	—	—	—	—	—	—	—	(1)
Receiving leg	(78)	(103)	—	—	—	—	(181)	(182)
Average spread	—	—	—	—	—	—	—	—
Paying leg	78	103	—	—	—	—	181	181
Average interest rate	1.15 %	3.76 %	—	—	—	—	2.64 %	—

Foreign exchange and interest rate options, by maturity, at December 31, 2011 were as follows:

Currency options	Maturities					Subsequent years
	2012	2013	2014	2015	2016	
Millions of euros						
Put Divisas (EURUSD)						
Notional amount of options bought	289	159		192		1,662

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Strike	1.32	%	1.49	%	1.54	%	1.38	%
Notional amount of options sold	202						832	
Strike	1.26	%					1.20	%

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Interest rate options	Maturities								
	2012		2013		2014		2015		Subsequent years
Millions of euros									
Collars									
Notional amount of options bought	919	—	—	—	504	—	—	1,698	
Strike Cap	5.05	%	—	—	4.29	%	—	4.76	%
Strike Floor	3.30	%	—	—	3.00	%	—	3.63	%
Caps									
Notional amount of options bought	2,749	—	—	—	—	—	—	—	
Strike	4.37	%	—	—	—	—	—	—	
Notional amount of options sold	3,668	—	—	—	504	—	—	1,698	
Strike	4.95	%	—	—	4.45	%	—	5.22	%
Floors									
Notional amount of options bought	919	—	—	—	450	—	—	1,698	
Strike	0.96	%	—	—	0.50	%	—	0.99	%
Notional amount of options sold	—	—	—	—	—	—	—	—	
Strike	—	—	—	—	—	—	—	—	

Cash flows receivable or payable on derivative financial instruments settled via the swap of nominals, by currency of collection/payment, along with contractual maturities at December 31, 2011 were as follows:

Millions of euros		Subsequent						Total
		2012	2013	2014	2015	2016	years	
Currency swaps								
Receive	ARS	—	—	—	—	—	—	—
Pay	ARS	—	—	—	—	—	—	—
Receive	BRL	110	—	68	—	—	—	178
Pay	BRL	(258)	(136)	(151)	(197)	(177)	(38)	(957)
Receive	CLP	89	103	—	263	116	—	571
Pay	CLP	(252)	(206)	(212)	(527)	(231)	—	(1,428)
Receive	COP	—	—	—	—	—	—	—
Pay	COP	(214)	(37)	(37)	(12)	(12)	(21)	(333)
Receive	CZK	—	—	—	—	—	—	—
Pay	CZK	(114)	(159)	(228)	(159)	(378)	—	(1,038)
Receive	EUR	608	286	281	163	1,151	—	2,489
Pay	EUR	(582)	(2,943)	(72)	(3,176)	(4,533)	(8,034)	(19,340)
Receive	GBP	—	—	—	—	—	—	—
Pay	GBP	—	—	—	—	(484)	—	(484)
Receive	JPY	599	—	—	—	70	—	669
Pay	JPY	—	—	—	—	—	—	—
Receive	MAD	90	—	—	—	—	—	90
Pay	MAD	(90)	—	—	—	—	—	(90)
Receive	MXN	—	—	—	—	—	—	—
Pay	MXN	(51)	(51)	(51)	(51)	(51)	(645)	(900)
Receive	PEN	—	—	—	—	—	—	—
Pay	PEN	(29)	(15)	(15)	(15)	(35)	(23)	(132)
Receive	UFC	199	—	166	—	133	—	498

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Pay	UFC	(100)	-	-	-	(66)	-	(166)
Receive	USD	306		3,498	284	4,203	4,690		8,419	21,400	

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Pay	USD	(189)	(260)	(73)	(277)	(54)	–	(853)
Receive	UDI	52	52	52	52	52	664	924
Pay	UDI	–	–	–	–	–	–	–
TOTAL		174	132	12	267	191	322	1,098

Millions of euros		2012	2013	2014	2015	2016	Subsequent years	Total
Forwards								
Receive	ARS	26	–	–	–	–	–	26
Pay	ARS	(197)	–	–	–	–	–	(197)
Receive	BRL	–	–	–	–	–	–	–
Pay	BRL	(192)	–	–	–	–	–	(192)
Receive	CLP	185	–	–	–	–	–	185
Pay	CLP	(91)	–	–	–	–	–	(91)
Receive	COP	18	–	–	–	–	–	18
Pay	COP	(190)	–	–	–	–	–	(190)
Receive	CZK	5	–	–	–	–	–	5
Pay	CZK	(604)	–	–	–	–	–	(604)
Receive	EUR	3,661	–	–	–	–	–	3,661
Pay	EUR	(3,350)	(19)	–	–	–	–	(3,369)
Receive	GBP	2,530	–	–	–	–	–	2,530
Pay	GBP	(994)	–	–	–	–	–	(994)
Receive	MXN	4	–	–	–	–	–	4
Pay	MXN	(597)	–	–	–	–	–	(597)
Receive	PEN	2	–	–	–	–	–	2
Pay	PEN	(93)	–	–	–	–	–	(93)
Receive	UFC	20	–	–	–	–	–	20
Pay	UFC	(20)	–	–	–	–	–	(20)
Receive	USD	1,682	22	–	–	–	–	1,704
Pay	USD	(1,792)	–	–	–	–	–	(1,792)
TOTAL		13	3	–	–	–	–	16

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Appendix IV: Interest-bearing debt

The main financing transactions included under this heading outstanding at December 31, 2012 and 2011 and their nominal amounts are as follows:

Descriptive name summary	Contractual limit amount (millions)	Currency	Outstanding principal balance (millions of euros)		Arrangement date	Maturity date
			12/31/12	12/31/11		
Telefónica, S.A. Syndicated loan**	700	EUR	700	700	04/21/2006	04/21/2017
ECAS structured facility **	351	USD	266	259	02/12/2010	11/30/2019
Syndicated loan Tranche A1	1,000	EUR	1,000	1,000	07/28/2010	07/28/2013
Syndicated loan Tranche A2	2,000	EUR	2,000	2,000	07/28/2010	07/28/2014
Syndicated loan Tranche A3	2,000	EUR	2,000	2,000	07/28/2010	07/28/2016
Syndicated loan Tranche B	3,000	EUR	3,000	3,000	07/28/2010	07/28/2015
ECAS structured facility **	370	USD	135	–	05/03/2011	07/30/2021
Bilateral loan Syndicated loan	200	EUR	200	–	02/27/2012	02/27/2015
Tranche D2 *	923	EUR	923	–	03/02/2012	12/14/2015
Telefónica Finanzas, S.A. EIB - HSLA financing (B) **	203	USD	154	196	03/31/2003	09/15/2016
EIB - RDI financing	100	EUR	100	100	12/01/2006	01/31/2015
EIB - Mobile financing	375	EUR	375	375	12/03/2007	01/30/2015
Telefonica Europe, B.V. Syndicated loan	–	GBP	–	2,502	12/14/2006	12/14/2012
Syndicated loan Tranche E	2,100	GBP	123	463	12/14/2006	12/13/2013
Bilateral loan	15,000	JPY	132	150	08/16/2007	07/27/2037
Syndicated loan Tranche D1 *	801	EUR	801	–	03/02/2012	12/14/2015
Syndicated loan Tranche E1	756	EUR	–	–	03/02/2012	03/02/2017
	1,469	GBP	–	–	03/02/2012	03/02/2017

Syndicated loan Tranche E2 ***						
Vendor Financing **	375	USD	284	–	01/05/2012	01/31/2022
Vendor Financing **	1,200	USD	–	–	08/28/2012	10/31/2023
Other instrumental companies						
Bilateral loan	160	EUR	160	160	12/22/2010	12/22/2015
Atento syndicated loan	–	EUR	–	228	03/29/2011	03/29/2015
Chile						
Syndicated loan	150	USD	114	116	06/09/2008	05/13/2013
Brazil						
EIB financing **	365	USD	277	282	10/31/2007	03/02/2015
BNDES C2						
bilateral loan **	562	BRL	208	337	08/09/2007	08/15/2014
BNDES bilateral loan **	983	BRL	365	573	10/23/2007	05/15/2015
FNE C2 bilateral loan **	259	BRL	96	105	10/30/2008	09/30/2016
BNDES C3						
bilateral loan **	3,031	BRL	668	414	09/20/2011	07/15/2019
Law 4131 bilateral loan	150	USD	114	116	10/31/2011	10/25/2013
Colombia						
Syndicated loan	–	USD	–	211	12/20/2007	05/15/2012
Bilateral loan	318,475	COP	137	–	09/27/2012	09/27/2019
Bilateral loan	600,000	COP	257	–	09/28/2012	09/28/2019
Bilateral loan	310,000	COP	–	123	12/28/2009	09/28/2012
Czech Republic						
Bilateral loan	115	EUR	–	115	07/30/1997	07/30/2012
Syndicated	3,000	CZK	119	–	09/27/2012	09/27/2016

* Facility signed in GBP redenominated into EUR on 12/14/12 and available from 12/14/12

** Facilities with amortization schedule

*** Available from 12/13/13

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Appendix V: Main companies comprising the Telefónica Group

The table below lists the main companies comprising the Telefónica Group at December 31, 2012 and the main investments consolidated using the equity method.

Included for each company are the company name, corporate purpose, country, functional currency, share capital (in million of functional currency units), the Telefónica Group's effective shareholding and the company or companies through which the Group holds a stake.

Name and corporate purpose	Country	Currency	Capital	% Telefónica Group	Holding company
Parent company: Telefónica, S.A.	Spain	EUR	4,551		
Telefónica Latinoamérica Telefónica Internacional, S.A.U.					
Investment in the telecommunications industry abroad	Spain	EUR	2,839	100%	Telefónica, S.A. (100%)
Telefonica International Holding, B.V.					Telefónica Internacional, S.A.U. (100%)
Holding company Telefónica Latinoamérica Holding, S.L.	Netherlands	EUR	-	100%	Telefónica, S.A. (94.59%) Telefónica Internacional, S.A.U. (5.41%)
Holding company Telefónica América, S.A.	Spain	EUR	185	100%	Telefónica, S.A. (50.00%) Telefónica Internacional, S.A.U. (50.00%)
Holding company Latin American Cellular Holdings, B.V.	Spain	EUR	-	100%	Telefónica Latinoamérica Holding, S.L. (100%)
Holding company Telefónica Datacorp, S.A.U.	Netherlands	EUR	-	100%	Telefónica, S.A. (100%) Telefónica Internacional, S.A.U. (29.44%) Telefónica, S.A. (24.73%) Sao Paulo Telecomunicações Participações, Ltda. (19.73%)
Holding company	Spain	EUR	700	100%	Telefónica Chile, S.A. (0.06%)
Telefónica Brasil, S.A. Wireline telephony operator in Sao Paulo	Brazil	BRL	37,798	73.96%	Telefónica Brasil, S.A. (100%)
Vivo, S.A.					Telefónica Holding de Argentina, S.A. (47.22%)
Wireless services operator	Brazil	BRL	7,051	73.96%	

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Compañía Internacional de Telecomunicaciones, S.A.					Telefónica Móviles Argentina Holding, S.A. (42.77%)
Holding company	Argentina	ARS	562	100%	Telefónica Internacional Holding, B.V. (10.01%) Compañía Internacional de Telecomunicaciones, S.A. (51.49%)
Telefónica de Argentina, S.A.					Telefónica Móviles Argentina, S.A. (29.56%) Telefónica Internacional, S.A. (16.20%) Telefónica, S.A. (1.80%)
Telecommunications service provider	Argentina	ARS	624	100%	Telefonica International Holding, B.V.(0.95%)
Telefónica Móviles Argentina Holding, S.A.					Telefónica, S.A. (75%) Telefónica Internacional, S.A.U. (25%)
Holding company	Argentina	ARS	1,198	100%	

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Name and corporate purpose	Country	Currency	Capital	% Telefónica Group	Holding company Latin America Cellular Holdings, B.V. (97.04%) Comtel Comunicaciones Telefónicas, S.A. (2.87%)
Telefónica Venezolana, C.A. Wireless communications operator	Venezuela	VEF	1,762	100%	Telefónica, S.A. (0.09%)
Telefónica Móviles Chile, S.A. Wireless communications services operator	Chile	CLP	589,404	99.99%	TEM Inversiones Chile Ltda. (99.99%) Inversiones Telefónica Internacional Holding Ltda. (53.00%)
Telefónica Chile, S.A. Local and international long distance telephony services provider	Chile	CLP	578,078	97.89%	Telefónica Internacional de Chile, S.A. (44.89%) Telefónica Latinoamérica Holding, S.L. (50.18%)
Telefónica del Perú, S.A.A. Local, domestic and international long distance telephone service provider	Peru	PEN	2,962	98.49%	Latin American Cellular Holdings, B.V. (48.31%)
Telefónica Móviles Perú, S.A.C. Wireless communications services provider	Peru	PEN	625	98.49%	Telefónica del Perú, S.A.A. (99.99%) Telefónica Internacional, S.A.U. (32.54%) Olympic, Ltda. (18.94%) Telefónica, S.A. (18.51%)
Colombia Telecomunicaciones, S.A. ESP Communications services operator	Colombia	COP	1,454,871	70%	
Telefónica Móviles México, S.A. de C.V. (MÉXICO) Holding company	Mexico	MXN	52,120	100%	Telefónica, S.A. (100%)
Pegaso Comunicaciones y Sistemas, S.A. de C.V. Wireless telephone and communications services	Mexico	MXN	27,173	100%	Telefónica Móviles México, S.A. de C.V. (100%)
Telefónica Móviles del Uruguay, S.A. Wireless communications and services operator	Uruguay	UYU	350	100%	Latin America Cellular Holdings, B.V. (68.00%) Telefónica, S.A. (32.00%)
Telefónica Larga Distancia de Puerto Rico, Inc. Telecommunications service operator		USD	113	100%	

