

TELEFONICA S A
Form 6-K
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of February, 2015

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant's name into English)

Distrito Telefónica, Ronda de la Comunicación s/n,

28050 Madrid, Spain

3491-482-8700

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(Address of principal executive offices)

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Form 20-F Form 40-F

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Yes No

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FINANCIAL HIGHLIGHTS

The Company met its operating guidance for 2014.

Commercial momentum picked-up in 2014, with a focus on high-value services.

Strong year-on-year access growth in pay TV (1.5 times organic), mobile contract (+11%), smartphone (+39%) and fibre (2.1 times).

Average revenue per access grew 0.3% vs. 2013 in organic terms (+2.6% year-on-year in the fourth quarter).

Revenue growth acceleration in the fourth quarter (+5.0% year-on-year organic) in nearly all countries.

Improved data monetisation, with strong mobile data revenue growth in the quarter (+10.6% year-on-year), driven by non-SMS data revenues (+22.8%).

T. Hispanoamérica (+18.2% year-on-year organic) remained the main growth driver in the quarter.

In 2014, revenues stood at 50,377 million euros (+2.6% year-on-year organic).

Robust profitability; return to organic OIBDA growth in 2014.

In January-December, OIBDA totalled 15,515 million euros (+0.2% year-on-year in organic terms) and the year-on-year margin decline was limited to 0.8 percentage points.

Fourth-quarter OIBDA (3,190 million euros) was significantly affected by non-recurrent effects with a net negative impact of 1,379 million euros, mainly related to the adoption of the exchange rate set at SICAD II in Venezuela and a provision for restructuring costs.

CapEx growth in 2014 (+16.9% year-on-year organic) aimed at accelerating network modernisation and differentiation and growing the customer base.

Free cash flow generation amounted to 3,817 million euros in 2014 and to 4,748 million euros excluding spectrum investment.

Free cash flow per share stood at 0.83 euros in 2014. The Company paid a scrip dividend of 0.35 euros per share in December (84.2% take-up) and will pay the remaining 0.40 euros per share in cash in the second quarter of 2015, translated into a cash dividend pay-out of just 55% of FCF per share.

Significant improvement in financial position, following the recently announced transactions.

Net financial debt declined by 294 million euros over the last twelve months to 45,087 million euros, impacted by the adoption of the exchange rate set at SICAD II in Venezuela, which increased debt by 1,231 million euros.

Debt would stand at 31,705 million euros and the debt ratio (net financial debt over OIBDA) at 2.15 times, after the closing of the proposed sale of O2 UK and the FX change in Venezuela.

Net income stood at 3,001 million euros in 2014 (4,462 million euros underlying) and basic earnings per share amounted to 0.62 euros (0.93 euros underlying).

Net income in the fourth quarter was affected by non-recurrent impacts including the adoption of the exchange rate set at SICAD II in Venezuela (-399 million euros), the provision for restructuring costs (-405 million euros) and the value adjustment of Telco, S.p.A (-257 million euros).

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Telefónica España s results in 2014 marked a turning point for the Company, improving its competitive position and its commercial offer differentiation. The Company was leader in the pay TV market with 1.9 million customers (x3 year-on-year) and had over 1.3 million fibre customers (>x2 year-on-year) while the mobile contract customer base posted positive net additions in the year for the first time since 2011. Thus, a gradual revenue recovery trend was confirmed in the fourth quarter (-4.9% year-on-year; +1.7 percentage points quarter-on-quarter), driven by service revenues, while OIBDA also improved in organic terms (-7.8% year-on-year in the fourth quarter; -14.4% in the third).

In **Brazil**, the Company strengthened its leadership in the contract segment by capturing in the quarter over half of new accesses in the market, accelerated the rollout of fibre to reach 4.1 million premises passed, and posted a 20% year-on-year growth in pay TV customers. Revenues stood at 11,231 million euros in 2014 (+0.5% year-on-year organic) and OIBDA (3,543 million euros) again rose (+0.9% year-on-year organic) despite the negative impact of regulation. In addition, the acquisition of GVT (subject to final approval by the regulatory authorities) will consolidate Telefónica Brasil as an integrated operator with nationwide coverage.

In **Germany**, the fourth quarter of 2014 represents the starting point for the new Telefónica Deutschland, with the integration of E-Plus from 1 October. The new Company is the market leader in terms of mobile accesses (42.1 million at December), after recording high commercial activity in the mobile contract segment. Revenues stabilised in the fourth quarter, with solid progress in data monetisation mainly driven by higher LTE coverage (62% at December) and demand for LTE handsets.

Telefónica announces its operating and financial guidance¹ for 2015 and ambition for 2016.

Base 2014	Operating Guidance 2015 & Ambition 2016	Guidance 2015E	Ambition 2016E
42,853			>5% CAGR
	Revenues	>7%	2014-16E
32.6%		Limited margin erosion around	
		1 p.p.	
		(to allow for commercial flexibility if needed)	Stabilising in 2016
16.7%	OIBDA Margin	Around 17%	Around 17%
	CapEx / Sales		

(-2 p.p. 2017E
vs. 2016E)

Financial Guidance 2015 & Ambition 2016	Guidance 2015E	Ambition 2016E
Net Financial Debt / OIBDA	<2.35x	<2.35x

¹ **Operating guidance 2015 and ambition 2016 criteria:**

2014 adjusted bases:

ü **Exclude:**

T. UK results from January-December 2014.

T. Venezuela results from January-December 2014.

OIBDA excludes additionally tower sales and the provision for restructuring costs.

CapEx excludes additionally spectrum acquisition, Real Estate Efficiency Plan and the investment in Telefónica s Headquarter in Barcelona.

ü **Include:**

E-Plus results consolidated in T. Deutschland results since the fourth quarter of 2014.

T. Ireland results from January-June 2014.

2015E guidance and 2016E ambition:

ü Assume **constant exchange rates as of 2014** (average FX in 2014).

ü **Exclude:**

T. UK results.

T. Venezuela results.

OIBDA excludes additionally: write-offs, capital gains/losses from the disposal of companies, tower sales, material non-recurrent impacts and major restructuring related to integration processes in Germany and Brazil and to the simplification program.

CapEx excludes additionally spectrum acquisition and Real Estate Efficiency Plan.

ü **Include:**

GVT results consolidated in T. Brasil results since July 2015.

Financing guidance 2015 and ambition 2016 criteria:

Net financial debt / OIBDA both adjusted for the closing of the proposed sale of O2 UK

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Telefónica will propose the adoption of the relevant corporate resolutions with the aim to:

In 2015, amortise Treasury stock for a total of 1.5% share capital and distribute a dividend of 0.75 euros per share.

Payable in the fourth quarter of 2015 (0.35 euros per share in the form of a voluntary scrip dividend) and in the second quarter of 2016 (0.40 euros per share in cash).

In 2016, amortise Treasury stock for a total of 1.5% share capital and distribute a dividend of 0.75 euros per share in cash, in both cases subject to the closing of the proposed sale of O2 UK.

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Comments from César Alierta, Executive Chairman

The results in the fourth quarter of 2014 represent the culmination of a period of intense transformation that has strengthened the Company, its growth potential and its financial position in just over two years.

This transformation was carried out from the core of the business, thanks to an intense CapEx effort that has allowed us to adapt to the evolution of our customers' technological needs which are characterised by a booming data usage. For this reason, in 2014 alone, we have doubled the reach of our fibre network to 15 million premises passed and we have reached a 4G coverage of 60% in Europe, while in Latin America this service is already available in 10 countries.

This transformation has also been especially active in our asset portfolio management, with the aim of fulfilling a double objective: to concentrate our operations in the markets with higher growth potential, while at the same time increasing our scale in those markets. That way we maintain our global scale, improving our growth profile and concentrating our operations, leading to the generation of synergies and improved profitability. Lastly, our asset portfolio optimisation strategy allowed us to recover financial strength, given that, considering the recently announced operations, the net debt level would be reduced to less than 32 billion euros against the 58 billion reached in mid-2012, when this process began.

The results in the quarter continued to demonstrate strong traction in the take-up of high-value services (fibre, Pay TV, LTE, Smartphones), producing a turnaround in the average revenue per access trend, which grew in 2014 for the first time in recent years. This, supported by sustained access growth, accelerated year-on-year organic revenue growth in the quarter to 5%. Regarding OIBDA, multiple one-off factors make a year-on-year comparison more difficult, however, in organic terms, OIBDA remained stable in the quarter, thanks to the efficiency measures implemented during the operational transformation process.

The execution of our transformation strategy in recent years, coupled with the evident change in trends which is underway, lead us to upgrade the level of our ambition for the next two years. The evolution of our operations, the strength of our Balance Sheet and the current environment all present clear signs of improvement and are reflected in the acceleration of the Company's profitable and sustainable growth.

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SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - December		% Chg		October - December		% Chg	
	2014	Reported	Organic	2014	Reported	Organic		
Revenues	50,377	(11.7)	2.6	12,399	(14.1)	5.0		
Telefónica España	12,023	(7.2)	(7.2)	3,038	(4.9)	(4.9)		
Telefónica UK	7,062	5.5	0.2	1,913	9.8	3.2		
Telefónica Deutschland (1)	5,522	12.4	(3.5)	2,019	62.4	(0.4)		
Telefónica Brasil	11,231	(8.1)	0.5	2,850	(3.1)	(0.3)		
Telefónica Hispanoamérica	13,155	(22.0)	14.6	2,244	(49.4)	18.2		
Other companies & eliminations	1,384	(59.6)		335	(62.0)			
Telefónica Ireland (2)	259	n.m.			n.m.			
Telefónica Czech Republic (3)		n.m.			n.m.			
OIBDA	15,515	(18.7)	0.2	3,190	(35.9)	(0.0)		
Telefónica España	5,671	(10.6)	(12.6)	1,551	(3.3)	(7.8)		
Telefónica UK	1,744	6.5	1.1	457	3.4	(3.0)		
Telefónica Deutschland (1)	733	(44.0)	(22.1)	(38)	n.s.	(38.2)		
Telefónica Brasil	3,543	(10.1)	0.9	929	(11.4)	(1.3)		
Telefónica Hispanoamérica	4,068	(26.5)	16.4	503	(67.5)	15.6		
Other companies & eliminations	(243)	n.m.		(211)	n.m.			
Telefónica Ireland (2)	51	n.m.			n.m.			
Telefónica Czech Republic (3)		n.m.			n.m.			
OIBDA margin	30.8%	(2.6 p.p.)	(0.8 p.p.)	25.7%	(8.7 p.p.)	(1.6 p.p.)		
Telefónica España	47.2%	(1.8 p.p.)	(2.8 p.p.)	51.0%	0.8 p.p.	(1.4 p.p.)		
Telefónica UK	24.7%	0.2 p.p.		23.9%	(1.5 p.p.)			
Telefónica Deutschland (1)	13.3%	(13.4 p.p.)	(5.1 p.p.)	-1.9%	(33.2 p.p.)	(11.9 p.p.)		
Telefónica Brasil	31.5%	(0.7 p.p.)	0.1 p.p.	32.6%	(3.1 p.p.)	(0.4 p.p.)		
Telefónica Hispanoamérica	30.9%	(1.9 p.p.)	0.5 p.p.	22.4%	(12.4 p.p.)	(0.8 p.p.)		
Operating Income (OI) (1) (2) (3)	6,967	(26.3)	1.9	933	(66.2)	(5.0)		
Net income (1) (2) (3)	3,001	(34.7)		152	(89.5)			
Basic earnings per share (euros) (1) (2) (3)	0.61	(38.1)		0.02	(93.1)			

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CapEx	9,448	0.6	16.9	3,710	9.9	2.1
Telefónica España	1,732	13.3	15.2	546	(12.0)	(13.0)
Telefónica UK	755	(45.5)	7.5	181	23.3	17.7
Telefónica Deutschland (1)	849	27.5	(6.4)	438	n.m.	7.1
Telefónica Brasil	2,933	37.9	15.0	1,585	n.m.	(0.7)
Telefónica Hispanoamérica	2,842	(8.8)	29.1	827	(42.3)	10.4
Other companies & eliminations	338	(40.8)		134	(43.6)	
Telefónica Ireland (2)	27	n.m.			n.m.	
Telefónica Czech Republic (3)		n.m.			n.m.	
Spectrum	1,294	5.8	39.5	1,102	n.m.	n.m.
Telefónica España		n.m.	n.m.		n.m.	n.m.
Telefónica UK		n.m.	n.m.		n.m.	n.m.
Telefónica Deutschland (1)		n.m.	n.m.		n.m.	n.m.
Telefónica Brasil	889	n.m.	n.m.	889	n.m.	n.m.
Telefónica Hispanoamérica	405	n.m.	n.m.	213	n.m.	n.m.
OpCF (OIBDA-CapEx)	6,067	(37.3)	(12.7)	(520)	n.m.	(3.9)
Telefónica España	3,939	(18.1)	(21.0)	1,005	2.1	(4.3)
Telefónica UK	989	n.m.	(3.2)	276	(6.5)	(12.9)
Telefónica Deutschland (1)	(116)	c.s.	(38.3)	(476)	c.s.	(85.0)
Telefónica Brasil	610	(66.4)	(13.0)	(656)	c.s.	(2.7)
Telefónica Hispanoamérica	1,226	(49.2)	2.2	(324)	c.s.	39.3
Other companies & eliminations	(580)	n.m.		(345)	19.2	
Telefónica Ireland (2)	24	n.m.			n.m.	
Telefónica Czech Republic (3)		n.m.			n.m.	

Reconciliation included in the excel spreadsheets.

Notes:

OIBDA and OI are presented before brand fees and management fees.

OIBDA margin calculated as OIBDA over revenues.

2013 and 2014 reported figures include hyperinflationary adjustments in Venezuela in both years.

From January 1st, 2014, and due to the implementation of the new organization announced in February 2014, the activities carried out to date by Telefónica Digital, Telefónica Europe and Telefónica Latam are integrated into the Global Corporate Centre, thus simplifying the organization. Additionally, from the beginning of the year, the new organizational structure will be composed of T. España, T. Brasil, T. Deutschland, T. UK and T. Hispanoamérica (Argentina, Chile, Peru, Colombia, Mexico, Venezuela & Central America, Ecuador and

Uruguay). All that is not specifically included in these new segments is part of Other companies and eliminations . Thus, the results of T. España, T. Brasil, T. Deutschland, T. UK, T. Hispanoamérica and Other companies and eliminations have been revised for the year 2013, to reflect the above mentioned new organization. As this is an intragroup change, Telefónica consolidated results for 2013 are not affected.

Organic criteria: *Assumes constant exchange rates as of 2013 (average FX in 2013), excludes hyperinflationary accounting in Venezuela in both years and considers constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, tower sales and material non-recurring impacts. In 2014 excludes the provision for restructuring costs, aligned with the simplification initiatives that the Group is implementing, mainly accrued in the fourth quarter. In addition, CapEx excludes investment in spectrum and in 2014 excludes changes in the urban qualification of real estate properties and investment in Telefónica s headquarters in Barcelona.*

- (1) E-Plus has been included in the consolidation perimeter since 1 October 2014.*
- (2) T. Ireland has been removed from the consolidation perimeter since 1 July 2014.*
- (3) T. Czech Republic has been removed from the consolidation perimeter since 1 January 2014.*

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The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS), as adopted by the European Union, which do not differ for the purposes of the Telefónica Group, from IFRS as issued by the International Accounting Standards Board (IASB). This financial information is unaudited.

Telefónica's management model, regional and integrated, means that the legal structure of the companies is not relevant for the release of Group financial information, and therefore, the operating results of each of these business units are presented independently, regardless of their legal structure. For the purpose of presenting information on a business unit basis, revenue and expenses arising from invoicing among companies within Telefónica's perimeter of consolidation for the use of the brand and management contracts have been excluded from the operating results for each business unit. This breakdown of the results does not affect Telefónica's consolidated earnings.

The English language translation of the consolidated financial statements originally issued in Spanish has been prepared solely for the convenience of English speaking readers. Despite all the efforts devoted to this translation,

certain omissions or approximations may subsist. Telefónica, its representatives and employees decline all responsibility in this regard. In the event of a discrepancy, the Spanish-language version prevails.

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01

CONSOLIDATED RESULTS

In 2014 Telefónica made key progress and achieved tangible results in its transformation strategy towards becoming a Digital Telco, focused on accelerating long-term sustainable growth. Thus, both investment and asset portfolio management were focused on improving its competitive position in high-value segments and markets, translating into revenue growth acceleration throughout the year. At the same time, the Company continued to implement a strict cost management policy and obtained significant savings from the simplification of the new operating model. As a result, OIBDA returned to year-on-year growth in organic terms.

Total accesses reached 341.0 million at December 2014, up 6% year-on-year, after incorporating the customers of E-Plus in T. Deutschland and posting solid growth at T. Hispanoamérica, T. Brasil and T. UK. Excluding the accesses of E-Plus from the 2014 base and those of T. Czech Republic and T. Ireland from the 2013 base, organic growth stood at 2%. By services, commercial momentum focused on high value customers remained high in the quarter and was reflected in sustained growth of mobile contract (smartphones and LTE), fibre and Pay TV accesses. Total churn in 2014 stood at 2.9%, virtually stable year-on-year (+0.1 percentage points).

Mobile accesses totalled 274.5 million, up 8% vs. 2013 (+2% organic), driven by the strong growth of the mobile contract segment (+11% reported; +8% organic), which continued to increase its weight and accounted for 36% of mobile accesses (+1 percentage point year-on-year). Particularly noteworthy in the fourth quarter was the performance of T. España, which posted mobile contract net additions (+57 thousand) for the third quarter in a row and for the first time in the full year since 2011.

Smartphones maintained a strong growth momentum (+39% year-on-year) and stood at 90.4 million, reaching a penetration of 35% over the total access base (+8 percentage points year-on-year), reflecting the Company's strategic focus on growing data services.

Retail broadband accesses totalled 17.7 million (+1% year-on-year organic), with net additions of 11 thousand accesses in the quarter (138 thousand accesses in 2014 in organic terms).

Fibre accesses stood at 1.8 million at December 2014 (2.1 times greater vs. December 2013), after posting record net additions in the quarter of 308 thousand accesses, up 16% quarter-on-quarter, boosted by T. España (248 thousand accesses).

Pay TV accesses totalled 5.1 million and posted growth acceleration for the seventh consecutive quarter to 48% in organic terms on the back of 437 thousand net additions in the quarter, 2.7 times the figure in October-December 2013. Thus, in organic terms, net additions for the year 2014 totalled 1.6 million (more than 6 times higher year-on-year). Noteworthy in the fourth quarter were T. España, with 305 thousand net additions, and T. Hispanoamérica, with quarter-on-quarter acceleration in net

additions (1.8 times higher).

It is important to highlight the Company's decision to adopt the exchange rate of the Venezuelan bolivar set at the previously denominated SICAD II at the end of 2014, as being the most representative among the available exchange rates as of that date, for the monetary translation of the accounting figures of cash flows and balances, impacting fourth quarter financial results. In the last auction of the quarter this rate was set at 50 bolivars per dollar.

In the fourth quarter, the evolution of exchange rates was especially impacted by the aforementioned change to SICAD II and, to a lesser degree, the depreciations of the Argentine peso and the Brazilian real against the euro. Thus, the negative impact of exchange rates reduced year-on-year revenue and OIBDA growth by 20.4 percentage points and 23.9 percentage points respectively (12.1 percentage points and 13.1 percentage points in January-December 2014).

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Exchange rate fluctuations also reduced payments in euros related to CapEx, taxes and minorities, virtually offsetting the negative impact of exchange rates on OIBDA and neutralising the impact on cash flow generation in January-December 2014.

In addition, the results of E-Plus at T. Deutschland are consolidated from 1 October, affecting, together with the deconsolidation of the results of T. Czech Republic (since January 2014) and T. Ireland (since July 2014), the year-on-year comparison of Telefónica's reported financial results. Thus, changes in the perimeter of consolidation contributed with 1.6 percentage points to fourth-quarter revenue growth, while reduced full-year growth by 2.1 percentage points. OIBDA was reduced by 2.3 percentage points in the fourth quarter and by 3.5 percentage points in the full year.

Revenues totalled 50,377 million euros in 2014, with organic growth accelerating in the fourth quarter to 5.0% year-on-year (+2.8% in the third quarter; +2.6% in January-December) and speeding up in all segments, with the exception of T. Brasil.

In the quarter it is worth noting the improved contributions to revenue of T. Hispanoamérica, T. UK and T. España compared with the previous quarter (+1.3 percentage points, +0.7 percentage points and +0.4 percentage points respectively). Excluding the negative impact of regulation, revenues in organic terms grew by 6.3% in the fourth quarter and by 4.3% in 2014.

In reported terms, revenues fell year-on-year (-14.1% in the fourth quarter; -11.7% in January-December), affected by the negative impact of exchange rate fluctuations and changes to the consolidation perimeter mentioned above. Most notably, the change to SICAD II in Venezuela had a negative impact of 2,187 million euros on fourth quarter revenues.