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Telefónica Móviles Panamá, S.A.	Puerto Rico				Telefónica Internacional Holding, B.V. (100%) Telefónica, S.A. (56.30%) Panamá Cellular Holdings, B.V. (43.70%)
Wireless telephony services Telefónica Móviles El Salvador, S.A. de C.V.	Panama	USD	24	100%	
Provision of wireless and international long distance communications services	El Salvador	USD	187	99.18%	Telefónica El Salvador Holding, S.A. de C.V. (99.18%) TCG Holdings, S.A. (65.99%) Telefónica, S.A. (13.61%) Guatemala Cellular Holdings, B.V. (13.13%)
Telefónica Móviles Guatemala, S.A.					
Wireless, wireline and radio paging communications services provider	Guatemala	GTQ	2,701	100%	Panamá Cellular Holdings, B.V. (7.27%)
Telefonía Celular de Nicaragua, S.A.					
Wireless telephony services Otecel, S.A.	Nicaragua	NIO	247	100%	Latin America Cellular Holdings, B.V. (100%)
Wireless communications services provider	Ecuador	USD	183	100%	Ecuador Cellular Holdings, B.V. (100%)
Telefónica de Costa Rica TC, S.A.					
Wireless communications	Costa Rica	CRC	139,455	100%	Telefónica, S.A. (100%)
Telefónica Holding Atticus, B.V.					
Holding company	Netherlands	EUR	-	100%	Telefónica Internacional, S.A.U. (100%)

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Name and corporate purpose	Country	Currency	Capital	% Telefónica Group	Holding company
Telefónica Europe Telefónica Europe plc Holding company MmO2 plc	UK	GBP	39	100%	Telefónica, S.A. (100%) Telefónica Europe plc (99.99%)
Holding company	UK	GBP	9	99.99%	
O2 Holdings Ltd. Holding company Telefónica UK Ltd. Wireless communications services operator Tesco Mobile Ltd. (*)	UK	GBP	12	100%	MmO2 plc (100%) O2 Networks Ltd. (80.00%)
Wireless telephony services	UK	GBP	17	100%	O2 Cedar Ltd. (20.00%) O2 Communication Ltd. (50.00%) O2 (Netherlands) Holdings, B.V. (97.06%)
Telefónica O2 Ireland Limited Wireless communications services operator	Ireland	EUR	98	100%	Kilmaine Ltd (2.94%)
O2 (Europe) Ltd. Holding company Telefónica Deutschland Holding A.G.	UK	EUR	1,239	100%	Telefónica, S.A. (100%)
Holding company Telefónica Germany GmbH & Co. OHG Wireless communications services operator	Germany	EUR	1,117	76.83%	Telefónica Germany Holdings Limited (76.83%) Telefonica Deutschland Holding A.G (76.82%) Telefónica O2 Germany Management GmbH (0.01%)
Telefónica de España, S.A.U. Telecommunications service provider Telefónica Móviles España, S.A.U. Wireless communications services provider	Spain	EUR	1,024	100%	Telefónica, S.A. (100%)
Acens Technologies, S.L. Holding, housing and telecommunications solutions service provider	Spain	EUR	423	100%	Telefónica, S.A. (100%)
Telefónica Soluciones Sectoriales, S.A.U.					Telefónica de España, S.A.U. (100%)
Consulting services for ICT companies Teleinformática y Comunicaciones, S.A.U. (TELYCO)	Spain	EUR	14	100%	Telefónica de España, S.A.U. (100%)
Promotion, marketing and distribution of telephone and telematic equipment and services	Spain	EUR	8	100%	Telefónica de España, S.A.U. (100%)

Telefónica Serv. de Informática y Com. de España, S.A.U. Telecommunications systems, networks and infrastructure engineering	Spain	EUR	5	100%	Telefónica de España, S.A.U. (100%)
Telefónica Cable, S.A.U. Cable telecommunication services provider	Spain	EUR	3	100%	Telefónica de España, S.A.U. (100%)
Iberbanda, S.A. Broadband telecommunications operator	Spain	EUR	2	100%	Telefónica de España, S.A.U. (100%)
Telefónica Telecomunicaciones Públicas, S.A.U. Installation of public telephones	Spain	EUR	1	100%	Telefónica de España, S.A.U. (100%)
Telefónica Soluciones de Outsourcing, S.A. Promotion and networks management	Spain	EUR	1	100%	Telefónica Soluc. de Informática y Com. de España, S.A.U. (100%)
Telefónica Czech Republic, a.s. Telecommunications service provider	Czech Republic	CZK	28,022	69.41%	Telefónica, S.A. (69.41%)

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Telefónica Slovakia, s.r.o. Wireless telephony, internet and data transmission services	Slovakia Republic	EUR	240	69.41%	Telefónica Czech Republic, a.s. (100%)
Other companies					
Telefónica International Wholesale Services II, S.L. International services provider	Spain	EUR	-	100%	Telefónica, S.A. (100%)
Telefónica International Wholesale Services, S.L. International services provider	Spain	EUR	230	100%	Telefónica, S.A. (92.51%) Telefónica Datacorp, S.A.U. (7.49%)
Telefónica International Wholesale Services America, S.A. Provision of high bandwidth communications services	Uruguay	USD	591	100%	Telefónica, S.A. (74.36%) Telefónica International Wholesale Services, S.L. (25.64%)
Telefónica International Wholesale Services USA, Inc. Provision of high bandwidth communications services	US	USD	58	100%	T. International Wholesale Services America, S.A. (100%)
Telefónica Digital España, S.L. Holding company	Spain	EUR	9	100%	Telefónica, S.A. (100%)
Jajah Inc. IP telephony platform	US	USD	-	100%	Telefónica Europe plc (100%)
Tuenti Technologies, S.L. Private social platform	Spain	EUR	-	91.38%	Telefónica Móviles España, S.A.U. (91.38%)
Wayra Investigacion y Desarrollo, S.L. Talent identification and development in ICT.	Spain	EUR	1	100%	Telefónica Digital Holdings, S.L. (100%)
Wayra Chile Tecnología e Innovación Limitada Technological innovation-based business project development	Chile	CLP	20,028	100%	Wayra Investigacion y Desarrollo, S.L. (99.99%) Inversiones Telefónica Móviles Holding Ltda. (0.01%)
Wayra Brasil Aceleradora de Projetos Ltda. Fund manager in holding companies	Brazil	BRL	5	100%	Sao Paulo Telecomunicações Participações, Ltda. (100.00%)

WY Telecom, S.A. de C.V. Talent identification and development in ICT.	Mexico	MXN	24	100%	Wayra Investigacion y Desarrollo, S.L. (99.99%) Telefónica Digital Holdings, S.L. (0.01%) Telefónica Móviles Argentina, S.A. (90%) Telefónica Móviles Argentina Holding, B.V. (10%)
Wayra Argentina, S.A. Talent identification and development in ICT.	Argentina	ARS	15	100%	
Wayra Colombia, S.A.S. Technological innovation-based business project development Proyecto Wayra, C.A.	Colombia	COP	239	100%	Wayra Investigacion y Desarrollo, S.L. (100%)
Commercial, industrial and mercantile activities Wayra Perú Aceleradora de Proyectos, S.A.C.	Venezuela	VEF	11	100%	Telefónica Venezolana, C.A. (100%)
Technological innovation-based business project development Terra Networks Brasil, S.A.	Peru	PEN	5	99.99%	Wayra Investigacion y Desarrollo, S.L. (99.99%)
ISP and portal Terra Networks México, S.A. de C.V.	Brazil	BRL	1,046	100%	Sao Paulo Telecomunicações Participações, Ltda. (100%)
ISP, portal and real-time financial information services	Mexico	MXN	837	99.99%	Terra Networks Mexico Holding, S.A. de C.V. (99.99%)

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Terra Networks Perú, S.A.					
ISP and portal	Peru	PEN	10	99.99%	Telefónica Internacional, S.A.U. (99.99%)
Terra Networks Argentina, S.A.					Telefónica Internacional, S.A.U. (99.99%)
ISP and portal	Argentina	ARS	7	100%	Telefonica International Holding, B.V. (0.01%)
Terra Networks Guatemala, S.A.					Telefónica Internacional, S.A.U. (99.99%)
ISP and portal	Guatemala	GTQ	154	99.99%	Telefónica Internacional, S.A.U. (99.99%)
Telfisa Global, B.V.					
Integrated cash management, consulting and financial support for Group companies	Netherlands	EUR	703	100%	Telefónica, S.A. (100%)
Telefónica Global Activities Holding, B.V.					
Holding company	Netherlands	EUR	-	100%	Telfisa Global, B.V. (100%)
Telefónica Global Services, GmbH					
Purchasing services	Germany	EUR	-	100%	Telefónica Global Activities Holding, B.V. (100%)
Telefónica Global Roaming, GmbH					
Optimization of network traffic	Germany	EUR	-	100%	Telefónica Global Services, GmbH (100%)
Telefónica Compras Electrónicas, S.L.					
Development and provision of information society services	Spain	EUR	-	100%	Telefónica Global Services, GmbH (100%)
Telefónica de Contenidos, S.A.U.					
Organization and operation of multimedia service-related business	Spain	EUR	1,865	100%	Telefónica, S.A. (100%) Atlántida Comunicaciones S.A. (79.02%)
Televisión Federal S.A.- TELEFE					
Provision and operation TV and radio broadcasting -services	Argentina	ARS	135	100%	Enfisar S.A. (20.98%) Telefonica Media Argentina S.A. (93.02%)
Atlántida Comunicaciones, S.A.					
Media	Argentina	ARS	22	100%	Telefónica Holding de Argentina, S.A. (6.98%)
Telefónica Servicios Audiovisuales, S.A.U.					
Provision of all type of audiovisual telecommunications services	Spain	EUR	6	100%	Telefónica de Contenidos, S.A.U. (100%)
Telefónica On The Spot Services, S.A.U.					
Provision of telemarketing services	Spain	EUR	1	100%	Telefónica de Contenidos, S.A.U. (100%)

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Telefónica Broadcast Services, S.L.U.

DSNG – based transmission and
operation services

Spain EUR - 100%

Telefónica Servicios
Audiovisuales, S.A.U.
(100%)

Telefónica Learning Services, S.L.

Vertical e-learning portal

Spain EUR 1 100%

Telefónica Digital España,
S.L. (100%)

Atento Inversiones y Teleservicios,
S.A.U.

Holding company

Spain EUR 24 100%

Telefónica, S.A. (100%)

Atento Venezuela, S.A.

Provision of call-center services

Venezuela VEF 70 100%

Atento Inversiones y
Teleservicios, S.A.U. (100%)

Telfin Ireland Ltd.

Intragroup financing

Ireland EUR - 100%

Telefónica, S.A. (100%)

Telefónica Ingeniería de Seguridad,
S.A.U.

Security services and systems

Spain EUR 7 100%

Telefónica, S.A. (100%)

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Telefónica Engenharia de Segurança do Brasil, Ltda.					
Security services and systems Telefónica Capital, S.A.U.	Brazil	BRL	35	99.99%	Telefónica Ingeniería de Seguridad, S.A. (99.99%)
Finance company Lotca Servicios Integrales, S.L.	Spain	EUR	7	100%	Telefónica, S.A. (100%)
Aircraft ownership and operation Fonditel Pensiones, Entidad Gestora de Fondos de Pensiones, S.A.	Spain	EUR	17	100%	Telefónica, S.A. (100%)
Administration of pension funds Fonditel Gestión, Soc. Gestora de Instituciones de Inversión Colectiva, S.A.	Spain	EUR	16	70.00%	Telefónica Capital, S.A. (70.00%)
Administration and representation of collective investment schemes Telefónica Investigación y Desarrollo, S.A.U.	Spain	EUR	2	100%	Telefónica Capital, S.A. (100%)
Telecommunications research activities and projects Telefónica Investigación y Desarrollo de México, S.A. de C.V.	Spain	EUR	6	100%	Telefónica, S.A. (100%)
Telecommunications research activities and projects Telefónica Luxembourg Holding, S.à.r.L.	Mexico	MXN	-	100%	Telefónica Investigación y Desarrollo, S.A. (100%)
Holding company Casiopea Reaseguradora, S.A.	Luxembourg	EUR	3	100%	Telefónica, S.A. (100%)
Reinsurance Telefónica Insurance, S.A.	Luxembourg	EUR	4	100%	Telefónica Luxembourg Holding, S.à.r.L. (100%)
Direct insurance transactions Seguros de Vida y Pensiones Antares, S.A.	Luxembourg	EUR	7	100%	Telefónica Luxembourg Holding, S.à.r.L. (100%)
Life insurance, pensions and health insurance Telefónica Finanzas, S.A.U. (TELFISA)	Spain	EUR	51	100%	Telefónica, S.A. (100%)
Integrated cash management, consulting and financial support for Group companies Pléyade Peninsular, Correduría de Seguros y Reaseguros del Grupo Telefónica, S.A.	Spain	EUR	3	100%	Telefónica, S.A. (100%) Telefónica Finanzas, S.A.U. (TELFISA) (83.33%)

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Distribution, promotion or preparation of insurance contracts Fisatel Mexico, S.A. de C.V.	Spain	EUR	-	100%	Telefónica, S.A. (16.67%)
Integrated cash management, consulting and financial support for Group companies Telefónica Europe, B.V.	Mexico	MXN	5	100%	Telefónica, S.A. (100%)
Fund raising in capital markets Telefónica Finance USA, L.L.C.	Netherlands	EUR	-	100%	Telefónica, S.A. (100%) Telefónica Europe, B.V. (100%)
Financial intermediation Telefónica Emisiones, S.A.U.	US	EUR	59	0.01%	
Financial debt instrument issuer Telefónica Global Technology, S.A.U.	Spain	EUR	-	100%	Telefónica, S.A. (100%)
Global management and operation of IT systems Telefónica Móviles Soluciones y Aplicaciones, S.A.	Spain	EUR	13	100%	Telefónica, S.A. (100%)
IT and communications services provider Aliança Atlântica Holding B.V.	Chile	CLP	7,801	100%	Telefónica S.A. (100%) Telefónica, S.A. (50.00%) Telefónica Brasil, S.A. (43.99%)
Holding company	Netherlands	EUR	40	93.99%	