Mobile data revenues remained one of the Company's main growth drivers, increasing by 9.9% in organic terms in 2014 (+10.6% year-on-year in October-December) and accounted for 41% of mobile service revenues (+3 percentage points compared with 2013). Non-SMS data revenues advanced 23.9% year-on-year in organic terms in 2014 (+22.8% in the quarter) and accounted for 73% of data revenues (+8 percentage points compared with 2013).

In the fourth quarter, a provision of 644 million euros for non-recurrent restructuring and other costs was registered with the aim of enhancing the Company's future efficiency (adjusting the structure to reduce complexity and gain agility in execution), which affected operating expenses (557 million euros) and other net income/expense (87 million euros). By segments, restructuring expenses in T. Deutschland amounted to 401 million euros, in T. Hispanoamérica to 99 million euros, in T. Brasil to 68 million euros and in Other Companies and Eliminations to 76 million euros.

Operating expenses totalled 36,149 million euros in January-December 2014, up 3.8% year-on-year in organic terms (-7.6% reported), mainly due to higher commercial and network and systems costs, despite the savings from the simplification and scale of Telefónica. In the fourth quarter operating expenses growth accelerated to 7.1% year-on-year in organic terms (-1.6% reported) due to higher supply costs.

Breakdown by component:

Supplies (15,182 million euros in 2014) declined by 0.5% year-on-year in organic terms (-10.9% reported) compared with 2013, principally due to lower mobile interconnection costs. In the fourth quarter supplies rose by 4.1% year-on-year in organic terms (-7.2% reported) owing to increased activity in high-end devices and higher TV content costs.

Personnel expenses, 7,098 million euros in January-December, grew 5.2% year-on-year in organic terms (+7.7% compared with the fourth quarter of 2013), chiefly affected by the increase in prices in some countries. The reported change in personnel expenses (-1.5% in January-December; +21.5% year-on-year in October December) is affected by the above-mentioned provision.

The average headcount in 2014 stood at 120,497 employees, down 7.2% compared with 2013 (-2.9% excluding changes in the perimeter of consolidation).

Other operating expenses, 13,869 million euros at December 2014, advanced 8.0% in organic terms year-on-year (-6.7% reported), mainly due to commercial expenses associated with the increased commercial momentum, network costs related to traffic growth and expenses associated with network modernisation. In the fourth quarter, year-on-year growth stood at 10.4% in organic terms (-6.1% reported).

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Other net expense totalled 200 million euros in 2014 (11 million euros in the fourth quarter), especially impacted in the quarter by the above-mentioned provision for non-recurrent restructuring costs and the adoption of the exchange rate set at SICAD II in Venezuela.

Gains on sales of fixed assets totalled 327 million euros in 2014 (208 million euros in the fourth quarter), principally associated with the sale of non-strategic towers (196 million euros of impact on OIBDA in January-December; 138 million euros in the fourth quarter, mainly in T. España) the sale of buildings in T. España (41 million euros of impact on OIBDA in the fourth quarter) and the reporting of a profit associated with the asset disposal of the fixed business in the United Kingdom once all the conditions set out in the sale agreement had been satisfied (49 million euros in the third quarter).

In 2013, this item totalled 161 million euros (58 million euros in the fourth quarter), and was mainly comprised of the sale of non-strategic towers at T. Hispanoamérica, T. Brasil and T. España (111 million euros of impact on OIBDA in January-December; 71 million euros in the fourth quarter), the capital gain from the disposal of the assets of the fixed business in the United Kingdom (83 million euros, mainly in the second quarter), the capital gain from the sale of assets in Germany (76 million euros in the fourth quarter), the capital gain from the sale of Hispasat (21 million euros in the second quarter), the value adjustment of Telefónica Ireland (-16 million euros in the second quarter) and the value adjustment of Telefónica Czech Republic (-176 million euros in January-December; -120 million euros in the fourth quarter).

Operating income before depreciation and amortisation (OIBDA) in January-December 2014 totalled 15,515 million euros, up 0.2% year-on-year in organic terms, reflecting revenue growth and the benefits from the efficiency measures implemented and despite the higher commercial and network expenses mentioned above. By regions, T. Hispanoamérica posted 16.4% year-on-year organic growth (an increase of 2.1 percentage points compared with 2013) and positively contributed 4.8 percentage points to OIBDA growth, underpinned by growth acceleration in Mexico and Colombia.

In the fourth quarter, OIBDA amounted to 3,190 million euros, stable year-on-year in organic terms (-35.9% reported), and was affected by one-off factors with a negative impact of 1,379 million euros: the adoption of the exchange rate set at SICAD II (-915 million euros), the provision of 644 million euros for restructuring costs, the sale of non-strategic towers (+138 million euros of impact on OIBDA) and the one-off sale of buildings at T. España (+41 million euros of impact on OIBDA).

Excluding the negative impact of regulation, organic OIBDA grew 1.3% in 2014 and 0.8% year-on-year in the fourth quarter.

In reported terms, OIBDA fell by 18.7% in 2014, impacted by the exchange rate fluctuations, changes to the consolidation perimeter and one-off factors mentioned earlier.

OIBDA margin stood at 30.8% in January-December 2014, with limited year-on-year erosion in organic terms (-0.8 percentage points). In the fourth quarter, OIBDA margin stood at 25.7% (-1.6 percentage points year-on-year in organic terms), significantly impacted by the above-mentioned one-off factors. Excluding these factors, the fourth quarter margin stood at 36.9%.

Depreciation and amortisation in 2014 totalled 8,548 million euros, 1.6% lower year-on-year in organic terms (-11.2% in reported term) due to lower fixed asset depreciation, mainly in Brazil. Fourth quarter growth reached 6.0% year-on-year (+2.0% reported, affected by the consolidation of E-Plus) as a result of the intensification of CapEx accrued in the year. Total depreciation and amortisation charges arising from purchase price allocation processes amounted to 708 million euros in January-December 2014 (-17.3% year-on-year), including charges related to the acquisition of E-Plus from 1 October.

Operating income (OI) totalled 6,967 million euros in 2014, 1.9% higher year-on-year in organic terms (-5.0% year-on-year in the fourth quarter). In reported terms, OI fell by 26.3% compared with 2013 and 66.2% year-on-year in October-December also due to the above-mentioned one-off factors.

Share of **profit (loss) of investments accounted for by the equity method** amounted to -510 million euros in January-December 2014 (-442 million euros in the fourth quarter), mainly due to losses booked following the classification of Telco, S.p.A. investment as an asset held for sale in the fourth quarter (-367 million euros). In 2013, this item amounted to -304 million euros (-186 million euros in the fourth quarter) mainly due to the impact of Telco S.p.A.'s adjustments to the value of its investment in Telecom Italia.

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Net financial expenses amounted to 2,822 million euros in 2014 (-1.6% year-on-year), of which 293 million euros were due to net negative foreign exchange differences primarily associated with the Company's decision to adopt the exchange rate of the Venezuelan bolivar set at SICAD II. Excluding this impact, net financial expenses fell 8.2% year-on-year due to the lower average debt (-9.1% compared with December 2013), placing the effective cost of debt over the last twelve months at 5.40%, 6 basis points higher vs. December 2013. The higher weight of debt denominated in Latin America currencies and the prepayment and amortization of cheaper debt denominated in euros increased average cost in 47 basis points, while the lower rates in Europe and Latin America reduced average cost in 41 basis points.

Corporate income tax in January-December 2014 totalled 383 million euros. Tax added 340 million euros to fourth quarter results mainly due to the larger activation of tax credits, mostly in Colombia, and the impact of the adoption of the exchange rate set at SICAD II in Venezuela. In 2014 the effective tax rate was 10.5%, 10.3 percentage points lower than in 2013, due to the above-mentioned impacts and the effect of the revaluation of deferred taxes in Brazil following a regulatory change in the second quarter of 2014.

Profit attributable to minority interests reduced net income by 251 million euros in 2014, and was down 33.2% year-on-year impacted by the loss attributed in T. Deutschland in the fourth quarter, despite the higher profit attributed to minority shareholders of T. Brasil and T. Colombia as a result of the improved operating performance of the business and the aforementioned tax impacts. In October-December 2014 this item increased net profit by 28 million euros (-186 million euros in the same period of 2013) mainly as a result of the loss attributed to minority shareholders of T. Deutschland, impacted by the above-mentioned provision for restructuring expenses.

Thus, and as a result of all the items and one-off factors explained above, **consolidated net income** in 2014 amounted to 3,001 million euros (4,462 million euros in underlying terms), down 34.7% year-on-year (-18.6% underlying) and 89.5% year-on-year in the fourth quarter (-29.7% underlying). In the fourth quarter extraordinary effects amounted to 1,088 million euros and included: the impact of the adoption of the exchange rate set at SICAD II in Venezuela (-399 million euros), the provision for restructuring expenses (-405 million euros), the value adjustment of Telco, S.p.A (-257 million euros) and other factors (-26 million euros).

Basic earnings per share in underlying terms amounted to 0.93 euros in 2014 and 0.25 euros in the fourth quarter, -21.2% vs. 2013 and -32.0% year-on-year in the quarter (-38.1% and -93.1% respectively, in reported terms).

In 2014, the Company remained focused on network differentiation and modernisation, with 75% of total investment in the year, excluding spectrum, devoted to transformation and growth (+6 percentage points year-on-year in organic terms). As a result, **CapEx** grew 16.9% year-on-year in organic terms and totalled 9,448 million euros, including 1,294 million euros related to spectrum acquisition (primarily in Brazil, Argentina and Venezuela in the fourth quarter and in Colombia and Central America in the first quarter), 49 million euros related to changes in the urban qualification of real estate properties in July-December, -40 million euros from restructuring charges and 29 million euros corresponding to the purchase of Telefónica's headquarters in Barcelona in the third quarter.

Operating cash flow (OIBDA-CapEx) totalled 6,067 million euros in 2014, 12.7% lower year-on-year in organic terms (-37.3% reported).

Interest payments (2,530 million euros) were 4.8% higher year-on-year due to non-recurrent impacts (including the differences in the debt payment calendar in 2014 compared with 2013, interest payment in 2014 on a 15-year

zero-coupon bond and interest received in 2013 associated with settlement rebates from tax inspection processes), despite the average debt reduction lowered interest payments by 8.9% year-on-year. In the fourth quarter interest payments amounted to 412 million euros, 25 million euros lower year-on-year, due to the reduction in debt, which offset other non-recurrent impacts.

Payment of taxes in 2014 totalled 1,187 million euros (1,806 million euros in 2013), with the year-on-year trend impacted by exchange rate movements, in particular the adoption of the exchange rate set at SICAD II in Venezuela, lower payments on account in 2014 and changes in the perimeter of consolidation.