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Name and corporate purpose	Country	Currency	Capital	% Telefónica Group	Holding company
Telefónica Gestión de Servicios Compartidos España, S.A. Management and administrative services rendered	Spain	EUR	8	100%	Telefónica, S.A. (100%) Telefónica Gestión de Servicios Compartidos España, S.A. (95.00%)
Telefónica Gestión de Servicios Compartidos Argentina, S.A. Management and administrative services rendered	Argentina	ARS	-	99.99%	Telefónica, S.A. (4.99%)
Telefónica Gestión de Servicios Compartidos de Chile, S.A. Management and administrative services rendered	Chile	CLP	1,019	97.89%	Telefónica Chile, S.A. (97.89%)
Telefónica Gestión de Servicios Compartidos Perú, S.A.C. Management and administrative services rendered	Peru	PEN	1	100%	T. Gestión de Servicios Compartidos España, S.A. (99.48%) Telefónica del Perú, S.A.A. (0.52%)
Telefónica Transportes e Logística Ltda. Logistics services rendered	Brazil	BRL	-	99.33%	Telefónica Gestión de Servicios Compartidos España, S.A. (99.33%)
Telefónica Serviços Empresariais do BRASIL, Ltda. Management and administrative services rendered	Brazil	BRL	12	99.99%	Telefónica Gestión de Servicios Compartidos España, S.A. (99.99%)
Telefónica Gestión de Servicios Compartidos México, S.A. de C.V. Management and administrative services rendered	Mexico	MXN	50	100%	Telefónica Gestión de Servicios Compartidos España, S.A. (100%)
Telefónica Servicios Integrales de Distribución, S.A.U. Distribution services provider	Spain	EUR	2	100%	Telefónica Gestión de Servicios Compartidos España, S.A. (100%) Telefónica Gestión de Servicios Compartidos España, S.A. (99.4775%) Telefónica del Perú, S.A.A. (0.5160%)
TGestiona Logística, S.A.C. Logistics	Peru	PEN	15	100%	Telefónica Gestión de Servicios Compartidos Perú,

					S.A.C. (0.0065%)
Telefónica Gestión Integral de Edificios y Servicios, S.L. Management and administrative services rendered	Spain	EUR	-	100%	Taetel, S.L. (100%)
Tempotel, Empresa de Trabajo Temporal, S.A. Temporary employment agency	Spain	EUR	-	100%	Taetel, S.L. (100%)
Companies accounted for using the equity method					
Telefónica Factoring España, S.A. Factoring services provider	Spain	EUR	5	50.00%	Telefónica, S.A. (50.00%) Telefónica, S.A. (40.00%)
Telefónica Factoring Do Brasil, Ltd. Factoring services provider	Brazil	BRL	5	50.00%	Telefónica Factoring España, S.A. (10.00%)
Telefónica Factoring Mexico, S.A. de C.V. SOFOM ENR Factoring services provider	Mexico	MXN	33	50.00%	Telefónica, S.A. (40.5%) Telefónica Factoring España, S.A. (9.50%)
Telefónica Factoring Perú, S.A.C. Factoring services provider	Peru	PEN	6	50.00%	Telefónica, S.A. (40.5%) Telefónica Factoring España, S.A. (9.50%)
Telefónica Factoring Colombia, S.A. Factoring services provider	Colombia	COP	4,000	50.00%	Telefónica, S.A. (40,5%) Telefónica Factoring España, S.A. (9.50%)
Telco, S.p.A. Holding company	Italy	EUR	1,785	46.18%	Telefónica, S.A. (46.18%)

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DTS Distribuidora de Televisión Digital, S.A. Broadcasting, satellite TV signal transmission and linkage services	Spain	EUR	126	22.00%	Telefónica de Contenidos, S.A.U. (22%)
China Unicom (Hong Kong) Ltd. Telecommunications service operator	China	RMB	2,311	5.01%	Telefónica Internacional, S.A.U. (5.01%)

(*) Consolidated by using proportionate consolidation method

Through these consolidated financial statements, Telefónica (Germany) GmbH & Co.OHG, complies with the provisions of Art.264b HGB “Handelsgesetzbuch”: Germany code of commerce, and is exempt in accordance with the stipulations of Art.264b HGB.

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Appendix VI: Key regulatory issues and concessions and licenses held by the Telefónica Group

Regulations

As a telecommunications operator, the Telefónica Group is subject to sector-specific telecommunications regulations, general competition law and a variety of other regulations, which can have a direct and material effect on the Group's business areas, particularly in regions that favor more exclusive regulatory intervention. The extent to which telecommunications regulations apply to the Telefónica Group depends largely on the nature of our activities in a particular country, with traditional fixed telephony services usually subject to more extensive regulations.

In order to operate its networks, the Telefónica Group must obtain general authorizations, concessions and/or licenses from the pertinent authorities in each country in which the Group operates (hereinafter referred to as the national regulatory authority, NRAs). The Group is also required to obtain radio frequency licenses for its mobile operations. The duration of any particular license or spectrum right depends on the legal framework in place in the relevant country.

The following section describes the regulatory frameworks and the latest legislative developments in the regions and countries in which the Group has significant interests. Many of the regulatory developments described herein involve ongoing proceedings or consideration of potential legislation that have not reached a conclusion. Accordingly, it is difficult to accurately quantify the effect on the Group's operations of these developments in such instances.

Electronic Communication Regulation in the European Union

The European Union's legal framework for electronic communications services was developed during many years with the aim of promoting competition and improving the harmonized functioning of the European market for telecommunications networks and services. The European Union's legal framework was last modified in 2009, in response to market and technological and changes in the industry.

Rules promulgated pursuant to the European Union's Legal framework define user's rights and focus on access to networks, interconnection, privacy, data security, and protection and preservation of universal access, among other things. Recent EU measures have supplemented the EU framework with regulations focused on international roaming, spectrum, and call termination rates for fixed and mobile networks.

European Union Member States are generally required to incorporate EU legislation into their national law regimes and consider European legislation when applying their national laws. In each Member State a national regulatory authority, or NRAs, is responsible for enforcing national telecommunications laws incorporating the EU framework. NRAs generally have significant power under their relevant telecommunication acts, including the authority to impose network access and interconnections obligations, and to approve or review new charges and conditions of wholesale and retail services of providers with "significant market power" or SMP. In general, an operator is considered to have SMP if its share of a particular market exceeds 40%. NRAs are also entrusted with duties on spectrum assignments and frequencies supervision, and to impose universal service obligations.

NRAs are subject to the supervision of the European Commission, which formally and informally influences their decisions in order to ensure harmonized application of the EU framework throughout the European Union. In particular, the European Commission has identified certain markets that are susceptible of ex-ante regulation. These markets have to be analyzed by ANRs in order to see whether there are participants with SMP. In these instances, NRAs are instructed to impose at least one obligation relating to price control, transparency, non-discrimination, accounting separation or access obligations on market participants. Along with these general requirements, the

Commission has adopted specific recommendations on certain markets, such as next-generation fixed networks or call termination on fixed and mobile networks. Companies may challenge the decisions of their national regulatory authorities before their domestic courts. Such legal proceedings may led to a decision by the European Court of Justice or ECJ, which is the ultimate authority on the correct application of EU legislation.

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EU competition law

The European Union's competition rules have the force of law in all EU Member States and are, therefore applicable to the Telefónica Group's operations in those countries.

The Treaty of Rome, which officially established the European Economic Community, prohibits "concerted practices" and all agreements for undertakings that may affect trade between Member States and which restrict or are intended to restrict, competition within the internal market. The treaty also prohibits any abuse of a dominant competitive position within the common market of the EU, or any substantial part of it, that may affect trade between Member States.

The EU Merger Regulation requires that all mergers, acquisitions, and joint ventures involving participants meeting certain turnover thresholds be submitted to the EU Commission for review, rather than to the national competition authorities. Under the amended EU Merger Regulation, market concentrations will be prohibited if they significantly impede effective competition in the EU common market. The European Commission and the office of the European Competition Commissioner are granted the authority to apply the EU competition framework.

Similar competition rules are set forth in each EU Member State, with the corresponding national competition authorities overseeing compliance with these regulations. All the European countries in which the Telefónica Group operates and referred to below are Member States of the European Union.

Recent developments

The regulatory debate in the European Union has continued to focus on the roll-out of ultra-high speed networks, roaming and net neutrality, issues particularly important for the development of the European telecommunications market and Information Society.

During 2012, the Commission continued a debate about the costs and prices of current fixed copper networks and future fibre networks. The Commission is looking for ways to promote fibre investment and is asking for views about the best approach for setting the prices of current and future wholesale services in order to facilitate fibre investments.

On July 12, 2012, Commissioner Kroes released a policy statement on a regulation package intended to create a more stable fibre investment environment in Europe to be applicable at least until 2020. It will provide more pricing flexibility for fibre pricing at retail and wholesale (by departing from the cost-orientation pricing) at the expense of more strict measures on the replicability of fibre based access services. In addition, the idea of forcing copper prices down in order to foster fibre investment has been definitively discarded and the Commission is now bound to ensure copper price stability (around 9€ on average for ULL). Details need now to be developed and materialised in a Commission Recommendation on Non-discrimination and on Costing methodologies. It is expected to be ready by mid-2013. Additionally the Commissioner announced that she will be proposing legislative measures to reduce the cost of NGA roll-outs including sharing of ducts from utilities and smother permitting processes this year.

On July 2012, the Commission launched a new public consultation on Net Neutrality, focusing on transparent offers to end users, traffic management and privacy. The Commission will also release a Recommendation on Net Neutrality during 2013. The Recommendation is expected to focus mainly on transparency issues of retail broadband offers. The intention is that users are well informed about the traffic management practices of operators, so they can take this information into account when they choose their fixed or mobile broadband offer. On June 2012, the Commission approved the International Roaming Regulation (Roaming III), which replaces previous regulations Roaming (Roaming I and II).

This new Regulation contains, for the first time, structural measures to impulse competition in the market for international roaming, so that, from July 1, 2014, customers could, if they wish, sign a roaming agreement with another operator apart from their domestic mobile services without changing the phone number, terminal or SIM card to change countries. The proposal also would entitle mobile operators to use other operators' networks in other Member States at regulated wholesale prices, thereby encouraging more operators to compete on the roaming market.

To cover the period until such structural measures are fully effective and competition pushes prices down, the proposal gradually reduces the limits of retail and wholesale prices for voice, text (SMS) and data. Price cuts have to implemented by operators on July 1st, 2012, 2013 and 2014.

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The retail prices set by the Regulation are as follows:

	Previous Not regulated	July 1, 2012	July 1, 2013	July 1, 2014
Data (€cent/MB)	35	70	45	20
Voice - calls made (€cent/min)	11	29	24	19
Voice - calls received (€cent/min)	11	8	7	5
SMS (€cent/text)	11	9	8	6

The wholesale prices set by Regulation are as follows:

	Previous	July 1, 2012	July 1, 2013	July 1, 2014
Data (€cent/MB)	50	25	15	5
Voice (€cent/min)	18	14	10	5
SMS (€cent/text)	4	3	2	2

On September 2009, the Commission adopted Directive 114/2009, amending the GSM Directive 372/87, which authorizes the use of GSM band for the provision of mobile broadband services. On 14 February 2012 the European Parliament and the Council adopted Decision 243/2012/EU which settles a multiannual program policy spectrum for the following four years. The Radio Spectrum Policy Programme, amongst others, will identify 1200MHz spectrum for wireless data traffic, explore new approaches in spectrum licensing, identify long term spectrum needs and finally will look for additional harmonized bands for mobile broadband.

On May 2009, the Commission approved the Recommendation on the methodology for determining wholesale termination prices between fixed and mobile network operators, which is having its impact on the decisions of national regulators about the pricing of termination wholesale fixed and mobile networks.

Finally, in its Digital Agenda, the EU has set some objectives for broadband development: 100% of broadband coverage by 2013, increase of the speed up to 30 Mbps for all European citizens by 2020 and 50% of European households connected to 100Mbps by 2020.

Telefónica Europe

Spain

General regulatory framework

The legal framework for the regulation of the telecommunications sector in Spain is governed by the General Telecommunications Law (32/2003) and several Royal Decrees. The General Telecommunications Law, among other things, sets forth rules regarding the new system of notification for electronic communications services, establishes the terms by which operators interconnect their networks, defines the universal service provision regime and subjects providers with SMP in particular telecommunications markets to specific obligations.

This law has been modified by Royal Decree law 13/2012 of March 30, which transposes directives regarding the gas, and the electric interior markets, and regarding electronic communications. The Royal Decree adopts measures in order to correct deviations caused by the mismatch between revenues and expenses of the electric and gas sector.

Regulatory supervision

The Telecommunications Market Commission, or the CMT, is the NRA responsible for regulating the telecommunications and audiovisual service markets in Spain.

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Market analysis

Pursuant to the EU framework, the CMT identifies those markets in which true competition could be hindered, and sets out specific obligations for those operators holding significant market power (SMP). The CMT has carried out market analyses to determine which operators hold SMP in specific markets. Some of the most prominent conclusions drawn from these analyses, and the corresponding legislative changes, are described below.

Fixed markets

Retail access to the fixed-location public telephone network, retail market for calls in a fixed location, and retail market for rental lines

In this market, the CMT had made a third round of market analysis, applying a final resolution dated on December 13, 2012, concluding that Telefónica de España has significant market power in retail access to fixed-location public telephone network services, for clients with an identification number not associated to a specific business plan, such as a reference market which can be regulated ex ante.

As an operator with SMP, Telefónica de España is subject to certain specific obligations and restrictions, in which we can include: operator selection (call to call and pre-selection); Telefónica cannot commercialize retail offers which could result in free competence risks; retail price transparency, with prior notification of 21 days, or the one which could delimit the methodology updates for the ex-ante analysis of Telefónica's commercial offer, carried out every 6 months. It also delimits the capacity limits for doing promotions in the different combined services or packaging; accounting separation, and cost accounting regarding the access services to the RTPF. For the client services not included in this analysis, they maintain the obligations of the previous analysis, where it is pointed out the price limit of the monthly fee.

The offer presented and approved by the Ministry of Industry, Energy and Tourism, for the provision of an obligation (Universal Service), considered an update of the annual fee due to the CPI (consumer price index).

Wholesale fixed call origination market

On March 22, 2007, the CMT adopted new regulations concerning call origination on the wholesale fixed call origination market that oblige Telefónica de España to provide wholesale access to its fixed network to other operators, allowing competitors to use its networks to provide access and other associated services to their own customers.

In December 2008, the CMT concluded that Telefónica de España is an operator with SMP in this market and requested that Telefónica de España offer wholesale service to assist other operators in offering IP telephony services and provide transparent information of migration to Next Generation Networks, or NGN, centrals, which involves the provision of a wide range of information to competitors about network evolution.