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Working capital made a positive contribution of 2,107 million euros to cash generation in 2014, 1,451 million euros more than in 2013. Working capital generation was especially strong in the fourth quarter at 2,483 million euros (+37.6% year-on-year), mainly due to: (i) the seasonality of the investment, (ii) proceeds from disposals, (iii) proceeds from commercial agreements in the Czech Republic (advance payment of deferred income) and (iv) restructuring expenses, payable in subsequent years. In January-December 2014 working capital generation was driven by the above-mentioned factors and: (i) the management measures implemented to ensure monetisation of revenues (factoring collections from handset sales), (ii) the reduction in payments in 2014 in relation to total accrued operating expenses in the year, due to various management measures, and (iii) proceeds from commercial agreements in Germany, Brazil and Mexico.

Operations with minority shareholders totalled 327 million euros in 2014, 277 million euros less than in 2013, mainly affected by lower dividend payments to minority shareholders of T. Brasil, impacted by the performance of the Brazilian real, and changes in the perimeter of consolidation (sale of Telefónica Czech Republic).

As a result, **free cash flow** amounted to 3,817 million euros in 2014, 4,748 million euros excluding spectrum payments.

Net financial debt stood at 45,087 million euros at the end of December 2014, down 294 million euros year-on-year. Excluding the impact of the evolution of the exchange rate in Venezuela, which increased debt by 2,341 million euros, debt would have been reduced by 2,635 million euros. This reduction was mainly due to free cash flow generation before spectrum payments of 4,748 million euros, the issue of equity instruments for a total amount of 4,699 million euros (including the part corresponding to minority shareholders at the capital increase in Germany) and proceeds of 3,981 million euros from the disposals of T. Czech Republic, T. Ireland and the 2.5% stake in China Unicom. In contrast, factors that increased debt include net financial investments of 4,949 million euros, 3,382 million euros as remuneration of equity instruments (including, among others, the net purchase of treasury stock and coupon payments of equity instruments), spectrum payments of 932 million euros, the payment of labour commitments (789 million euros), mainly associated with early retirements, and other factors that increased debt by 741 million euros.

Net financial debt rose by 3,887 million euros in the last quarter of 2014. This increase was largely due to net financial investments of 3,838 million euros (including the payment for the acquisition of E-Plus and proceeds from the sale of 2.5% stake in China Unicom), the impact of the adoption of the exchange rate set at SICAD II in Venezuela, which increased debt by 1,231 million euros, spectrum payments of 753 million euros, 528 million euros as remuneration of equity instruments (including, among others, the purchase of treasury stock and coupon payments of equity instruments), the payment of labour commitments (190 million euros) and other factors that increased debt by 465 million euros. In contrast, factors that reduced debt include free cash generation before spectrum payments of 1,731 million euros, the issue of equity instruments (850 million euros) and the impact of exchange rate fluctuations on debt (537 million euros).

The **leverage ratio (net debt over OIBDA¹)** for the last 12 months at the end of 2014 stood at 2.74 times. Considering the closing of the proposed sale of O2 UK, the leverage ratio would stand at 2.15 times.

In 2014, Telefónica's **financing activity** through capital markets stood at around 14,740 million equivalent euros and was mainly focused on completing the financing of the acquisition of E-Plus (via the issue of a bond mandatorily convertible into Telefónica shares for a notional amount of 1,500 million euros and the execution of the capital increase of T. Deutschland), strengthening the liquidity position, actively managing the cost of debt and smoothing the

debt maturity profile of Telefónica S.A. for the following years. Therefore, as of the end of 2014, the Group maintains a comfortable liquidity position to accommodate the next debt maturities. In Hispanoamerica, Telefónica's subsidiaries tapped financing markets for approximately 267 million equivalent euros in the January-December 2014 period.

T. Deutschland completed a 3.700 million euro capital increase entirely subscribed by Telefónica, S.A. and other minority shareholders for amount exceeding 800 million euros. Also noteworthy is the 500 million euro bond placement by T. Deutschland in January.

¹ Adjusted for the sale of companies, restructuring costs and also incorporating E-Plus OIBDA corresponding to January-September period (homogenised under the accounting policies of Telefónica).

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After the closing of the year, a syndicated credit facility for an amount of 2,500 million euros and maturing in February 2020 was signed in February 2015 with 33 financing institutions. In parallel, the economic terms of the syndicated credit facility signed in February 2014, for an amount of 3,000 million euros, were modified.

Telefónica, S.A. and its holding companies have remained active under the various Commercial Paper Programmes (Domestic and European), with an outstanding balance of approximately 502 million euros at the end of December.

Telefónica maintains total undrawn committed credit lines with different credit entities for an approximate amount of 11,545 million euros, with around 10,618 million euros maturing in more than 12 months, which, together with the cash position, increases liquidity to 19.4 billion euros.

Digital Services

Highlights in the area of the Chief Commercial Digital Officer (CCDO) include the following:

In the **Consumer (B2C)** area, revenue from the **Video** business amounted to 954 million euros in 2014 and grew 29% year-on-year in organic terms, accelerating throughout the year (+24% January-September) due to the improvement in service quality, the ongoing development of new and exclusive content and the growth in Pay TV accesses. The latter increased by 48% year-on-year to December, up 7 percentage points compared with September, with accesses in Spain almost tripling year-on-year, Brazil (+20%) and Hispanoamerica (+14%).

Also noteworthy in December was the launch of **Movistar Series** in Spain, which offers hit series (some of which exclusively), in some cases just one day after their US premiere.

In **Financial Services**, both the customer loyalty community application **Yaap Shopping** (after a pilot in Valladolid and Palma, the service is now available nationwide in Spain) and the **Yaap Money** app (launched nationwide in September) were further extended. In Peru, the **Movistar: tu dinero móvil** service continued to expand nationwide in order to capture opportunities from the remittances business.

Global Device Management continued to foster the acceleration of smartphone adoption, with a special focus on LTE. Thus, in the fourth quarter, 75% of total devices acquired by the Company were smartphones, while 41% were LTE (+24 percentage points year-on-year).

In **Security** for end customers, the number of customers in Brazil reached 6.5 million as of December (x2 year-on-year). New products were launched in the last quarter including **Cloud personal** in Spain and device security products in Chile, Ecuador, Costa Rica and Colombia. Telefónica signed an agreement with Qustodio, the leading player in digital security solutions, and also launched a new service in Spain called **Movistar Protege**, which enables parents to protect and monitor their children's online activities.

Global Partnerships formed by the Company continued to contribute to a strong sequential growth in the number of active Evernote and Rhapsody subscribers, which reached 1.1 million and 0.2 million respectively.

In the **Corporate (B2B)** area, **M2M** revenues stood at 183 million euros in January-December 2014 (+41% year-on-year in organic terms), boosted by the growth of M2M accesses (+16% year-on-year organic). A European-level agreement was also reached in the fourth quarter with Geotab, a leading provider of M2M fleet transport telematics technology, to launch a Plug and Play solution.

Cloud business revenues grew by 25% year-on-year in organic terms to reach 342 million euros. The last three months also saw the launches of the Cloud Storage service in Spain and the Virtual Data Center (VDC) service in Argentina.

In **Information Security**, revenues in 2014 stood at 115 million euros, with growth accelerating to 57% year-on-year in organic terms (+42% January-September) thanks to the strong performances in Spain and the UK. Also noteworthy was the three-fold year-on-year increase in the number of devices managed by the mobile device management service and the progress in the cybersecurity agreement with Etisalat. In addition, INCIBE (Spain's National Cybersecurity Institute) has reached an agreement in Spain with ElevenPaths (a Telefónica company specialising in the development of innovative security solutions) to jointly promote the integration of cybersecurity products for SMEs.

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Telefónica Global Resources

In 2014, Telefónica Global Resources technological transformation strategy obtained visible results and advanced strongly in terms of network and system modernisation towards an all-IP Company. This process is part of an efficient management model focused on simplifying operations and reducing legacy costs, which in turn enables the Company to differentiate its products and services, improving customer satisfaction.

The **Global Network and Operations** unit continued to accelerate UBB rollout. As a result, premises passed with fibre reached 14.7 million at the end of December, double vs. the previous year's figure and LTE base stations surpassed 20,100 (10,500 in 2013), with over 80% of 3G and LTE base stations connected at high speed to the transmission network. 4G coverage in Europe stands at almost 60%, while the LTE deployment in Latin America increases to 10 countries, with Argentina and Venezuela acquiring LTE spectrum in the fourth quarter. This higher UBB coverage contributed to reach 1.8 million fibre customers (2.1 x year-on-year) while LTE customers totalled 13.2 million.

Regarding the expansion of network capacity, it should be highlighted:

Telefónica was the first Spanish operator to roll out LTE-A (with speeds of up to 300 Mb).

Updating the mobile network in Spain and the UK with single RAN technology.

Preparation of the mobile network for VoLTE services in Germany (starting point not only for the delivery of high-definition voice services but also of other IP multimedia services).

Patented design for Optic Terminal Boxes for fibre deployments, which enables optic connectivity. This network development anticipates the strong data traffic growth (+40% year-on-year in the fourth quarter; +36% in 2014), mainly driven by higher mobile broadband traffic (+65% year-on-year in the fourth quarter; +55% in 2014) and fixed broadband traffic (+38% year-on-year in the fourth quarter; +34% in 2014).

To accelerate network modernisation towards a UBB and all-IP model, the execution of global projects has been crucial, structured around four lines of action:

Operating Support Systems (OSS) transformation, centred on standardisation, simplification and global optimisation of processes and support systems.

The homogenisation of processes, in various network areas, from accelerating efficient processes to the integration of all operations into a global roaming technical unit.

The development of fixed access projects, such as operations related to the end-to-end management of customer equipment specifications project.

Virtualization of network (UNIQUE infrastructure) or of the customer's equipment (vCPE *Customer Premises Equipment* virtual).

The **global IT area** continued to successfully manage and execute simplification and transformation through systems processes, applications and integrations.

The acceleration of the transformation of processes and applications is reflected in the *Full Stack* projects (multi-channel access, single portfolio of products and services, time to market improvement and a 360 degree customer view) launched in various Latin American countries. In this sense, in Argentina approximately 20 million customers have already been migrated to this system. Additionally, the launch of projects associated with digital capacities and customer experience in the fourth quarter should be highlighted, including:

TV Everywhere service for Vivo fibre customers in Brazil, offering TV content across multiple devices (mobile, PC or tablet).

Single bill in Brazil, including mobile, fixed, broadband and TV services.

Rollout of a unified e-commerce solution in several countries in T.

In Mexico, improved customer satisfaction thanks to the Residential Activation System, which reduces the timing and operating costs to activate equipment.

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In Germany a systems platform has been set up to support MVNO launches, linked to e-tailers.

In UK a data sharing service has been launched that allows customers to share data across devices and with different people.

Additionally, this area contributes to the maximisation of benefits of scale through shared IT services, in order to progress towards doing things once, unlocking efficiencies and improvements in quality.

The advances made in IT simplification in 2014, a key driver to accelerate transformation, are shown in:

Continuous progress in reducing applications, with over 430 applications eliminated since December 2013.

Increase of virtualised servers to 46% (+11 percentage points compared with December 2013) as a result of the infrastructure consolidation process in leading data centers, which results in to a 13% reduction in physical servers.

Five data centers were closed, most notably Brazil, Spain and Chile.

Lastly, there has been an improvement in operational stability of systems, with critical incidents more than halved and increased availability of business-critical systems.

Definitions

2014 guidance criteria: organic growth excluding Venezuela.

Organic growth: Assumes constant exchange rates as of 2013 (average FX in 2013), excludes hyperinflationary accounting in Venezuela in both years and considers constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, tower sales and material non-recurring impacts. In 2014 excludes the provision for restructuring costs, aligned with the simplification initiatives that the Group is implementing, mainly accrued in the fourth quarter. In addition, CapEx excludes investment in spectrum and in 2014 excludes changes in the urban qualification of real estate properties and investment in Telefónica's headquarters in Barcelona.

Underlying growth: Reported figures excluding the impact on net income of write-downs, capital gains/losses from companies disposals, tower sales, and material non-recurring impacts, as well as depreciation and amortisation charges arising from purchase price allocation processes. In 2014 excludes, among other items, the provision for restructuring expenses mainly accrued in the fourth quarter and the impact of the adoption of the exchange rate set at SICAD II in Venezuela.

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TELEFÓNICA

ACCESSES

Unaudited figures (thousands)

	2013				2014				% Chg
	March	June	September	December	March	June	September	December	
Final Clients									
Accesses	309,785.3	311,331.2	314,141.6	316,759.9	306,816.6	309,332.7	309,561.4	334,526.9	5.6
Fixed telephony accesses									
(1) (2) (3)	39,764.2	39,520.8	39,399.8	39,338.5	37,593.5	37,544.0	37,325.4	36,830.0	(6.4)
Internet and data accesses									
Narrowband	19,404.6	19,023.3	19,112.4	19,102.0	18,121.9	18,168.2	18,168.1	18,151.7	(5.0)
Broadband	618.2	590.0	567.7	510.8	421.0	411.9	397.8	373.1	(27.0)
(4)	18,633.7	18,287.3	18,395.6	18,447.8	17,585.5	17,642.6	17,657.9	17,668.5	(4.2)
Other (5)	152.7	145.9	149.1	143.4	115.4	113.6	112.4	110.1	(23.3)
Mobile accesses									
Prepay	247,312.0	249,460.0	252,188.1	254,717.2	247,534.1	249,428.6	249,417.9	274,458.0	7.8
(6) (7)	164,500.5	164,550.6	165,133.3	165,557.0	161,410.9	161,299.0	160,535.5	175,720.4	6.1
Contract (8)	82,811.5	84,909.4	87,054.9	89,160.3	86,123.3	88,129.6	88,882.5	98,737.6	10.7
M2M (9)	7,142.7	7,768.0	8,175.8	8,631.8	8,307.0	8,761.2	8,957.5	9,787.4	13.4
Pay TV (10)	3,304.5	3,327.1	3,441.2	3,602.2	3,567.1	4,191.9	4,650.0	5,087.2	41.2
Wholesale Accesses									
Unbundled loops	5,866.1	6,003.2	6,173.9	6,358.5	6,327.7	6,438.6	6,585.6	6,521.6	2.6
Shared ULL	3,404.8	3,522.0	3,665.4	3,833.4	3,910.8	3,979.1	4,034.1	4,087.3	6.6
Full ULL	169.5	157.6	147.3	130.6	116.1	105.5	96.6	94.1	(27.9)
Wholesale ADSL	3,235.3	3,364.4	3,518.1	3,702.9	3,794.7	3,873.7	3,937.5	3,993.3	7.8
Other	854.7	857.6	864.0	866.9	746.8	751.3	849.5	750.1	(13.5)
Other	1,606.7	1,623.6	1,644.5	1,658.2	1,670.1	1,708.1	1,702.0	1,684.1	1.6
Total Accesses									
	315,651.4	317,334.4	320,315.5	323,118.4	313,144.3	315,771.3	316,147.0	341,048.5	5.5

TELEFÓNICA

MOBILE ACCESSES

Unaudited figures (thousands)

	2013				2014				% Chg
	March	June	September	December	March	June	September	December	
Prepay percentage (%)	66.5%	66.0%	65.5%	65.0%	65.2%	64.7%	64.4%	64.0%	(1.0 p.p.)
Contract percentage (%)	33.5%	34.0%	34.5%	35.0%	34.8%	35.3%	35.6%	36.0%	1.0 p.p.
MBB accesses ('000)	55,249.2	63,300.5	67,420.1	72,844.0	76,191.3	81,304.4	89,112.6	98,220.5	34.8%
MBB penetration (%)	22%	25%	27%	29%	31%	33%	36%	36%	7.2 p.p.
Smartphones ('000)	46,925.1	55,083.3	59,370.6	65,029.9	68,907.0	74,171.9	82,282.2	90,365.7	39.0%
Smartphone penetration (%)	20%	24%	25%	27%	30%	32%	35%	35%	7.9 p.p.

Note:

T. Czech Republic accesses are de-consolidated from the first quarter of 2014, T. Ireland accesses are de-consolidated from the third quarter of 2014 and E-Plus accesses are consolidated from the fourth quarter of 2014.

- (1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Digital Access x30. Company's accesses for internal use and voice fixed wireless included. Includes VoIP and Naked ADSL.*
- (2) In the first quarter of 2014, 45 thousand fixed wireless inactive accesses were disconnected in Mexico.*
- (3) In the second quarter of 2014, fixed telephony accesses include 50 thousand fixed wireless additional customers in Peru.*
- (4) Includes ADSL, satellite, optical fiber, cable modem and broadband circuits.*
- (5) Retail circuits other than broadband.*
- (6) In the first quarter of 2014, 1.9 million inactive accesses were disconnected in Mexico.*
- (7) In the fourth quarter of 2014, 1.8 million inactive accesses were disconnected in Central America.*
- (8) In the fourth quarter of 2014, 428 thousand accesses were excluded from the customer base on adjustments in the former E-Plus driven by the harmonization of criteria and the disconnection of a partner.*
- (9) In the first quarter of 2014, 569 thousand M2M inactive accesses were disconnected in Spain.*
- (10) In the second quarter of 2014, Pay TV accesses included 131 thousand TV Mini customers in Spain.*

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TELEFÓNICA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December		% Chg		October - December		% Chg	
	2014	2013	Reported	Organic	2014	2013	Reported	Organic
Revenues	50,377	57,061	(11.7)	2.6	12,399	14,436	(14.1)	5.0
Internal exp. capitalized in fixed assets	774	794	(2.5)	1.0	238	215	10.6	11.8
Operating expenses	(36,149)	(39,112)	(7.6)	3.8	(9,663)	(9,822)	(1.6)	7.1
Supplies	(15,182)	(17,041)	(10.9)	(0.5)	(4,081)	(4,397)	(7.2)	4.1
Personnel expenses	(7,098)	(7,208)	(1.5)	5.2	(2,150)	(1,769)	21.5	7.7
Other operating expenses	(13,869)	(14,863)	(6.7)	8.0	(3,433)	(3,657)	(6.1)	10.4
Other net income (expense)	200	212	n.m.	n.m.	11	121	n.m.	n.m.
Gain (loss) on sale of fixed assets	327	161	n.m.	(39.5)	208	58	n.m.	n.m.
Impairment of goodwill and other assets	(13)	(39)	(65.8)	(66.5)	(2)	(30)	(92.0)	(91.8)
Operating income before D&A (OIBDA)	15,515	19,077	(18.7)	0.2	3,190	4,977	(35.9)	(0.0)
OIBDA Margin	30.8%	33.4%	(2.6 p.p.)	(0.8 p.p.)	25.7%	34.5%	(8.7 p.p.)	(1.6 p.p.)
Depreciation and amortization	(8,548)	(9,627)	(11.2)	(1.6)	(2,257)	(2,213)	2.0	6.0
Operating income (OI)	6,967	9,450	(26.3)	1.9	933	2,765	(66.2)	(5.0)
Share of profit (loss) of investments accounted for by the equity method	(510)	(304)	68.2		(442)	(186)	n.s.	
Net financial income (expense)	(2,822)	(2,866)	(1.6)		(708)	(737)	(4.0)	
Income before taxes	3,635	6,280	(42.1)		(216)	1,841	c.s.	
Income taxes	(383)	(1,311)	(70.8)		340	(206)	c.s.	
Income from continuing operations	3,252	4,969	(34.6)		124	1,635	(92.4)	

Non-controlling interests	(251)	(376)	(33.2)	28	(186)	c.s.
Net income	3,001	4,593	(34.7)	152	1,448	(89.5)
Weighted average number of ordinary shares outstanding during the period (millions)	4,606	4,628	(0.5)	4,665	4,643	0.5
Basic earnings per share (euros)	0.61	0.99	(38.1)	0.02	0.31	(93.1)

Notes:

Basic earnings per share amounts are calculated dividing net income, adjusted for the net coupon corresponding to Other equity instruments, by the weighted average number of ordinary shares outstanding during the period.

For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period has been obtained applying IAS rule 33 Earnings per share. Thereby, the weighted average number of shares held as treasury stock during the period has not been taken into account as outstanding shares.

For the purposes of calculating the earnings per share ratios (basic and diluted), the weighted average number of shares outstanding is retrospectively adjusted for transactions that have changed the number of shares outstanding without a corresponding change in equity, as if such transactions had occurred at the beginning of the earliest period presented. For instance, the bonus share issues carried out to meet the scrip dividends paid in 2014 and 2012, have been taken into account. Also, the ordinary shares that would be issued upon the conversion of the mandatorily convertible notes issued on September 24, 2014 are included in the calculation of basic earnings per share from that date.

2013 and 2014 reported figures include hyperinflationary adjustments in Venezuela in both years.

Group consolidated results consolidate E-Plus results from the fourth quarter 2014 and deconsolidated Telefónica Czech Republic's results from the first quarter 2014 and Telefónica Ireland's results from the third quarter 2014.