Fixed call termination market on individual networks

As an operator with SMP in fixed call termination market on individual networks, Telefónica de España is required to submit an "Interconnection Reference Offer" (OIR) outlining the terms and conditions under which it will interconnect with other operators. In November 2010 the CMT approved a modification of the Telefónica OIR, reducing interconnection prices paid by alternative operators for call termination in Telefónica network.

Mobile market

Mobile voice call termination

On May 2012, Resolution MTZ 2011/2503 approved the definition and analysis of the markets for voice call termination on individual mobile networks, the designation of operators with significant market power and the imposition of specific obligations for these operators, and imposes notification to the European Commission and the Body of European Regulators for Electronic Communications (BEREC). The definitive measure maintains the target wholesale price at 0.109 euros/minute, in the delimit of the fixed glide path, which will be ready in July 2013, which represents a decrease of

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approximately 75% (from 0.04 euros/minute) in the wholesale prices of the three main mobile operators networks (Movistar, Vodafone and Orange), and down nearly 80% for Yoigo (from 0.0498 to 0.0109 euros/minute).

Wholesale (physical) to network infrastructure access

In January 2009, the CMT concluded that Telefónica de España is an operator with SMP in the wholesale (physical) network infrastructures access market, and imposed the following obligations on Telefónica de España: access to full and shared unbundled access to copper loops, sub-loops and ducts, cost oriented tariffs and accounting separation, transparency and non-discrimination obligations including an “Unbundling Reference Offer” and a “Ducts Reference Offer.” In February 2008, the CMT imposed similar obligations with respect to vertical access to buildings.

Wholesale broadband access

In January 2009, the CMT concluded that Telefónica de España has significant market power in the wholesale broadband access market and is therefore required to provide other operators with wholesale broadband access services up to 30 Mbps in copper and fiber infrastructures. The CMT also required Telefónica de España to publish a wholesale broadband access reference offer, provide cost-oriented rates and accounting separation, to avoid discrimination in network access, and to report broadband retail changes in services prior to offering them in the market.

On November 16, 2010, the CMT approved a new wholesale broadband offer (known as the new broadband Ethernet service or NEBA) which will allow alternative operators to provide retail services to consumers more independently from Telefónica retail offers. Until the NEBA service is available, Telefónica will offer its FTTH retail services for resale through third parties.

Universal service obligations

The General Telecommunications Law aims to ensure that all Spanish citizens have access to certain basic telecommunications services, regardless of their geographic location, with a minimum quality level and at accessible prices.

Under the law, universal service is generally defined as a set of communication services satisfying reasonable quality and price threshold guaranteed to all end users, irrespective of their geographic location. Universal service aims to ensure that all citizens have access to a connection to the fixed line public network and network services, a telephone directory service, a sufficient number of public telephones and functional Internet access. Additional provisions included within the scope of a universal service obligation, or USO, ensure that users with disabilities and special social needs, including those with low incomes, have access to the services enjoyed by the majority of users.

In December 2008, following applications by three operators, Telefónica de España was awarded a tender for the provision of directory enquiry services for a period of three years and it has also been designated for the provision of the remaining universal service elements until a new tender process takes place. A new tender process took place during the third quarter of 2011. Telefónica de España, SAU was designated the operator responsible for the provision of the connection to the public electronic communications network, with the possibility of establishing broadband data connection with a descending speed no less than 1Mbit per second, and the provision of the public telephone service available from a fixed location and the operator responsible for the preparation and delivery of public telephone directories to the telephone subscribers. Telefónica Telecomunicaciones Públicas, SAU was designated as the operator responsible for the provision of a sufficient supply of public payphones .In December 2012, Telefónica de España has noted the Ministry of Industry, Energy and Tourism, its intention to update the annual fee

due to the CPI (consumer price index).

Consumer protection

On December 9, 2006, Law 44/2006 regarding the protection of consumers and users was approved, which provides that users may only be charged for services actually used. Consequently, operators may only charge based on exact seconds of usage.

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Data retention for law enforcement purposes

The 2006 Directive 2006/24/EC of the European Parliament and of the Council on the retention of data generated or processed in connection with the provision of publicly available electronic communications services or of public communications networks (“Data Retention Directive”) was incorporated into Spanish legislation on November 9, 2007. Electronic communications operators are obliged to ensure the retention of data on electronic communications for a period of twelve months. Additionally, Spain has implemented a register of pre-pay mobile customers in conjunction with these requirements.

Contribution to RTVE funding mechanism

In August 2009, the Radio and Television Corporation Finance Law “(Ley de Financiación de la Corporación de Radio y Televisión Española)” was approved establishing that: (i) telecommunication operators, which operate nationwide or at least in more than one region, have to make a fixed annual provision of 0.9 % of the invoiced operating income of the year (excluding the revenues of the wholesale reference market), and, (ii) on the other hand, the concessionaire companies and providers of TV services which operate nationwide or at least in more than one region should make an annual contribution fixed as follows; (a) 3% on the gross revenue of the year for open concessionaire companies or TV services providers, and (b) 1.5% on the gross revenue of the year for concessionaire companies to provide pay TV services.

In Spain, self-settlement of the contributions made has been appealed by Telefónica España and Telefónica Móviles España as well as, the Royal Decree 1004/2010, which approves the Regulation developing the abovementioned law.

In the European level there are two ongoing processes as regards this issue. First, the European Commission (EC) questioned the Spanish Government the legality of this measure and requested its cancellation in the light with the European telecommunications regulatory framework. On September 13, 2011, the EC filed an appeal against the Kingdom of Spain before the European Court of Justice, for the infringement of the Directive 2002/20/CE. The appeal is pending resolution.

Secondly, the European Commission initiated a state aid investigation and concluded that such funding mechanism did not constitute illegal state aid. Against this decision, “Telefónica de España” and “Telefónica Móviles España”, filed an appeal before the European Court of Justice. This appeal is still pending resolution.

United Kingdom

General regulatory framework

The EU Regulatory Framework was implemented in the United Kingdom by the Communications Act in 2003. The Act designates the Office of Communications, or Ofcom, as the NRA responsible for the regulation of electronic communications networks and services. The Act was amended in 2011 following changes to the Common Regulatory Framework.

Market reviews

Following a market review, mobile termination rates for the four national mobile communications operators (Vodafone, Telefónica UK, Everything Everywhere and H3G) are subject to controls based on the pure long-run incremental cost (pure LRIC) approach. As from April 2013, these rates are reduced to cost level (0.69 ppm expressed in 2008/2009 prices, or around 0.85 ppm in nominal terms). These rates are currently set at 1.5 ppm.

Germany

General regulatory framework

The European Union legislative framework was implemented in Germany at the end of June 2004, by the Telecommunications Act ("Telekommunikationsgesetz"). The national regulatory authority responsible for regulation of electronic communication networks and services is the Bundesnetzagentur, or BNetzA.

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Following the adaptation of the 2009 EU Telecom Package, the Telecom Act was amended and entered into force in May 2012.

While most of the new regulation entered into force in May 2012, transition periods existed for some of them. Worth mentioning are the rules concerning the free-of-charge-waiting-loop and some of the rules concerning the change of the provider.

Market reviews

In August 2006, BNetzA completed its review of voice termination in individual mobile networks, concluding that, as an operator with SMP, Telefónica Germany was required to reduce the rates applied to other operators for call termination in Telefónica Germany's network, from 1.24 euros/minute to 0.994 euros/minute. In 2007, Telefónica Germany was required to reduce further its termination rates, from 0.994 euros/minute to 0.880 euros/minute. Telefónica Germany has brought legal challenges against BNetzA's 2006 and 2007 decision that Telefónica Germany has SMP and against the imposition of regulatory remedies. The Federal Administrative Court, as the highest level of appeal, confirmed all regulatory remedies meaning that the price controls stay in force for all mobile operators. All four German mobile telephone operators filed a constitutional complaint in order to challenge the decision regarding SMP. All other actions (regarding the amount of mobile telephone termination rates) are pending resolution of the Federal Constitutional Court. A new market analysis carried out by BNetzA in 2008 concluded that all mobile network operators have SMP, and maintained its position on regulatory measures in line with the 2006 decision. Telefónica Germany has also appealed against the 2008 decision, although the matter has been suspended until the Federal Constitutional Court issues its ruling. On March 31, 2009 (entry into force on April 1, 2009), BNetzA approved a mobile termination rate for Telefónica Germany of 0.714 euros/minute for a 20-month period (until November 30, 2010). Telefónica Germany challenged this decision and the claim has been suspended until the Federal Constitutional Court decision.

Subsequently, BNetzA developed its own cost model and imposed it on all four mobile telephone operators, as a basis for the calculation of significant market power in 2010. As from December 2010, BNetzA considerably reduced mobile termination rates: 0.0339 euros/minute for Telefónica Germany, 0.0336 euros/minute for Vodafone and Eplus, and 0.0338 euros/minute for T-Mobile. Telefónica Germany appealed this decision, and BNetzA issued its final ruling in February 2011, retroactive to December 1, 2010, confirming the provisional mobile termination rates. This regulation is in force until November 30, 2012. BNetzA based its calculation on its internally-developed cost model, which implements the European Commission's recommendation on regulating fixed and mobile termination rates in the EU, and which is expected to be applied in the next assessment of mobile termination rates.

On November 16, 2012, BNetzA issued a preliminary decision on mobile termination rates for the period from December 1, 2012 to November 30, 2014. According to this resolution, these rates will decrease to 0.0185 euros/minute as of December 1, 2012 and to 0.0179 euros/minute as of 1 December, 2013. These termination rates apply to all mobile network operators (Deutsche Telekom, Vodafone D2, E-Plus and Telefónica Germany). Telefónica Germany challenged this preliminary decision on September 24, 2012. Focus will be on the bottom-up cost model and reference network operator (i.e., application of the EU recommendation adverse to German Telecommunications Act).

The European Commission has been notified of the preliminary decision. On December 19, 2012, Telefónica Germany filed a lawsuit against the decision, in an attempt to secure higher termination rates.

On November 30, 2012, BNetzA issued a preliminary resolution on Telekom's fixed termination rates (FTRs), whereby local FTRs were reduced by approximately 20%. In view of the regulatory obligations, Telekom's FTRs would also affect the FTRs for traffic exchanged with alternative network operators (ANO). The final decision is

expected to be issued in the first or second quarter of 2013.

BNetzA also set the prices for local-loop unbundling (LLU) (10.08 euros instead of 10.20 euros, for 2009-2011) and for sub-loop unbundling (SLU) (7.17 euros instead of 7.21 euros), and will apply to the Commission for notification shortly.

As of April 2012, BNetzA prohibited Deutsche Telekom's contingent model, under which the company intended to grant bit-stream access to its competitors, in respect of VDSL access on the basis of contingent accesses agreed. After Telekom Germany successfully eased BNetzA's concerns, the regulator approved the contingent model in July 2012, and submitted the model to the European Union for consultation. These changes entail the ability to migrate accesses to alternative infrastructures, reduce minimum commitments, and attain greater monthly shares.

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BNetzA expects that implementation of the contingent model will encourage distribution of high-range broadband accesses and serve as an incentive for rolling out new infrastructures (such as through co-extended operations).

Telefónica Germany and Deutsche Telecom entered into an agreement regarding the contingent model, in order to promote VDSL access.

Czech Republic

General regulatory framework

The EU Regulatory Framework was implemented in the Czech Republic in 2005 by the Electronic Communications Act. The revision of the EU Regulatory Framework was transposed into the Czech legislation as of January 2012. The NRA responsible for the regulation of electronic communications networks and services is the Český Telekomunikační Úřad (Czech Telecommunication Office or CTO). Governmental responsibility for the area of electronic communications lies with the Ministry of Industry and Trade.

Market reviews

Telefónica Czech Republic has been designated as an SMP entity in seven of the eight relevant markets:

Market 3: In December 2012, the European Commission expressed serious concerns regarding the proposed fixed termination rates, objecting to the high price. FTRs was proposed to drop from 0.34 Czech crowns/0.17 Czech crowns to 0.08 Czech crowns/0.04 Czech crows (transit peak/off peak) in mid 2013.

Market 4: In June 2012, the CTO published price controls decision that decreased monthly prices for full/shared access from the previous rates of 242 Czech crowns/41 Czech crowns to the current rates of 197 Czech crowns/39 Czech crowns. The CTO awarded a two-month grace period for adopting the new rates.

Market 5: In August 2012, the European Commission vetoed the Market 5 analysis, objecting to the geographical segmentation made in market definition phase.

Market 7: In July and December 2012, the CTO issued decisions reducing termination rates as shown below. The mobile termination rates adopted in December are based on the pure LRIC calculation model.

Effective date	7/15/12-12/31/12	1/1/13-6/30/13	From 7/1/13
CZK/min	0.55	0.41	0.27
0.00 EUR/min	2.2	1.64	1.08

Market 8: In 2012, the CTO launched a process to define and analyze the wholesale mobile access market and the call origination market, in which Telefónica Czech Republic could be declared SMP operator.

Ireland

General regulatory framework

The EU Regulatory framework has been in place in Ireland since 2002 with ComReg the designated independent regulator. The 2009 directives have been already transposed.

Market reviews

The key market review for Telefónica in Ireland is the wholesale termination market for mobile voice. ComReg issued their latest decision in December 2012 introducing LRIC pricing and MTRs planned to reduce to 1cent by July 2013. This decision has been challenged by Vodafone.

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Slovakia

General regulatory framework

The EU Regulatory Framework was implemented in Slovakia in 2003 through the Act on Electronic Communications. The law has been significantly amended as of November 1, 2011.

The NRA responsible for the regulation of electronic communications' networks and services is the Telecommunications Regulatory Authority of the Slovak Republic (TUSR). Governmental responsibility for the legislative area of electronic communications lies with the Ministry of Transport, Construction and Regional Development.

Market reviews

In May 2012, the TUSR adopted a price decision, that decreased maximal mobile termination rates from EUR 0.0551/min to EUR 0,0318/min effective from July 2012 to May 2013. The NRA is currently developing an own model to set mobile termination rates through pure LRIC method. The new mobile termination rates shall become applicable as of June 1, 2013.