TELEFÓNICA

GUIDANCE 2014

	2014				Guidance 2014 (organic and excluding Venezuela)
	Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec	
Revenues (% Chg YoY)	(0.1%)	0.1%	0.4%	0.7%	Positive revenue growth
OIBDA margin (Chg YoY)	(0.4 p.p.)	(0.9 p.p.)	(0.7 p.p.)	(0.8 p.p.)	

OIBDA margin towards stabilisation with erosion of around 1 p.p. y-o-y to allow for commercial flexibility if needed

CapEx / Sales	11.5%	13.7%	14.4%	15.9%	CapEx / Sales: 15.5%-16% Guidance 2014 (reported)
Net financial debt	42,724	43,791	41,200	45,087	Lower than 43Bn

Guidance criteria 2014: 2014 guidance in organic terms assumes constant exchange rates as of 2013 (average FX in 2013), excludes Venezuela in both years and considers constant perimeter of consolidation. OIBDA level guidance for 2014 excludes write-offs, capital gains/losses from companies disposals, towers sales and other significant exceptionals such as restructuring costs, etc. In 2014 excludes the provision for restructuring costs, aligned with the simplification initiatives that the Group is implementing, mainly accrued in the fourth quarter. CapEx excludes spectrum acquisition and, in 2014, CapEx excludes the changes in the urban qualification of real estate properties and the investment in Telefónica's headquarters in Barcelona. 2013 adjusted bases exclude: T. Venezuela.

Homogeneous perimeter: Group T. Czech Republic (excluding results from January-December 2013); T. Ireland (excluding results from July-December 2013).

Tower sales.

Capital gains/losses from companies disposals: Capital gains from the sale of Hispasat and Telefónica Móviles Aplicaciones y Soluciones. Value adjustments of T. Ireland and T. Czech Republic.

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TELEFÓNICA

REPORTED VS. ORGANIC

Unaudited figures (Euros in millions)

	January - December			%	
	2014 Reported	2014 Organic	2013 Organic	Organic Change y-o-y	Reported Change y-o-y
Revenues	50,377	55,959	54,523	2.6	(11.7)
OIBDA	15,515	18,156	18,129	0.2	(18.7)
OIBDA margin	30.8%	32.4%	33.2%	(0.8 p.p.)	(2.6 p.p.)
Operating Income (OI)	6,967	9,378	9,203	1.9	(26.3)
CapEx	9,448	9,199	7,866	16.9	0.6
OpCF (OIBDA-CapEx)	6,067	8,957	10,263	(12.7)	(37.3)

	2014	2013
Reported revenues	50,377	57,061
Forex impact	6,549	
Hyperinflation in Venezuela	(187)	(556)
Changes in the consolidation perimeter		(1,983)
Organic revenues	55,959	54,523
Reported OIBDA	15,515	19,077
Forex impact	2,360	
Hyperinflation in Venezuela	(69)	(203)
Tower sales	(197)	(111)
Restructuring charges provision	670	
T. Ireland negative fair value adjustment		16
T. Czech Republic negative fair value adjustment		176
Hispatat disposal		(21)
TMAS disposal		(7)
Changes in the consolidation perimeter	(122)	(798)
Organic OIBDA	18,156	18,129
Reported CapEx	9,448	9,395
Forex impact	1,796	
Hyperinflation in Venezuela	(35)	(58)
Spectrum acquisition	(1,706)	(1,223)

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Urban qualification of real estate properties	(49)	
HQ Barcelona	(29)	
Restructuring charges provision	(40)	
Changes in the consolidation perimeter	(185)	(248)
Organic CapEx	9,199	7,866

Notes:

*The breakdown of the effects for the reconciliation of reported vs. organic 2014 excludes the impacts of the forex and therefore it assumes average constant exchange rates as of September 2013. Forex impact on those effects is totally included under *Forex impact* epigraph.*

Organic criteria: *Assumes constant exchange rates as of 2013 (average FX in 2013), excludes hyperinflationary accounting in Venezuela in both years and considers constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, tower sales and material non-recurring impacts. In 2014 excludes the provision for restructuring costs, aligned with the simplification initiatives that the Group is implementing, mainly accrued in the fourth quarter. In addition, CapEx excludes investment in spectrum and in 2014 excludes changes in the urban qualification of real estate properties and investment in Telefónica's headquarters in Barcelona.*

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TELEFÓNICA

REPORTED VS. ORGANIC

Unaudited figures (Euros in millions)

	October - December			%	
	2014 Reported	2014 Organic	2013 Organic	Organic Change y-o-y	Reported Change y-o-y
Revenues	12,399	14,293	13,618	5.0	(14.1)
OIBDA	3,190	4,674	4,674	(0.0)	(35.9)
OIBDA margin	25.7%	32.7%	34.3%	(1.6 p.p.)	(8.7 p.p.)
Operating Income (OI)	933	2,421	2,548	(5.0)	(66.2)
CapEx	3,710	3,087	3,022	2.1	9.9
OpCF (OIBDA-CapEx)	(520)	1,587	1,652	(3.9)	n.s.

	2014	2013
Reported revenues	12,399	14,436
Forex impact	2,628	
Hyperinflation in Venezuela	46	(267)
Changes in the consolidation perimeter		(551)
Organic revenues	14,293	13,618
Reported OIBDA	3,190	4,977
Forex impact	1,051	
Hyperinflation in Venezuela	31	(107)
Tower sales	(138)	(72)
Restructuring charge provision	662	
T. Czech Republic negative fair value adjustment		120
TMAS disposal		(7)
Changes in the consolidation perimeter	(122)	(237)
Organic OIBDA	4,674	4,674
Reported CapEx	3,710	3,376
Forex impact	1,123	
Hyperinflation in Venezuela	(12)	(29)
Spectrum acquisition	(1,503)	(226)
Urban qualification of real estate properties	(6)	

Restructuring charge provision	(40)	
Changes in the consolidation perimeter	(185)	(99)
Organic CapEx	3,087	3,022

Notes:

*The breakdown of the effects for the reconciliation of reported vs. organic 2014 excludes the impacts of the forex and therefore it assumes average constant exchange rates as of September 2013. Forex impact on those effects is totally included under *Forex impact* epigraph.*

Organic criteria: *Assumes constant exchange rates as of 2013 (average FX in 2013), excludes hyperinflationary accounting in Venezuela in both years and considers constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, tower sales and material non-recurring impacts. In 2014 excludes the provision for restructuring costs, aligned with the simplification initiatives that the Group is implementing, mainly accrued in the fourth quarter. In addition, CapEx excludes investment in spectrum and in 2014 excludes changes in the urban qualification of real estate properties and investment in Telefónica s headquarters in Barcelona.*

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TELEFÓNICA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited figures (Euros in millions)

	December 2014	December 2013	% Chg
Non-current assets	99,435	89,597	11.0
Intangible assets	22,353	18,548	20.5
Goodwill	25,111	23,434	7.2
Property, plant and equipment and Investment properties	33,343	31,040	7.4
Investments accounted for by the equity method	788	2,424	(67.5)
Non-current financial assets	10,973	7,775	41.1
Deferred tax assets	6,867	6,376	7.7
Current assets	22,864	29,265	(21.9)
Inventories	934	985	(5.2)
Trade and other receivables	10,606	9,640	10.0
Tax receivables	1,749	1,664	5.1
Current financial assets	2,932	2,117	38.5
Cash and cash equivalents	6,529	9,977	(34.6)
Non-current assets classified as held for sale	114	4,882	(97.7)
Total Assets = Total Equity and Liabilities	122,299	118,862	2.9
Equity	30,289	27,482	10.2
Equity attributable to equity holders of the parent and other holders of equity instruments	21,115	21,185	(0.3)
Non-controlling interests	9,174	6,297	45.7
Non-current liabilities	62,311	62,236	0.1
Non-current interest-bearing debt	50,688	51,172	(0.9)
Non-current trade and other payables	2,377	1,701	39.8
Deferred tax liabilities	2,566	3,063	(16.2)
Non-current provisions	6,680	6,300	6.0
Current liabilities	29,699	29,144	1.9
Current interest-bearing debt	9,094	9,527	(4.5)
Current trade and other payables	16,943	15,221	11.3
Current tax payables	2,026	2,203	(8.1)
Current provisions	1,595	1,271	25.5
Liabilities associated with non-current assets held for sale	41	922	(95.6)
Financial Data			
Net Financial debt (1)	45,087	45,381	(0.6)

Note:

2013 and 2014 reported figures include the hyperinflationary adjustments in Venezuela in both years.

- (1) Figures in million euros. Net Financial Debt in December 2014 includes: Non-current interest-bearing debt + Non-current trade and other payables (1,276) + Current interest-bearing debt + Current trade and other payables (210) - Non-current financial assets (6,267) - Current financial assets - Current trade and other receivables (453) - Cash and cash equivalents.*

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TELEFÓNICA

FREE CASH FLOW AND CHANGE IN DEBT

Unaudited figures (Euros in millions)

		January - December		
		2014	2013	% Chg
I	Cash flow from operations	15,940	18,566	(14.1)
II	Net interest payment (1)	(2,530)	(2,415)	
III	Payment for income tax	(1,187)	(1,806)	
A=I+II+III	Net cash provided by operating activities	12,224	14,346	(14.8)
B	Net payment for investment in fixed and intangible assets	(8,870)	(9,140)	
	Spectrum (2)	(932)	(1,499)	
C=A+B	Net free cash flow after CapEx	3,354	5,206	(35.6)
D	Net Cash received from sale of Real Estate	5	26	
E	Net payment for financial investment (3)	(536)	(110)	
F	Net payment for operations with minority shareholders and treasury stock (4)	144	397	
G=C+D+E+F	Free cash flow after dividends	2,967	5,519	(46.3)
H	Effects of exchange rate changes on net financial debt	2,405	(168)	
I	Effects on net financial debt of changes in consolid. and others	268	(191)	
J	Net financial debt at beginning of period	45,381	51,259	
K=J-G+H+I	Net financial debt at end of period	45,087	45,381	(0.6)

Note:

2013 and 2014 reported figures include the hyperinflationary adjustments in Venezuela in both years.

- (1) Includes cash received from dividends paid by subsidiaries that are not fully consolidated.*
- (2) 2014 includes the following spectrum payments: 545 million euros in Brazil, 166 million euros in Argentina, 93 million euros in Colombia, 82 million euros in Panama, 39 million euros in Venezuela, 5 million euros in the United Kingdom and 2 million euros in Nicaragua. 2013 includes the following spectrum payments: 669 million euros in United Kingdom, 531 million euros in Brazil, 119 million euros in Peru, 73 million euros in Colombia, 69 million euros in Spain, 24 million euros in Uruguay, 8 million euros in Ireland, 4 million euros in Mexico and 1 million euros in Nicaragua.*
- (3) In 2014, the following proceeds are included: 2,163 million euros from the disposal of T. Czech Republic, 754 million euros from the sale of T. Ireland, 814 million euros from the capital increase of Telefónica Deutschland and 687 million euros from the sale of the 2,5% stake in China Unicom. Also included are the payment of 4,569 million euros for the acquisition of E-Plus and the payment of 325 million euros for the*

acquisition of a 22% stake in Mediaset en DTS.

- (4) *Dividends paid by Telefónica S.A., operations with treasury stock, issuance of undated deeply subordinated securities, issuance of mandatorily convertible bonds into Telefónica S.A. shares and operations with minority shareholders from subsidiaries that are fully consolidated.*

TELEFÓNICA

RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited figures (Euros in millions)

	January - December		
	2014	2013	% Chg
OIBDA	15,515	19,077	(18.7)
- CapEx accrued during the period	(9,448)	(9,395)	
- Payments related to cancellation of commitments	(789)	(789)	
- Net interest payment	(2,530)	(2,415)	
- Payment for tax	(1,187)	(1,806)	
- Gain (loss) on sale of fixed assets and impairment of goodwill and other assets	(314)	(122)	
- Investment In working capital and other deferred income and expenses	2,107	656	
= Net Free Cash Flow after CapEx	3,354	5,206	(35.6)
+ Net Cash received from sale of Real Estate	5	26	
- Net payment for financial investment	(536)	(110)	
- Net payment for operations with minority shareholders and treasury stock	144	397	
= Free Cash Flow after dividends	2,967	5,519	(46.3)

Unaudited figures (Euros in millions)

	January - December		
	2014	2013	% Chg
Net Free Cash Flow after CapEx	3,354	5,206	(35.6)
+ Payments related to cancellation of commitments	789	789	
- Operations with minority shareholders	(327)	(604)	
= Free Cash Flow	3,817	5,391	(29.2)
Weighted average number of ordinary shares outstanding during the period (millions)	4,606	4,628	
= Free Cash Flow per share (euros)	0.83	1.16	(28.9)

Notes:

The concept Free Cash Flow reflects the amount of cash flow available to remunerate Telefónica S.A. Shareholders, to protect solvency levels (financial debt and commitments), and to accommodate strategic flexibility.

The differences with the caption Net Free Cash Flow after CapEx included in the table presented above, are related to Free Cash Flow being calculated before payments related to commitments (payment of labour commitments) and after operations with minority shareholders, due to cash recirculation within the Group.

For the purposes of calculating the Free Cash Flow per share ratios, the weighted average number of shares outstanding is retrospectively adjusted for transactions that have changed the number of shares outstanding without a corresponding change in equity, as if such transactions had occurred at the beginning of the earliest period presented. For instance, the bonus share issues carried out to meet the scrip dividends paid in 2014 and 2012 have been taken into account. Also, the ordinary shares that would be issued upon the conversion of the mandatorily convertible notes issued on September 24, 2014 are included in the calculation of Free Cash Flow per share from that date.

2013 and 2014 reported figures include the hyperinflationary adjustments in Venezuela in both years.

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TELEFÓNICA

RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited figures (Euros in millions)

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2013 and 2014 reported figures include the hyperinflationary adjustments in Venezuela in both years.

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TELEFÓNICA

NET FINANCIAL DEBT PLUS COMMITMENTS

Unaudited figures (Euros in millions)

	December 2014
Long-term debt (1)	51,964
Short term debt including current maturities (2)	9,304
Cash and cash equivalents	(6,529)
Short and Long-term financial investments (3)	(9,652)
A Net Financial Debt	45,087
Gross commitments related to employee benefits (4)	3,896
Value of associated Long-term assets (5)	(806)
Taxes receivable (6)	(1,114)
B Net commitments related to employee benefits	1,977
A + B Total Debt + Commitments	47,063
Net Financial Debt / OIBDA (7)	2.74x

Nota:

2014 reported figures include the hyperinflationary adjustments in Venezuela.

- (1) Includes Non current interest-bearing debt and 1,276 million euros of Non-current trade and other payables .
- (2) Includes Current interest-bearing debt and 210 million euros of Other current payables .
- (3) Includes Current financial assets and 6,267 million euros of Non-current financial assets and 453 million euros of Trade and other current receivables .
- (4) Mainly in Spain. This amount is detailed in the captions Long-term provisions and Short-term provisions and other liabilities of the Statement of Financial Position, and is the result of adding the following items: Provision for Pre-retirement, Social Security Expenses and Voluntary Severance , Group Insurance , Technical Reserves , and Provisions for Pension Funds of Other Companies .
- (5) Amount included in the caption Non-current financial assets of the Statement of Financial Position. Mostly related to investments in fixed income securities and long-term deposits that cover the materialization of technical reserves of the Group insurance companies.
- (6) Net present value of tax benefits arising from the future payments related to actual workforce reduction commitments.
- (7) Calculated based on the last 12 months OIBDA, excluding gains/losses on the sale of companies.

TELEFÓNICA

EXCHANGES RATES APPLIED

	P&L and CapEx (1)		Statement of Financial Position (2)	
	Jan -Dec 2014	Jan -Dec 2013	December 2014	December 2013
USA (US Dollar/Euro)	1.326	1.327	1.214	1.379
United Kingdom (Sterling/Euro)	0.806	0.849	0.779	0.834
Argentina (Argentinean Peso/Euro)	10.751	7.226	10.382	8.993
Brazil (Brazilian Real/Euro)	3.117	2.851	3.225	3.231
Chile (Chilean Peso/Euro)	756.710	656.245	736.654	723.490
Colombia (Colombian Peso/Euro)	2,650.032	2,478.689	2,904.688	2,657.292
Costa Rica (Colon/Euro)	722.022	671.141	662.252	700.280
Guatemala (Quetzal/Euro)	10.255	10.430	9.223	10.814
Mexico (Mexican Peso/Euro)	17.655	16.930	17.898	18.045
Nicaragua (Cordoba/Euro)	34.445	32.807	32.293	34.935
Peru (Peruvian Nuevo Sol/Euro)	3.767	3.582	3.614	3.857
Uruguay (Uruguayan Peso/Euro)	30.779	27.055	29.543	29.498
Venezuela (Bolivar Fuerte/Euro) (3)	60.691	8.688	60.691	8.688

- (1) *These exchange rates are used to convert the P&L and CapEx accounts of Telefónica foreign subsidiaries from local currency to euros.*
- (2) *Exchange rates as of 09/30/14 and 12/31/13.*
- (3) *After considering Venezuela as an hyperinflationary country, P&L and CapEx from the operations in the country are to be accounted at the closing exchange rate Bolivar Fuerte/Euro. The January-December 2014 consolidated financial statements use the exchange rate of the Venezuelan bolivar set at the previously denominated SICAD II, (set at 50 Venezuelan bolivar fuerte per dollar in the last auction), for the purpose of translating the transactions, cash flows and balances related to the investments in Venezuela.*

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NET FINANCIAL DEBT STRUCTURE BY CURRENCY

Unaudited figures

	December 2014			
	EUR	LATAM	GBP	USD
Net financial debt structure by currency	72%	16%	7%	5%

TOTAL FINANCIAL LIABILITIES BREAKDOWN

Unaudited figures

	December 2014		
	Bonds and commercial paper	Debt with financial institutions	Other financial debt (including governments) and net derivatives
Total financial liabilities	81%	17%	2%

CREDIT RATINGS

	Long-Term	Short-Term	Perspective	Date of last rating change
Moody ¹ s	Baa2	P-2	Negative	10/18/2012
S&P ¹	BBB	A-2	Stable	05/19/2014
Fitch ¹	BBB+	F-2	Negative	06/08/2012

(1) The rating is issued by a credit rating agency established in the EU and registered under Regulation (EC) 1060/2009.

TELEFÓNICA

YEAR TO DATE MAIN FINANCING OPERATIONS

Unaudited figures

	Issue date	Amount (m)	Currency	Issuer	Coupon	Maturity date	ISIN
FINANCING OPERATIONS AND BONDS	10-Feb-14	500	EUR	Telefónica Deutschland	2.375%	10-Feb-21	XS1025

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nd	26-Mar-14	200	EUR	Telefónica Emisiones, S.A.U.	Euribor 3M + 0.650%	26-Mar-16	XS1046
nd	27-Mar-14	47,000	CLP	Telefónica Chile, S.A.	5.750%	14-Mar-19	BCTC
nd	10-Apr-14	200	EUR	Telefónica Emisiones, S.A.U.	Euribor 3M + 0.750%	10-Apr-17	XS1053
nd	27-May-14	1,250	EUR	Telefónica Emisiones, S.A.U.	2.242%	27-May-22	XS1069
nd	04-Jun-14	100	EUR	Telefónica Emisiones, S.A.U.	Euribor 3M + 0.750%	10-Apr-17	XS1053
nd	23-Jun-14	500	USD	Telefónica Emisiones, S.A.U.	Libor 3M + 0.650%	23-Jun-17	US87938
ory exchangeable bond (n Italia)	24-Jul-14	750	EUR	Telefónica, S.A.	6.000%	24-Jul-17	XS1090
andatorily convertible y and/or existing shares ónica, S.A	24-Sep-14	1,500	EUR	Telefónica Participaciones, S.A.U.	4.900%	25-Sep-17	XS1111
nd	17-Oct-14	800	EUR	Telefónica Emisiones, S.A.U.	2.932%	17-Oct-29	XS1120
	Issue date	Amount (m)	Currency	Issuer	Coupon	First Call date	ISIN
TED DEEPLY							
DINATED RESET							
SECURITIES							
bond	31-Mar-14	750	EUR	Telefónica Europe, B.V.	5.000%	31-Mar-20	XS1050
bond	31-Mar-14	1,000	EUR	Telefónica Europe, B.V.	5.875%	31-Mar-24	XS1050
bond	04-Dec-14	850	EUR	Telefónica Europe, B.V.	4.200%	04-Dec-19	XS1148
	Signing date	Amount	Currency	Borrower	Maturity date		
EST-BEARING DEBT							
ted facility	18-Feb-14	3,000	EUR	Telefónica, S.A.	18-Feb-19		
l Loan	19-Mar-14	125	EUR	Telefónica, S.A.	19-Mar-19		
l loan on supplies	13-Jun-14	185	EUR	Telefónica, S.A.	13-Jun-19		
l Loan	25-Jun-14	50	EUR	Telefónica, S.A.	25-Jun-18		
l Loan	26-Jun-14	2,000	EUR	Telefónica, S.A.	26-Jun-17		
ted facility	19-Feb-15	2,500	EUR	Telefónica, S.A.	19-Feb-20		
ted facility	19-Feb-15	3,000	EUR	Telefónica, S.A.	18-Feb-19		

* Reference number of Bolsa de Comercio de Santiago

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TELEFÓNICA ESPAÑA

Telefónica España's results in 2014 marked an inflection point in the Company's transformation, reflecting a gradual recovery in revenues that allow for an increasingly sustainable business model and to focus on future growth, in a more favourable macroeconomic and competitive environment.