Telefónica Latin America

Brazil

General legislative framework

The delivery of telecommunications services in Brazil is subject to regulation under the regulatory framework provided in the General Telecommunications Law enacted in July 1997. The National Agency for Telecommunications, (Agência Nacional de Telecomunicações or ANATEL), is the principal regulatory authority for the Brazilian telecommunications sector.

Interconnection

Interconnection among public networks is mandatory in Brazil. Parties can freely negotiate the terms and conditions about technical points, economic discounts and rights/obligations, of the interconnection agreements. For rates, the regulations that apply follows: (i) interconnection for fixed network operator identifies as operator with Significant Market Power (Res. 588/2012), the maximum rate is established by ANATEL; (ii) in relation to the use of mobile operators network (Res. 438/2006), rates may be agreed between the parties, however, if the parties fail to reach a consensus, particularly regarding charges to fixed operators (Res. 576/2011) ANATEL imposes the rates to be used. In general, operators shall maintain public offers of interconnection conditions.

Competition law

Brazilian competition regulation is based on Law No. 12,529 of November 30, 2011, which generally prohibits any practice aimed at restricting free competition, dominating the relevant market of goods or services, arbitrarily increasing profits, or abusively exercising dominant market position. The Administrative Council for Economic Defense, or CADE, is the agency authorized to enforce the competition rules.

The new antitrust law has brought important changes, specially the establishment of a pre-merger notification regime, with new turnover thresholds (one participant with gross revenue of BRL750 million in Brazil and other participant with gross revenue of BRL75 million in Brazil) and maximum time length for merger review procedure (240 days, extendable to 330 days).

Recent regulatory developments

In June 2011 the new General Plan of Universal Service Goals was approved, which is applicable into 2011-2015 periods. The new Plan establishes goals on public telephony in large cities, and establishes the installation of public telephones in remote areas. Along with the approval of the Plan, Telefónica has signed the revised Concession

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Agreement for STFC, valid for the period from 2011 to 2015, when there should be further review of its terms. The main change brought refers to the end of restrictions for Concessionaries on operations of cable TV, which allowed Telefónica to exercise the option to purchase full control of the TVA (the cable TV company in the Abril Group).

In October 2011 Anatel approved the Regulation of Adjustment for Fixed-Mobile Rates, which provides for the progressive reduction of these rates through a reduction factor, to be deducted from inflation. This reduction factor is 18% in 2012, 12% in 2013 and 10% in 2014. The absolute reduction in the public rates should be passed on to mobile interconnection rates (VU-M).

ANATEL has also approved, in October 2011, the General Plans of Quality Service Goals to Multimedia Communication Services (MCS) and to Personal Mobile Services (PMS).

In March, 2012, ANATEL has approved the Regulation of the Conditional Access Service, which establishes the rules of the paid TV service.

In May 2012, ANATEL published a new Regulation of Industrial Exploration of Dedicated Lines, approved by Resolution n. 590/2012 which set new conditions for characterizing Standard Service (subject to public offer), a fine for delay in installation, possibility of discount depending on volume and contract period. Along with such regulations ANATEL published the publication of new reference values (Act n. 2716/2012).

In November 1st, 2012, ANATEL has published the General Plan of Competition, which, in general, provides ex-ante obligations for telecommunications providers that, according to the methodology set forth in the document, identify Significant Market Participation (SMP) in the various relevant markets identified as critical for the development of competition in the telecommunications industry. The ex-ante obligations include measures of price transparency and market conditions and specific rules for composition of conflicts between agents, such as: (i) mandatory submission and approval of offerings of reference in the wholesale market and warranty service requests from other players that correspond to 20% of the physical network of the SMP companies, (ii) transparency measures as the creation of a Data Base and Wholesale Supervisor Entity, (iii) specifically for providers acting in the mobile termination market (interconnection): full billing between undertakings with SMP, and Bill & Keep decreasing between SMP and non-SMP (80/20% between 2013 and 2014, 60/40% in 2015 and full billing from 2016).

Telefónica Group, including VIVO, has been identified as an operator with SPM in the following markets: (i) fixed network infrastructure access for data transmission in copper pairs or coaxial cables at speeds up to 10 Mbps in the region of São Paulo, (ii) wholesale fixed network infrastructure to transport local and long distance transmission at speeds up to 34 Mbps in the region of São Paulo, (iii) passive towers, ducts and trenches infrastructure throughout Brazil; (iv) call termination on mobile network in Brazil, and (v) national roaming market throughout Brazil.

Mexico

General regulatory framework

The provision of all telecommunication services in Mexico is governed by the Federal Telecommunication Law and various service-specific regulations. The governmental agencies which oversee the telecommunications industry in Mexico are the Secretariat of Communications and Transportation, or SCT, and the Federal Telecommunications Commission, or COFETEL.

Prices and tariffs

Tariffs charged to customers are not regulated. They are set by mobile operating companies and must be registered with COFETEL. Rates do not enter into force until registered by COFETEL.

Interconnection

Mexican telecommunications regulations obligate all telecommunications network concessionaires to execute interconnection agreements on specific terms when requested by other concessionaires. Interconnection rates and conditions may be negotiated by the parties. However, should the parties fail to agree, COFETEL must fix the unresolved issues, including tariffs.

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Throughout 2011, COFETEL issued several resolutions as a result of different interconnection disputes submitted by several operators. In such resolutions, COFETEL determined a mobile termination charge (“MTC”) for Telefónica, as well as for other mobile operators, of \$0.3912 Pesos per minute, billed per second without rounding. Telefónica México has appealed on an administrative basis such resolutions from COFETEL. Such appeals are still pending to be resolved. In May 2011, Mexico’s National Supreme Court of Justice ruled that no court suspensions shall be granted to the effects of COFETEL’s resolutions relating to interconnection matters as it understood that it affects the public interest. Up until now Cofetel has not resolved applicable rate for 2012.

Foreign ownership/restrictions on transfer of ownership

Mexican foreign investment law restricts foreign investment in local fixed service and other telecommunications services to a maximum of 49% of the voting stock, unless the Mexican National Commission of Foreign Investment approves a higher percentage participation, which it can do only in the case of mobile telecommunications companies.

Bajacel, Movitel, Norcel, Cedetel and Pegaso, as mobile telecommunications companies, received the required approvals from the National Commission of Foreign Investment permitting our ownership of more than 49% of their outstanding voting capital.

GTM, a company in which Telefónica México has an interest, provides local fixed and long distance services. This operator complies with Mexican foreign investment law, and has a stock structure that includes the participation of its Mexican partner, Enlaces del Norte S.A. de C.V., which owns 51% of the voting stock.

Competition law

The Federal Economic Competition Law enacted in 1992 and amended on June 28, 2006 and on May 10, 2011, prohibits monopolies and any practices that tend to diminish, harm or impede competition in the production, processing, distribution or marketing of goods and services. The Federal Competition Commission, or COFECO, is the administrative body empowered to enforce the Law.

Venezuela

In December 2009, a new regulation applicable to all subscription TV service providers was enacted by CONATEL, the national regulatory authority, which mandates the inclusion (12%) of national production services (channels in which both reception and diffusion of sound and images take place in the country to later transmit it by means of subscription TV service providers) in regular programming packages. The implementation of the provisions and obligations under the Order was made since its enactment.

An Administrative Decision on Services Agreements (Providencia n° 1302 sobre Condiciones Generales de los Contratos de Servicios de Telecomunicaciones) was adopted, which included various regulations aimed at consumer protection. As a consequence of this regulation (2009), Telefónica Venezolana, C.A. proceeded to adapt all of its nine services agreements to fulfill all the conditions and impositions established. Since late 2011 we have all the approvals for service contracts models.

Prices and tariffs

Under new Venezuelan regulations, the free-pricing system for telecommunication services remains the same, except for basic telephony services (Local, LDN and LDI) and services rendered under universal service obligations; however, the regulatory entity may, considering CONATEL’s opinion, alter prices for telecommunication services for

“public interest reasons”. The amendment does not define the term “public interest reasons”.

In February 2011, CONATEL published an Order whereby reference values are set for the Determination of Interconnection Charges for use of Mobile Telephony Services. The aim of this regulation is the establishment of reference values and criteria for determining interconnection charges in mobile phone use on the basis of a model of long run incremental costs with breakdown of the network elements by CONATEL, who should intervene setting such charges solely in those cases where there are conflicts between operators relating such charges, and they failed to reach consensus within the period specified in the interconnection legislation.

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Competition law

Venezuelan law governing competition is the Promotion and Protection of Free Competition Act 1992. It prohibits monopolistic and oligarchic practices and other means that could impede, restrict, falsify, or limit the enjoyment of economic freedom. The Office of the Superintendent for the Promotion and Protection of Free Competition is the agency empowered to apply the Competition Act.

Chile

General regulatory framework

The General Telecommunications Law No. 18,168 of 1982, as amended, establishes the legal framework for the provision of telecommunications services in Chile. The main regulatory authority in Chile is the Under-Secretary of Telecommunications, or SUBTEL.

On June 11, 2012, Law No. 20,599 was published. It regulates the installation of antennas stations and transmitters of telecommunication services.

In 2012, the telephone numbers portability was enabled in accordance with the calendar established by Subtel.

Prices and tariffs

Under the General Telecommunications Law, maximum tariffs for telephony services are set every five years by the Ministry of Transport and Telecommunications and the Ministry of Economy. In addition, the Competition Tribunal may subject any telephony service to price regulation, except for mobile telephone services to the public that are expressly exempted under the General Telecommunications Law.

The Competition Tribunal ruled in January 2009 that only some local telephone services were to be subject to tariff regulation (line connections, monthly fixed charges, variable traffics charges, and public payphone services are excluded). Accordingly, it was determined that every local telephone company, within its service zones, would be regulated with respect to tariff levels and structure. In addition, Telefónica Chile, in its capacity as a “SMP operator” (except in regions where other companies are the SMP operators), is regulated on a non-price basis, with requirements that it not engage in discriminatory pricing and that it give previous notice of plans and packages.

In 2011, the Ministries adopted, among other things, tariffs for local service, access charge and tariffs for other services within the local telephony service. Furthermore, others tariffs were regulated such as the Bitstream service and a number portability charge. Regarding mobile tariffs, charges for the use of the networks were adopted in 2009 for the period 2009-2014 and, the time structure was modified as well. At the end of 2012, a new procedure for the determination of tariffs will start.

On July 16, 2011 the Net Neutrality Act entered into force. Additionally, Long Distance Service was eliminated in the period between October and November 2011, in some regions of the country. Moreover, at the beginning of year 2014, Long Distance service will be completely eliminated in all regions of Chile if previously approved by the Competition Tribunal. A system of early alert was enabled in the mobile networks to inform opportunely the population in cases of catastrophe.

Through instruction No. 2, of 12.18.2012, the Competition Tribunal orders that mobile companies may not sale plans with different pricing for calls on-net and off-net, from the next access charges Decree (February 2014). In addition, it

authorizes pack of fixed and mobile services with discount since the entry into service of the LTE concession.

Interconnection

Interconnection is obligatory for all license holders with the same type of public telecommunications services and between telephony public services and intermediate services that provide long distance services. The same requirement applies to holders of those intermediate service licenses, who are required to interconnect their networks to the local telephone network.

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A “calling party pays” tariff structure was implemented on February 23, 1999. Under this tariff structure, local telephone companies pay mobile telephone companies an access charge for calls placed from fixed networks to mobile networks. Local telephone companies may pass this interconnection charge on to their customers. Every five years, SUBTEL sets the applicable tariffs for services provided through the interconnected networks.

Competition law

The principal regulation concerning competition in Chile is Decree No. 211 of 1973, whose current text was established in Decree N° 1 of 2005 (Ministry of Economía, Fomento y Reconstrucción). Pursuant to the provisions of this law, acts or behavior involving economic activities that constitute abuse of a dominant market position, or limit, restrain, or distort free competition in a manner that injures the common economic interest in the national territory are prohibited. This law prohibits, among others: a) the express or tacit agreements between competitors, or concerted practices between them, conferring them the power market; b) abuse of a dominant position; c) predatory or unfair competition practices carried out in order to obtain, maintain or enhance a dominant position. The Competition Tribunal deals with infringements of competition law.

Argentina

General regulatory framework

The basic legal framework for the provision of telecommunications services in Argentina is set forth in the National Telecommunications Law (No. 19,798) of 1972 and in the specific regulations governing each type of telecommunications service. Decree 764/00 established the new and current regulatory framework rules for a free market, and includes interconnection, license, universal service and spectrum rules.

The following regulatory authorities oversee the Argentine telecommunications industry:

- the National Communications Commission, or CNC, supervises compliance with licenses and regulations, and approves changes to mandatory goal and service requirements; and
- the Secretariat of Communications, or SECOM, grants new licenses, regulates the bidding and selection processes for radio-spectrum authorizations, and approves the related bidding terms and conditions.

Prices and tariffs

On October 21, 2003, Law No. 25,790 became effective, extending the term for the renegotiation of concession or licensing agreements with public utilities until December 31, 2004, which was subsequently extended until December 31, 2011. As an investor in Argentina through Telefónica de Argentina, we commenced arbitration proceedings against the Republic of Argentina based on the Reciprocal Protection of Investments Treaty between Spain and Argentina for damages suffered by us because of the measures adopted by the Argentine government in connection with the renegotiation of certain concession and licensing agreements. On August 21, 2009, the parties requested the Tribunal, in accordance with Rule 43 of the ICSID Arbitration Rules, declare a resolution of the termination of the proceedings. The agreement of the parties envisages the possibility of a new request for arbitration under the ICSID Convention being submitted by Telefónica.

Additionally, Decree No. 764/00 established that providers of telephone services may freely set rates and/or prices for their service which shall be applied on a non-discriminatory basis. However, until the Secretary of Communications determines that there is effective competition for telecommunications services, the “dominant” providers in the relevant

areas (which include Telefónica de Argentina) must respect the maximum tariffs established in the general tariff structure.

Also, the guidelines set forth in article 26 of Decree No. 1185/90 continue in effect for operators with significant market power. These guidelines establish information obligations with which operators must comply with respect to tariffs and which flow toward both clients and the national regulator. This Decree also establishes the powers the regulator has to revise or revoke such tariffs.

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Furthermore, on October 15, 2012, became effective the resolution SC 45/2012 of the Secretary of Communications, which provides that the mobile phone companies should only bill to its clients the minutes since the call to be serviced by the receiver or his message box.

Tariffs charged to customers for mobile services are currently not regulated in Argentina.

Interconnection

Decree No. 764/00 approved new rules for national interconnection and established interconnection standards and conditions with which telephone service providers must comply regardless of pre-existing agreements. The rules for national interconnection set forth that interconnection agreements are to be freely negotiated between the relevant service providers, on a non-discriminatory basis. The regulations also establish the obligation for dominant and significant market operators to unbundle their local loops and to allow competitors to use them on a reasonable basis.

Competition law

Law 25,156, on Protection of Competition prohibits any acts or behaviors related to the production or trade of goods or services, whose purpose or effect is to prevent, restrict or distort competition or market access, or that constitute abuse of dominant position in a market. The National Commission for the Defense of Competition is the authority entrusted with application of the law.

In February 2011, the Argentine government announced the end of an investigation into monopolistic concentration by the country's anti-trust authorities, ratifying the fine (104,692,500 Argentine pesos) imposed on Telefónica for late filing of notification of the transaction. Then in February 2011 the fine was reduced to 50,000,000 Argentine pesos.

Colombia

General regulatory framework

In Colombia, telecommunications are a public service, subject to state regulation and oversight. Law 1341/09 ("Technologies of Information and Communications Law") reformed the legal framework, establishing the general regime for information and communication technologies. Under this law, providers of network and telecommunications services in Colombia must register with the Information and Communication Technologies Minister. In addition, operators must obtain a concession from the National Television Commission in order to provide television services.

Law 1341/09 established a transition period in which operators can: (i) preserve the original titles (licenses, contracts, permissions, authorizations) until their expiration or (ii) adopt the regime of general authorization stated by the law and the corresponding registration and preserve the necessary permissions in order to use the spectrum.

During 2009 the Colombian telecommunications regulator, Comisión de Regulación de Comunicaciones or CRC, identified the telecommunications relevant markets and operators with SMP and established certain ex ante regulations. In 2009 and 2011, CRC deregulated retail prices for fixed and mobile services. The exception is mobile voice retail market where Claro-America Móvil (Telefonica's competitor) has been identified as a SMP operator by CRC. In January 2013, CRC imposes the following measures: to anticipate to January 30th, 2013 the application of the regulated rates (previously set for 2015) meanwhile, the rest of the operators continue with the propose of reduction provided by Resolution 3136 of 2011 and, Claro must ensure that off-net prices which are offered to all of its users (prepaid and postpaid) are less than or equal to on-net prices.

Interconnection

Mobile and fixed operators in Colombia have the right to interconnect to other operators' networks. Before the intervention of regulatory authorities, operators must attempt direct negotiations. Interconnection must assure compliance with the objectives of non-discriminatory treatment, transparency, prices based on costs plus a reasonable profit and promotion of competition.

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Prices and tariffs

The Technologies of Information and Communications Law, provides for free pricing for voice and Internet access services. Therefore, mobile tariffs charged to customers are not regulated, although they may not be discriminatory. Nevertheless, fixed-to-mobile tariffs are subject to a price cap. Rates are fixed by mobile operating companies and must be registered with the Comisión de Regulación de Telecomunicaciones. The regulator set a price cap of 392 Colombian pesos per minute for fixed to mobile tariffs since November 1, 2006, and in 2009 the CRC reduced the tariff to 198.4 Colombian pesos per minute.

In 2011, the CRC issued a progressive reduction on mobile termination charges from 2012- 2015 and they initiated an administrative action particularly against COMCEL (America Mobile Group) considered as a significant market power operator. On May 2011, a new regime for the protection of convergent consumers was adopted and on August 2011 a new regime for interconnection for convergent networks, introducing conditions for access by content and applications providers came into force. Furthermore, On December 2011, CRC adopted the conditions for the provision of content and applications in mobile networks setting a new numbering management plan and has fixed price caps for the SMS between operators, applicable from January 1, 2012 to December 31, 2014. Also, CRC has established quality conditions for the provision of the Internet mobile service. The regulator has also approved conditions for Net Neutrality allowing different offers according to the consumer profile but prohibiting discriminatory behavior.

Television services

In December 2010, the National Television Commission published Agreement Number 006 to modify the fees payable to exploit closed television. Before Agreement Number 006, operators paid 10% of gross incomes; now the percentage has been reduced to 7% of gross incomes.

In January 2011, Colombia Telecom signed with the National Television Commission an amendment to its concession agreement with the effect of including an arbitration clause.

Competition law

The Colombian Competition Law is incorporated in the Law No. 155/59, Decree No 2153/92 and Law 1340/09 on Restrictive Trade Practices. The law prohibits entering in any agreement or engaging in any type of practice, procedure, or system that aims to limit free competition and abuse of a dominant position. The Superintendent of Industry and Commerce is the Colombian competition authority.

Peru

General regulatory framework

The provision of telecommunications services in Peru is governed by the Telecommunications Law and related regulations.

On July, 2012 the Peruvian Congress approved the Law of Promotion of the Broad Band and Construction of the National Fiber Optic Backbone, Law N° 29904.

This Law declares of public necessity: (i) the construction of the National Fiber Optic Backbone which will be entitled to the government to make possible the connectivity by the broad band, and; ii) the access and use of the infrastructure

associated with the public services of energy and hydrocarbon to facilitate the display of the telecommunication network for the provision of the broad band.

In addition, Law N° 29904 implies that operators of electric, transport and hydrocarbon infrastructure projects will have to install fiber optic that will be entitled to the State and will be given in concession to other telecommunication operators.

Law N° 29904 also establishes that a percentage of the capacity of the National Fiber Optic Backbone will be reserved for the Government to satisfy its necessities.

The emission of the Law regulation is pending.

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Tariffs for fixed telephony services must be approved by the National Regulatory Authority, the Organization for Supervision of Private Investment in Telecommunications, or OSIPTEL, in accordance with a price cap formula based on a productivity factor. Rates charged by mobile providers to their customers have been subject to a free tariff regime supervised by OSIPTEL. Tariffs must be reported to OSIPTEL prior to implementation.

On September 24, 2012 OSIPTEL fixed in S/0.0023 per second (not including taxes) (S/0.33 per minute, taxes included) the maximum rate applicable to local calls made from Telefónica del Perú S.A.A's fixed telephones to mobile telephones. This new rate is in force since October 1, 2012.

Interconnection

Mobile service providers are required, upon request, to interconnect with other concession holders. According to the principles of neutrality and non-discrimination contemplated in the Telecommunications Law, the conditions agreed upon in any interconnection agreement will apply to third parties in the event that those conditions are more beneficial than terms and conditions agreed upon separately.

Competition law

The general competition framework in Peru is based on the Legislative Decree No. 1034. This law prohibits any monopolistic practices, controls, and restraints on free competition and it is applied, in the telecommunication sector, by OSIPTEL.

Main concessions and licenses held by the Telefónica Group

Spain

In accordance with the European Union regulatory framework, companies wishing to operate a telecommunications network or provide electronic communication services must notify the Spanish telecommunications market regulator (Comisión del Mercado de Telecomunicaciones, CMT) prior to commencing such activities. Every three years, operators must notify the CMT of their intention to continue these activities.

Concessions for the use of spectrum are auctioned through a competitive, non-discriminatory procedure. Telefónica Móviles España holds rights to provide mobile services in certain spectrum bands. The main concessions are as follows:

Band	Duration	End date	Renewal period
800 MHz(2x10 MHz)	15 years	December 31, 2030	----- Extension requested 2x1 MHz until December 31, 2030
900 MHz (2x9.8 MHz)	20 years	February 4, 2015	2030
900 MHz (E- GSM) (2X4 MHz)	20 years	June 6, 2025	Extension requested until December 31,

			2030
900 MHz (2x9.8 MHz)	15 years	December 31, 2030	----- Extension requested until December 31, 2030
DCS-1800 (2x10 MHz)	20 years	July 24, 2028	2030
2.1 GHz (2x15 MHz + 5 MHz)	20 years (+10 years extension)	April 18, 2020 (April 18, 2030)	10 years
2.6 GHz	19 years	December 31, 2030	-----

All concessions, except the 2.1 GHz band, have technological neutrality

United Kingdom

Telefónica O2 UK has provided GSM services since July 1994. This license is for an indefinite period. In April 2000, Telefónica UK obtained a UMTS license expiring on December 13, 2021 (2 x 10 MHz + 5 MHz). In January 2011, this license was modified to enable the UMTS roll-out on the 900 MHz (2 x 17.4 MHz) and 1800 MHz (2 x 5.8 MHz) frequency

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bands. Telefónica UK may apply for indefinite validity for his license. To be eligible, it must agree to provide coverage to 90% of the population.

On February 20, 2013, Telefónica UK won two 10 MHz of spectrum in the 800 MHz band for the rollout of a nationwide 4G network, for an investment of approximately 645 million euros.

Ofcom is also considering EE's proposal to grant frequencies in the 1800 MHz spectrum to H3G.

Germany

Telefónica Germany obtained a GSM license for the 1800 MHz frequency band in October 1998, as well as a separate license for the 900 MHz band in February 2007 (GSM 900 2 x 5 MHz and GSM 1800: 2 x 17.4 MHz). The GSM licenses expire on December 31, 2016. In August 2000, Telefónica Germany obtained a UMTS license expiring on December 31, 2020 (2 x 9.9 MHz). In May 2010, after a spectrum auction, Telefónica Germany acquired 10 MHz in the 800 MHz band (Digital Dividend), 20 MHz in the 2.6 GHz band (paired), 10 MHz in the 2.6 GHz band (unpaired), 5 MHz in the 2.0 GHz band (paired), and 20 MHz in the 2.0 GHz band (unpaired). These licenses expire in 2025. The assigned frequencies may be used for any technology.

These licenses are for a set period of time, although they may be renewed.

On October 21, 2011, amid the reform process, the regulator resolved to not redistribute spectrum in the 900 MHz frequency, allowing Telefónica Germany to keep the spectrum allotted to it.

Additionally, considering that the current licenses for 900 MHz and 1800 MHz frequencies expire at the end of 2016, the regulatory authority launched a public consultation to identify demand for spectrum in those bands as from 2017. A decision is expected in 2013.

In November 2012, the FNA published a scenario paper containing four potential scenarios regarding the future of spectrum. The scenarios range from prolongation over an isolated awarding scenario of the GSM licenses to scenarios that contain the allocation of the GSM spectrum together with additional spectrum that is expected to be available with the years to come. The scenario paper is open for discussion. Input is called for until January 31st 2013. BNetzA stated that it plans to publish a draft decision based on the input on the scenario paper.

Czech Republic

Telefónica Czech Republic provides electronic mobile communications services in the 900 MHz and 1800 MHz bands, under the GSM standard, in accordance with Czech Telecommunications Office licenses valid until February 7, 2016; in the 2100 MHz band under the UMTS standard, valid until January 1, 2022; and in the 450 MHz band for CDMA 2000, valid until February 7, 2011. The Czech government has granted an individual license to operate the CDMA network, which is valid under November 30, 2013. The amendment to the Electronic Communications Law, which took effect on January 1, 2012, grants Telefónica Czech Republic (as the previous license holder) the right to obtain a new license in the same 450 MHz frequency without having to participate in a selection process.

On July 2012, Czech Telecommunication Office (CTO) launched a public tender for the award of the rights to use radio frequencies for providing a public communications network in the 800 MHz, 1800 MHz and 2600 MHz bands. Applications were submitted by Telefónica Czech Republic, T-Mobile Czech Republic, Vodafone Czech Republic and PPF Mobile Services. All applications were approved from the formal point of view and accepted. This auction process is expected to end at the beginning of year 2013.

Slovakia

On September 7, 2006, Telefónica Slovakia secured a license for supplying electronic communications services through the public network using the GSM and UMTS mobile network standards. The license was granted for 20 years and expires in September 2026.

Awardal of the 800 MHz and 2.6 GHZ spectrum will take place in the first or second quarter of 2013, through an electronic auction. The TUSR is currently selecting an advisor for the process.

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Ireland

Since March 1997, Telefónica Ireland has been providing GSM services under a license granted in May 1996. The GSM 900 license is for a 15-year period (GSM 900: 2 x 7.2 MHz). In May 2011, the company was granted a provisional license to extend the validity of its license until January 2013. In 2000, Telefónica Ireland secured another GSM 1800 (2 x 14.4 MHz) license for a 15 year period. In October 2002, the company obtained a 20-year UMTS license (2 x 15 MHz + 5 MHz).

ComReg auctioned off 800 MHz, 900 MHz and 1800 MHz band spectrum in a multi-band auction held in the first quarter of 2012. In the auction, Telefónica Ireland obtained the packages shown in the chart below. The company paid 125 million euros for spectrum licenses in respect of advance fees, and over 100 million euros in usage costs for the entire license period.

Frequency bands	Period	Packages
800 MHz	2013-2015	2 x 10 MHz
	2015-2030	2 x 10 MHz
900 MHz	2013-2015	2 x 10 MHz
	2015-2030	2 x 10 MHz
1800 MHz	2013-2015	-
	2015-2030	2 x 15 MHz

Brazil

In Brazil, concessions are awarded for providing services under the public system, while authorizations are granted for providing private system services. The only service provided under both systems is the Commuted Fixed Telephony Service (CFTS). All other services are provided under the private system.

In the state of São Paulo, Telefónica Brasil provides local and national long-distance CFTS under the public regime, and provides international and long-distance CFTS and broadband services under the private system. In the remaining states of Brazil, Vivo provides local and long-distance CFTS service, personal mobile service and broadband services, all under the private regime.

In 2005, Telefónica Brasil's concession arrangements for providing local and long-distance (national) services were extended for an additional 20-year period. In conjunction with the approval of the General Universal Service Targets Plans (GUSP), Telefónica signed the Commuted Fixed telephony service (CFTS) concession contract covering the period from 2011 to 2015. The terms of the concession will come up for review in 2015.

Telefónica Brasil's authorization for local and long-distance services under the private system was granted for an unlimited period of time. On September 5, 2011, these licenses were transferred to Vivo.

Telefónica Brasil also holds an authorization to provide broadband data services under the private system in the state of São Paulo, for an unlimited period of time.

Licenses for personal mobile services (PMS) carry the right to provide mobile services for an unlimited period of time. However, the use of spectrum is restricted in accordance with the specific license conditions. All Telefónica's Brazilian mobile telephone authorizations were granted to Vivo as follows:

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Vivo-Rio Grande do Sul, except Pelotas, Capão do Leão, Morro Redondo and Turuçu (“A” band) until 2022 (renewed in 2007)

- Vivo-Rio de Janeiro (“A” band) until 2020 (renewed in 2005)
- Vivo-Espírito Santo (“A” band) until 2023 (renewed in 2008)
- Vivo-Bahia (“A” band) and Vivo-Sergipe (“A” band) until 2023 (renewed in 2008)

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• Vivo-São Paulo (“A” band) until 2023 or 2024 (renewed in 2008) for the cities of Ribeirão Preto and Guatapar (renewed in 2009)

• Vivo-Paraná/Santa Catarina (“B” band) until 2013

• Vivo-Distrito Federal (“A” band) until 2021 (renewed in 2006)

• Vivo-Acre (“A” band), Vivo-Rondnia (“A” band), Vivo-Mato Grosso (“A” band) and Vivo-Mato Grosso do Sul (“A” band) until 2024 (renewed in 2009)

• Vivo-Gois/Tocantins (“A” band) until 2023 (renewed in 2008)

• Vivo-Amazonas/Roraima/Amap/Par/Maranho (“B” band) until 2013

• Vivo Minas Gerais (“A” band) until 2023 (renewed in 2008)

• Vivo for the cities in which CTBC Telecom operates in the state of Minas Gerais (“E” band) until 2020

License renewals for “A” and “B” bands must be requested 30 months in advance of the expiry date. Spectrum rights may be renewed only once, for a 15-year period. After this period, the license must be renegotiated.

License renewals for the “E” band must be requested between 36 and 48 months in advance of the expiry date. Spectrum rights may be renewed only once, for a 15-year period. After this period, the license must be renegotiated.

In December 2007, ANATEL auctioned off 15 blocks in the 1900 MHz band (“L” band) nationwide. Vivo won 13 blocks throughout Brazil, except in the northern region and the towns of Londrina and Tamarana in the state of Paran. The spectrum licenses, along with the related renewal dates, are as follows:

• Vivo-Rio Grande do Sul (“L” band) until 2022 (renewed in 2007) including cities in the Pelotas metropolitan area

• Vivo-Rio de Janeiro (“L” band) until 2020 (renewed in 2005)

• Vivo-Esprito Santo (“L” band) until 2023 (renewed in 2008)

• Vivo-Bahia (“L” band) and Vivo-Sergipe (“L” band) until 2023 (renewed in 2008)

• Vivo-So Paulo (“L” band) until 2023 (renewed in 2008), the cities of Ribeiro Preto, Guatapar and Bonfim Paulista (renewed in 2009) until 2024, and the cities where CTBC Telecom operates in the state of So Paulo until 2022

• Vivo-Paran (excluding the cities of Londrina and Tamarana)/Santa Catarina (“L” band) until 2013

• Vivo-Federal District (“L” band) until 2021 (renewed in 2006)

• Vivo-Acre (“L” band), Vivo-Rondnia (“L” band), Vivo-Mato Grosso (“L” band) and Vivo-Mato Grosso do Sul (“L” band) until 2024 (renewed in 2008) and the city of Paranaba de Mato Grosso do Sul until 2022

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Vivo-Goiás/Tocantins (“L” band) until 2023 (renewed in 2008) and the cities where CTBC Telecom operates in the state of Goiás until 2022

- Vivo-Alagoas/Ceará/Paraíba/Piauí/Pernambuco/Rio Grande do Norte (“L” band) until 2022

License renewals for the “L” band must be requested between 36 and 48 months in advance of the expiry date. Spectrum rights may be renewed only once, for a 15-year period. After this period, the license must be renegotiated.

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In April 2008, ANATEL auctioned off 36 blocks 2100 MHz band (3G licenses). Vivo obtained nine in the “J” band through Brazil, enabling it to provide nationwide 3G coverage. The spectrum licenses, along with the related renewal dates, are as follows:

- Vivo-Rio Grande do Sul (including cities in the Pelotas metropolitan area) (“J” band) until 2023
- Vivo-Rio de Janeiro (“J” band) until 2023
- Vivo-Espírito Santo (“J” band) until 2023
- Vivo-Bahia (“J” band) and Vivo-Sergipe (“J” band) until 2023
- Vivo-São Paulo (including the cities of Ribeirão Preto, Guatapar and Bonfim Paulista and the cities where CTBC Telecom operates in the state of So Paulo) (“J” band) until 2023
- Vivo-Paran (including the cities of Londrina and Tamarana)/Santa Catarina (“J” band) until 2023
- Vivo-Federal District (“J” band) until 2023
- Vivo-Acre (“J” band), Vivo-Rondnia (“J” band), Vivo-Mato Grosso (“J” band) and Vivo-Mato Grosso do Sul (including the city of Paranaba) (“J” band) until 2023
- Vivo-Gois (including the cities where CTBC Telecom operates in the state of Gois)/Tocantins (“J” band) until 2023
- Vivo-Alagoas/Cear/Paraba/Piaui/Pernambuco/Rio Grande do Norte (“J” band) until 2023
- Vivo-Amazonas/Roraima/Amap/Par/Maranho (“J” band) until 2023
- Vivo-Minas Gerais (including the cities where CTBC Telecom operates in the state of Minas Gerais) (“J” band) until 2023

License renewals for the “J” band must be requested between 36 and 48 months in advance of the expiry date. Spectrum rights may be renewed only once, for a 15-year period. After this period, the license must be renegotiated.

In December 2010, ANATEL auctioned off 169 licenses in the 900 MHz, 1800 MHz and 2100 MHz frequencies. Vivo secured 23 blocks: 14 in 1800 MHz frequency band “D”, “E”, “M” and extension bands, and 9 in the 900 MHz extension bands, giving it nationwide coverage in the 1800 MHz frequency band. The spectrum licenses are up for renewal in 2023.

• “M” Band (1800 MHz) in the Federal District and the states of Paran, Santa Catarina, Rio Grande do Sul, Gois, Tocantins, Mato Grosso do Sul, Mato Grosso, Rondnia and Acre

- Extension of the 1800 MHz band throughout the State of So Paulo

• “D” Band (1800 MHz) in the cities of Pelotas, Morro Redondo, Capo do Leo and Turuu in the state of Rio Grande do Sul

- “E” Band (1800 MHz) in the states of Alagoas, Cear, Paraba, Piaui, Pernambuco and Rio Grande do Norte

- Extension of the 900 MHz band in the State of Rio de Janeiro
- Extension of the 900 MHz band in the State of Espírito Santo

Extension of the 900 MHz band in the States of Goiás, Tocantins, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre and the Federal District, with the exception of the cities of Paranaíba in the state of Mato Grosso do Sul and the cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão, in the state of Goiás

Extension of the 900 MHz band in the State of Rio Grande do Sul, with the exception of the cities of Pelotas, Morro Redondo, Capão do Leão and Turuçu

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• Extension of the 900 MHz band in the cities of registry area number 43 in the state of Paraná with the exception of the cities of Londrina and Tamarana

- Extension of the 900 MHz band in the States of Paraná and Santa Catarina with the exception of the cities of registry area number 43 in the state of Paraná and the cities of Londrina and Tamarana
- Extension of the 900 MHz band in the state of Bahia
- Extension of the 900 MHz band in the state of Sergipe
- Extension of the 900 MHz band in the states of Amazonas, Amapá, Maranhão, Pará and Roraima

• Extension of the 1800 MHz band in the state of São Paulo, with the exception of the cities in the metropolitan area of São Paulo and the cities where CTBC Telecom operates in the state of São Paulo

- Extension of the 1800 MHz band in the states of Amazonas, Amapá, Maranhão, Pará and Roraima
- Extension of the 1800 MHz band in the city of Paranaíba in the state of Mato Grosso do Sul

• Extension of the 1800 MHz band in the cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão, in the state of Goiás

• Another extension of the 1800 MHz band in the cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão, in the state of Goiás

- Extension of the 1800 MHz band in the states of Rio do Janeiro, Espírito Santo, Bahia and Sergipe
- Extension of the 1800 MHz band in the states of Amazonas, Amapá, Maranhão, Pará and Roraima

• Extension of the 1800 MHz band in the states of Alagoas, Ceará, Paraíba, Piauí, Pernambuco and Rio Grande do Norte

• Extension of the 1800 MHz band in the city of Paranaíba in the state of Mato Grosso do Sul, and the cities of Buriti Alegre, Cachoeira Dourada, Inaciolândia, Itumbiara, Paranaiguara and São Simão, in the state of Goiás

- Extension of the 1800 MHz band in the cities of Londrina and Tamarana in the state of Paraná

In April 2012, ANATEL auctioned off 273 licenses in the 450 MHz and 2500 MHz bands. Vivo secured an "X" block (20 + 20 MHz) in the 2500 MHz band nationwide, which entails the obligation and right to use the 450 MHz band in the states of Alagoas (AL), Ceará (CE), Minas Gerais (MG), Paraíba (PB), Pernambuco (PE), Piauí (PI), Rio Grande do Norte (RN) and Sergipe (SE), as well as in the areas identified by national codes 13, 14, 15, 16, 17, 18 and 19, in the state of Sao Paulo (SP).

- Vivo Brazil (Banda "X" - 2500 MHz) until 2027 (associated with personal mobile services)
- Vivo AL, CE, MG, PB, PE, PI, RN, SE (450 MHz) until 2027 (associated with FSTS and personal mobile services)
-

Vivo in the areas identified by national codes 13, 14, 15, 16, 17, 18 and 19, in the state of São Paulo (SP), until 2027 (associated with significant market power and personal mobile services)

Spectrum rights may be renewed only once, for a 15-year period. After this period, the license must be renegotiated.

It is also worth highlighting that Vivo has a multimedia communication services (MCS) license allowing it to provide nationwide service for an unlimited period of time. Telefónica International Wholesale Services Brasil Ltda. also has a MCS license, although it is limited to the São Paulo area.

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The following companies hold paid TV licenses (at present, such licenses are now being granted under conditional access service authorizations): Telefónica Sistemas de Televisión S/A, A. Telecom S/A, TVA Sul Paraná S/A and Comercial Cabo TV São Paulo S/A. Meanwhile, A. Telecom, Ajato Telecomunicações Ltda. Comercial Cabo and Telefónica International Wholesale Services Brasil Ltda. hold MCS licenses.

Mexico

Authorizations to provide mobile telephone services in Mexico (mobile and personal communications services (PCS) in the 800 MHz and 1900 MHz bands, respectively) are granted through concessions.

Telefónica Móviles México and its subsidiaries and investees hold 43 licenses for providing telecommunications services.

Mobile telephone services concessions in the “A” band (800 MHz) were initially granted in 1990 and were renewed in May 2010 for a 15-year period. In addition, at the same time a concession was granted for the installation, operation and development of a public telecommunications network for the same length as the aforementioned concessions (Baja Celular Mexicana, S.A. de C.V., Movitel del Noroeste, S.A. de C.V., Telefonía Celular del Norte, S.A. de C.V., Celular de Telefonía, S.A. de C.V.).

The subsidiary Pegaso Comunicaciones y Sistemas, S.A. de C.V. holds a concession for providing public telecommunications services, granted in 1998, and nine licenses for providing personal communications services in the 1900 MHz band, until 2018. These licenses are renewable for an additional 20-year period. Renewal has been requested for all licenses.

In April 2005, Telefónica México obtained four additional licenses in the same 1900 MHz band, for providing personal communications services for a 20-year period, with possible renewal for an additional 20-year period.

In addition, new concessions were awarded during 2010: eight spectrum concessions in the 1900 MHz band for providing personal communications services and for a greater bandwidth in regions 1, 2, 3, 4, 5, 6, 7 and 9, for a period of 20 years; and six new concessions in band 1.7 – 2.1 GHz to provide AWS services in regions 2, 3, 4, 5, 6, 7 and 9, for a period of 20 years.

The SCT also granted the following licenses to Grupo de Telecomunicaciones Mexicanas, S.A. de C.V. (GTM):

- On June 24, 1998, GTM obtained a 20-year concession to install 23 GHz microwave links.
- On December 13, 1999, GTM obtained a 20-year concession to install 7 GHz microwave links. This contract may be renewed.
- On June 5, 2003, GTM obtained a 15-year concession to install a public telecommunications network to offer national and international long-distance service. This contract may be renewed.
- On March 28, 2006, GTM was authorized to renew the concession to provide fixed and public telephone services throughout the country, for a 15-year period. This contract may be renewed.
- On January 6, 2011, GTM was awarded the concession to install a public telecommunications network to offer pay TV and satellite data transmission services, for a 30-year period. This contract may be renewed.

- On July 6, 2012, GTM was awarded the concession to install a public telecommunications network to provide satellite data transmission services, for a 20-year period. This contract may be renewed.

On July 6, 2012, GTM was awarded the concession to exercise transmission and reception rights in respect of frequency bands or signals associated with foreign satellites that cover and are able to provide services in Mexico, for a 20-year period. This contract may be renewed.

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Venezuela

Telefónica Venezolana, C.A. holds a mobile telephone concession for operating and offering mobile services in the 800 MHz band, with national coverage. This concession was granted in 1991 and expired on May 31, 2011. The concession was renewable for up to 20 years, at the discretion of CONATEL. In line with prevailing legislation, Telefónica Venezolana, C.A. submitted the application for renewal of the general 806-890 MHz and 890 to 902 MHz concession (related to the provision of subscription TV services, land mobile radio communications, wireless telephone and data access network), to CONATEL, 90 days before their expiry. On May 31, 2011, CONATEL renewed these licenses for another 11 years. Pursuant to these renewals, the new expiry of the concessions is November 28, 2022.

Telefónica Venezolana, C.A. also holds a private network services concession granted in 1993 and renewed in 2007, until December 15, 2025. This concession allows Telefónica Venezolana, C.A. to provide private point-to-point and point-to-multipoint telecommunications services for companies.

In 2001, Telefónica Venezolana, C.A. secured a concession for offering nationwide wireless fixed access services using wireless technology in the subscriber loop until August 24, 2026.

In 2000, Telefónica Venezolana, C.A. received a general authorization for offering local, national long-distance and international long-distance telephone services and for operating telecommunications networks, for a 25-year period until December 15, 2025. In 2007, the remaining services provided by Telefónica Venezolana, C.A. were incorporated into this license, namely mobile, private networks, Internet access and transport services. On the same date, the company secured a concession for operating in the 1900 MHz band for a 15-year period until November 2022, renewable for a 10-year period.

By virtue of administrative order PADS-GST-00120, on March 31, 2011 the regulatory authority granted Telefónica Venezolana, C.A. a push-to-talk (PTT) license, whereby the company can offer PTT services nationwide in the bands assigned for mobile telephone use. The license expires on December 15, 2025, i.e. the same expiration date as its general HGT-001 license covering all the specific telecommunications services it can provide.

The additional 20 MHz block in the 1900 MHz band (specifically the portion between the 1945 MHz and the 1955 MHz bands) awarded to Telefónica Venezolana, C.A. during the public auction, was formalized through the concession contract signed between CONATEL and Telefónica Venezolana, C.A. on August 30, 2012.

Sistemas Timetrac, C.A. initially began operating under the 10-year concession no. SRMT-C-001 granted on July 30, 1996. While this concession expired on July 30, 2006, it was not until March 10, 2008 that CONATEL converted the licenses, granting the general HGTS-01268 license, which includes radiodetermination and telecommunications network creation and operation. The regulator set expressly the expiration of this license at September 23, 2010. On May 21, 2010, a request was submitted to renew the license, in accordance with notification received by the regulatory authority. By virtue of order PADS-SMT-00156, on March 21, 2012, CONATEL resolved to renew the aforementioned general authorization and concessions until September 2020.

Chile

Telefónica Chile holds the following telecommunications services licenses:

Local public telephony services. Telefónica Chile holds a renewable license for local telephone services in all regions of Chile, for a 50-year period. This license was awarded in 1982, except for the X and XI regions, which were

incorporated into the license in 1995. In addition, Telefónica Chile holds other nationwide renewable licenses for local telephone services, exclusively targeting rural areas. It also holds a renewable nationwide license for public data transmission services for a period of 30 years from July 1995 and another four renewable licenses for public data transmission services for a period of 30 years from June 2008. Telefónica Chile also has a renewable nationwide license for public VOIP services, for a period of 30 years from August 2010.

Long distance licenses. Through its subsidiary Telefónica Larga Distancia, Telefónica Chile holds renewable licenses for a 30-year period as from November 1989, to install and operate a national fiber optics network, a national base station network and other transmission equipment, and to provide national and international long-distance services, including voice, data and image transmission throughout Chile. In addition, the company

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holds renewable nationwide public data transmission services licenses for a 30-year period as from June 1993. Telefónica also holds indefinite licenses for providing national and international long-distance services through central switches and nationwide cable and fiber optic networks.

Public data transmission services. Since March 1987, Telefónica Empresas holds a license for an indefinite period for providing public nationwide data transmission services.

Public mobile telephone services. Since November 1989, Telefónica Móviles Chile has held licenses for an indefinite period for providing public mobile telephone services throughout Chile in the 800 MHz band. In addition, the company holds three licenses for providing nationwide mobile telecommunications services in the 1900 MHz band. These concessions may be renewed for successive 30-year periods from November 2002, at the request of the license holder. On August 3, 2012, SUBTEL announced the results of the public tender process, assigning Telefónica Móviles Chile S.A. a public service concession for fixed and/or mobile data transmission in the 2545 MHz - 2565 MHz and 2665 MHz - 2685 MHz bands (4G technology).

Limited television license. Telefónica Multimedia holds a license to establish, operate and use part of the 2.6 GHz band spectrum in Santiago de Chile for intermediate telecommunications services, authorizing the frequencies used for communicating voice, data and images, for a thirty-year period as from May 2008. The company also has a limited license to provide television services in the 2.6 GHz band. Since December 2005, the company holds a 10-year renewable license for providing limited satellite television services. In addition, since January 2006, it has a limited license for providing nationwide television services in the largest cities, except in region III, in Telefónica Chile's VDSL broadband network, for an indefinite period. Furthermore, in March 2007 the company was awarded a limited license for providing television services through the VDSL broadband network in the Santiago de Chile metropolitan area, for an indefinite period.

In addition, in 2000, Telefónica International Wholesale Services Chile S.A. (TIWS Chile) obtained the concession for intermediate telecommunications services, in order to install and put into operation an underwater fiber optic cable submarine cable, and to operate and develop a land fiber optic cable transmission system, in particular to provide services using the SAM-1 submarine cable system. The concession is for a 30-year period, and was modified in 2001 and 2005 to take into account new technological information.

Lastly, in 2011 TIWS Chile obtained a public service concession for the satellite transmission of mobile data, in order to operate in the "L" frequency band which enables Internet access and voice services.

Argentina

Telefónica de Argentina holds licenses, all of which have been granted for an unlimited period, allowing it to provide fixed telephone services, international telecommunications services, local services in the northern and southern regions; long-distance, international telecommunications services and data transmission in the northern region; and Internet and international data transmission access services.

Telefónica Móviles de Argentina's licenses for providing mobile services include PCS licenses and the corresponding authorizations for using spectrum in different regions, as well as licenses for trunk services or closed groups of users, in different cities.

These licenses do not expire, although they may be cancelled by SECOM in the event of failure to comply with the license terms.

In 2001, Telefónica International Wholesale Services Argentina S.A. was granted with a license to provide telecommunications services (fixed or mobile, cable or wireless, national or international, with or without own infrastructure), allowing it to offer SAM-1 submarine cable services.

Colombia

In March 1994, Telefónica Móviles Colombia was awarded concessions for providing mobile services in the eastern region, along the Caribbean coast and in the western region, for a 10-year period, renewed for another 10 years to March 2014. Prior to that year, the company may waive the concessions, renew the spectrum use permit for a 10-year period,

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and subsequently negotiate an extension. If Telefónica Móviles Colombia continues to hold its current concessions until 2014, in that year it must seek registration as a telecommunications operator and request permission to use spectrum.

In 2011, Telefónica Móviles obtained a license via Resolution 2105 (2011) to operate 15 MHz spectrum in the 1900 frequency band after participating in an auction held by the Ministry of Information and Communications Technology. The Ministry requested applicants to send, by January 6, 2012, statements of interest in acquiring spectrum in the 1.7, 2.1 and 2.5 GHz bands in order to verify a plurality of participants in the allocation process.

In March and August 2012, the Colombian government published the preliminary benchmark terms for the auction of up to 225 MHz, distributed as follows: (i) AWS bands from 1,710 MHz to 1,755 MHz, along with 2,110 MHz up to 2,155 MHz, (ii) 1,850 MHz to 1,990 MHz band, and (iii) 2,500 MHz to 2,690 MHz band. The auction was initially expected to take place in December 2012, and is currently expected to occur in the first half of 2013. However, the terms and period for the public auction are still subject to change.

With respect to fixed telephone services, the law establishes an indefinite permit for all operators to operate as local exchange carriers, nationwide. Colombia Telecomunicaciones registered in November 8, 2011, enabling it to provide all telecommunications networks and services; e.g. long-distance carrier services, value-added services, domestic carrier services and mobile services.

Now, in due to the effects of the merger in which Colombia Telecomunicaciones absorbed Telefónica Móviles, the concession to provide mobile services passes to the acquirer. At the same time, the titles that allowed Telefónica Móviles to provide carrier services and value added services ended. However, regarding that the law establishes a general and indefinite permission for telecommunications companies to offer different services than mobile services, Colombia Telecomunicaciones provides those, in use of that permit which was recognized by the ICT Ministry since November 8 of 2011.

In 2010, Telefónica International Wholesale Services Colombia S.A. became a registered operator and value-added service provider, enabling it to offer SAM-1 submarine cable services.

Peru

Telefónica del Perú, S.A.A. provides nationwide fixed telecommunications services according to two concessions granted on May 16, 1994 by the Ministry of Transport and Communications. The concessions were initially granted for 20 years, and may be partially renewed for additional five-year periods up to a maximum of 20 years. To date, three partial renewals extending the concession to November 27, 2027 have been approved.

Telefónica Móviles has four mobile services concessions, each for 20-year periods renewable, upon request, for equal periods. Although the two concessions for providing mobile service in Lima and Callao and one regarding the provision of mobile service in the rest of the country have expired, they are still in force according to Law, since the respective remain valid by law until the renewals proceedings are pending. Particularly, and regarding the renewal of such titles, on February 23, 2013, Resolution N° 091-2013-MTC/03 was published on the official newspaper “El Peruano”, stating that the renewal of the abovementioned concessions had been approved for an additional eighteen-year and ten months period. It also approved the addendum that will formalize such renewal and authorized to sign it within a maximum 60 working days period since the publication thereof. This addendum contains various obligations assumed by the Company in relation with geographical coverage and universal service. Telefónica Móviles also holds three 20-year concessions to provide domestic and international long-distance carrier services expiring between 2019 and 2022, three 20-year concessions to provide fixed mobile telephone services expiring

between 2019 and 2028, and three concessions for local carrier services expiring between 2016 and 2022.

In 2003, Telefónica International Wholesale Perú S.A.C. secured a license to provide long-distance carrier service (non-switched). This license was modified in 2007 to take into account updated information on TIWS.

Ecuador

Otecel renewed the mobile telephone services concession under which it provides advanced mobile services, including 3G services. The concession expires in November 2023 and may be renewed for an additional 15-year period.

In addition, Otecel holds a fixed and mobile carrier services concession expiring in 2017. This concession may be renewed for an additional 15-year period. The different licenses for providing added-value mobile services and Internet access services expired in 2011. This license was renewed until June 2, 2021 and may be extended for another 10 years.

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Other countries in Latin America

Country	License/ Concession	Type of services	Spectrum	Band	Expiry
Costa Rica	Concession	Telecommunication services (7)	10.6 MHz/850 MHz 30 MHz/1800 MHz 20 MHz/2100 MHz		2026 (8)
El Salvador	Concession	Telecommunication services (1)	25 MHz/850 MHz	Band B	2018(2)
	Concession	Telecommunication services (1)	30 MHz/1900 MHz	Band C	2021
Guatemala	Concession	Telecommunication services (1)	80 MHz/1900 MHz	Bands B, C, E and F	2014(3)(9)
	Concession	Telecommunication services (1)			2014(3)(9)
	Concession	Telecommunication services (1)			2014(3)(9)
Nicaragua	Concession	Mobile telecommunication services	25 MHz/850 MHz	Band A	2023(4)
	Concession	Mobile telecommunication services	60 MHz /1900	Bands B, D, E and F	2023(4)
Panama	Concession	GSM/UMTS	25 MHz /850 10 MHz/1900 MHz	Band A Band F	2016(5)
Uruguay	License	Mobile telephone	25 MHz/800 MHz		2022-2024(6)(10)

(1) In accordance with the Telecommunications Law all of these concessions were granted to provide any type of telecommunication services.

(2) Concessions for the use of spectrum are granted for a period of 20 years and may be renewed for additional 20 year periods once the procedures established by the Telecommunications Law are fulfilled.

(3) These concessions are granted for a period of 15 years and may be renewed for successive 15 year periods at the holder's request. In order to renew a concession the holder must prove to the regulatory agency that the spectrum has actually been used during the prior 15-year period. These concessions expire in 2014. In Guatemala, the concessions to grant mobile phone services expire in April and November of 2014. The request for renewal has to be made in June 2013 and January, 2014.

(4) Telefonía Celular de Nicaragua, S.A. (TCN) obtained a concession in 1992 for a period of 10 years to use the 25 MHz spectrum in band A of 800 MHz in order to provide mobile telecommunication services. This concession was renewed for a period of 10 years from August 2013 until July 2023. The regulatory agency awarded TCN additional spectrum of 65 MHz in bands B, D, E and F of 1900. The concession may be renewed for an additional 10-year periods via negotiation with TELCOR two years in advance of the expiry of the current concession, subject to compliance by the operator with certain conditions.

(5) The concession is valid for 20 years and expires in 2016. It is renewable for an additional period in accordance with the concession contract. The Government of Panama granted the right to use 10 MHz (5+5) in the 1900 MHz until 2016, which can be renewed for a further period. In January 2013 the company has file a request for the renewal of the concession. Its terms have to be agreed with the government of Panama.

(6) The expiry date depends upon the spectrum awarded: 800 MHz band (12.5 MHz + 12.5 MHz) – 20 years from July 2004; 1900 MHz band (5 MHz + 5 MHz) – 20 years from December 2002; and 1900 MHz band (5 MHz + 5 MHz) – 20 years from July 2004.

(7) Except for traditional basic telephone services through copper networks.

(8) The concession may be renewed for a period that added to the initial period and previous renewals does not exceed 25 years from the start date.

(9) The Guatemala Congress modified the Telecommunications Law, increasing the use period to 20 years for radio, television and telephone frequency. These modifications entered into force on December 6, 2012. Operators were granted a 90-day period to request a change in usage certificate from the regulatory agency. Upon expiry of the period,

an extension for a similar period may be requested. At present, Telefónica Guatemala is in the process of changing its usage certificate.

(10) The Uruguayan telecommunications regulator URSEC has opened a spectrum auction. Interested companies have been invited to request bidding documents before February 26. The awardees are expected to be announced on March 13.

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The government is auctioning off two spectrum blocks in the 900 MHz frequency band, six blocks in the 1900 MHz band, and nine blocks in the frequency band from 1700 MHz to 2100 MHz. The minimum auction price for each 5+5 MHz block has been set at 7.5 million US dollars. Interest is primarily focused on the lower bands (900 MHz), which correspond to 4G technology. Only two blocks are available in these bands, one of which will be assigned to the state company ANTEL, which is directly assured the 40 MHz band. The remaining block will be awarded to the best bidder.

In 2007, Telefónica International Wholesale Services Ecuador S.A. secured a permit from the National Telecommunications Ministry to provide submarine cable capacity, allowing it to offer SAM-1 submarine cable services.

In 2000, Telefónica International Wholesale Services Guatemala S.A. was registered with the Superintendency of Telecommunications as a commercial network operator, allowing it to offer SAM-1 submarine cable services.

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