Thus, revenues have confirmed a clear trend of improvement quarter-on-quarter with a 4.9% decline in the fourth quarter (+1.7 percentage points vs. the previous quarter), underpinned by a differential competitive positioning that has boosted commercial activity, the penetration of growth services (fibre, TV and 4G), the level of customer loyalty and satisfaction, and resulted in a more stable high-value access base.

Accordingly, at the end of 2014 the Company was the leader in the Pay TV market with 1.9 million customers (x3 year-on-year) and had over one million 100 Mb fibre customers (x2 year-on-year), while the mobile contract base posted net additions in the year for the first time since 2011 (excluding the disconnection of inactive M2M accesses in the first quarter).

Over the year, the commercial offer continuously improved offering more value to the customer. Noteworthy developments include: the launch in April of Movistar Fusión TV in the Fusión convergent portfolio; the increase in the volume of mobile data and the flexibilisation of the purchasing of content bundles in the third quarter; and the December launch of Movistar Series, an a la carte multi-screen TV service which, for a fee of 7 euros per month (including VAT), offers successful series (some exclusively) just one day after they premiere in the US. The mobile-only contract offer was enhanced in October with the launch of the new VIVE portfolio, which was renewed in February 2015 with an increase in data volume and the introduction of new value-added services.

Telefónica España had 41.2 million **accesses** at the end of 2014, 1% below 2013 (-2% year-on-year at the end of September) due to the disconnection of 569 thousand inactive M2M mobile contract accesses in the first quarter of the year.

Movistar Fusión, with a customer base of 3.7 million and 1.4 million additional mobile lines, maintained solid year-on-year growth (+27% compared with 2013) and further increased penetration levels (73% of the fixed broadband customer base and 57% of the mobile contract base in the consumer segment).

The gross additions in the quarter that added new services accounted for 80% (78% in the previous quarter and 64% in the same quarter in 2013), while at the same time the level of higher quality products (fibre and TV) being purchased continued to increase. As a result, 21% of Fusión customers now have 100 Mb fibre (+8 percentage points year-on-year) and 45% have IPTV (+31 percentage points year-on-year).

Movistar Fusión churn stood at 1.1% and ARPU at 69.3 euros (69.7 euros in the third quarter, which included additional consumption typical in the summer period).

Retail fixed accesses (-6% year-on-year) posted a net loss of 147 thousand accesses in the quarter (-642 thousand in the year).

Retail broadband accesses rose to 5.9 million, up 1% year-on-year, with net additions of 13 thousand accesses in the fourth quarter (39 thousand in the year), boosted by the strong performance of fibre and the reduction in churn (1.5%, -0.1 percentage points year-on-year).

Fibre customer growth accelerated again in the quarter, reaching record net additions of 248 thousand accesses, up 19% compared with the previous quarter and 2.5 times the figure in the fourth quarter of 2013. Also noteworthy was customers' preference for high-speed fibre, as 141 thousand of the new accesses in the quarter signed up for 100 Mb, with a lower churn compared with ADSL customers (0.5 times) and a higher ARPU (10 euros price premium, 12 euros with VAT). As a result, fibre customers now represent 22% of the broadband customer base, with 1.3 million accesses (more than double than a year ago) and 100 Mb accesses total over one million.

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The intense pace of fibre deployment continued to accelerate, reaching 1.6 million premises passed in October-December (1.4 million in July-September) to total 10.3 million premises passed at the end of 2014. The target for 2014 was therefore met although the subsequent pace of deployment will depend on future regulation.

Pay TV accesses reached 1.9 million (almost tripling compared with December 2013), reflecting the success of **Movistar TV** as a key differentiation lever of the convergent offer, with quality content and innovative features. Net additions in the quarter totalled 305 thousand accesses (1.2 million in the year), with a standout performance from churn (1.0%; -1.9 percentage points year-on-year), which is at an historic low.

Total mobile accesses stood at 17.6 million, down 8% compared with December 2013, impacted by the disconnection in the first quarter of 569 thousand inactive M2M contract accesses mentioned above.

Especially noteworthy is the recovery of the contract base, with 77 thousand net additions in 2014 (excluding the impact of the aforementioned M2M disconnections). This marks a return to year-on-year growth for the first time since 2011 (+0.5% year-on-year), driven by churn reduction (-0.2 percentage points compared with 2013), with smaller customer losses due to portability (-30% year-on-year), and the growth in gross additions (+10% year-on-year).

Quarterly net contract additions were down slightly quarter-on-quarter (57 thousand versus 95 thousand) mainly due to a lower M2M net adds (46 thousand versus 75 thousand in the third quarter), as churn (excluding M2M) was stable at 1.5% (-0.5 percentage points year-on-year) and the net portability balance maintained its improvement (-52 thousand in the quarter, 51% down on the previous quarter).

78% of mobile voice customers in the consumer segment have already migrated to **Fusión** or the new mobile tariffs launched in 2013 (75% in the previous quarter).

Smartphones now account for 61% of the mobile voice base, up 10 percentage points year-on-year (+4 percentage points quarter-on-quarter), boosting data traffic growth (+28% year-on-year in 2014). The LTE network rollout continued to progress and coverage reached 58% of the population at the end of December 2014.

Mobile ARPU in the fourth quarter declined to 5.5% year-on-year (-10.1% in the year), though it is becoming less representative owing to its significant dependence on the allocation of convergent offer revenues.

The improved commercial activity, the growth in high-value customers and the lower impact of customer repositioning consolidated the stabilization of **revenues** at around 3,000 million euros per quarter (3,038 million euros in October-December). Thus, revenues in 2014 amounted to 12,023 million euros, down 7.2% year-on-year (6.4 percentage points less than the decline in 2013).

In the fourth quarter revenues improved their trend up to -4.9% (compared with -6.6% in July-September) mainly due to the better performance of service revenues. Revenues from handset sales advanced 14.7% compared with the fourth quarter of 2013, though the growth rate slowed compared with the third quarter (+44.1% year-on-year).

The revenue breakdown is becoming increasingly less relevant given the high penetration level of the convergent offer. However:

Fixed business revenues (8,543 million euros) fell 3.6% year-on-year in 2014 and 0.8% in the final quarter thanks to the improved performance of broadband and new services (TV and data). The October-December period includes the booking of Universal Service revenues of 16 million euros (19 million euros in the fourth quarter of 2013).

Mobile business revenues (4,556 million euros) fell 11.0% year-on-year in January-December, and 7.1% in October-December, mainly due to the improved performance of customer revenues.

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Operating expenses amounted to 6,965 million euros in 2014, down 1.1% year-on-year on the back of the ongoing cost control and the savings generated by the various efficiency initiatives implemented several years ago. In the quarter they fell 0.1% year-on-year, an improvement of 3.2 percentage points quarter-on-quarter, primarily due to the better performance of supply costs. Breakdown as follows:

Supplies (2,592 million euros) increased 4.2% compared with 2013, despite the interconnection costs savings in the first two quarters, mainly reflecting higher spending on handsets and TV content. However, in the quarter, supplies improve their year-on-year trend (+8.1%) by 8.8 percentage points versus the previous quarter due to lower TV content and handset costs.

Personnel expenses (2,139 million euros) grew 1.2% compared with 2013, mainly due to the end of the redundancy programme in 2013 (savings of 95 million euros in 2014) and the temporary removal of the Company's contribution to the pension plan that began in April 2013 and ended on 1 July 2014 (savings of 28 million euros). In October-December personnel expenses increased by 5.7% year-on-year owing to the greater negative impact on the year-on-year comparison of the above-mentioned measures. At the end of December, Telefónica España's headcount totalled 30,020 employees.

Other operating expenses (2,234 million euros) fell by 8.5% compared with 2013, with the pace of decline increasing in the final quarter to 13.6% year-on-year, reflecting the savings resulting from simplification processes, redefinition of distribution channels and insourcing of activities, and despite the increased commercial effort (advertising and handset sales).

OIBDA amounted to 5,671 million euros in 2014 (-10.6% year-on-year; -3.3% in the quarter), impacted by the Company's greater commercial effort to capture the growth and value opportunity in the market.

OIBDA performance is impacted by the sale of non-strategic towers both in 2014 (191 million euros; 136 million in the fourth quarter) and 2013 (70 million euros in the fourth quarter), and the one-off sale of real state (41 million euros in the fourth quarter of 2014).

Thus, in organic terms, the pace of decline in quarterly OIBDA eased (-7.8% year-on-year; -14.4% in the third quarter), reflecting the improved performance of revenues and costs in the period, resulting in an **OIBDA margin** of 51.0% (46.5% excluding the sale of towers; -1.4 percentage points year-on-year in organic terms).

In 2014, OIBDA fell by 12.6% year-on-year in organic terms and the margin stood at 47.2% (-2.8 percentage points year-on-year organic).

CapEx amounted to 1,732 million euros in 2014, (+13.3% year-on-year in reported terms) and grew by 15.2% year-on-year in organic terms (excluding 69 million euros for the extension of the 900 MHz spectrum license in 2013; and 49 million euros related to changes in the urban qualification of real estate properties in 2014, 6 million euros in the final quarter). The year-on-year growth reflects the faster pace of connection of fibre and TV customers and the rapid rollout of fibre and LTE networks, differential assets that enable the Company to maintain its leadership in

quality.

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TELEFÓNICA ESPAÑA

ACCESSES

Unaudited figures (Thousands)

	2013				2014				%
	March	June	September	December	March	June	September	December	
Accesses	38,196.6	37,695.5	37,171.2	36,663.6	35,588.4	35,702.4	35,845.3	35,836.7	
Telephone accesses (1)	11,587.2	11,420.3	11,261.3	11,089.8	10,883.9	10,715.4	10,595.2	10,447.8	
ADSL	22.9	22.5	22.4	22.8	22.1	21.9	21.9	21.3	
Land data accesses	5,830.2	5,860.5	5,872.6	5,899.0	5,909.5	5,913.8	5,920.9	5,928.7	
Land	53.2	50.2	46.1	38.5	35.9	39.0	35.9	30.9	
Land (2)	5,761.7	5,795.6	5,812.3	5,846.8	5,860.3	5,862.0	5,872.7	5,885.9	
	372.0	430.9	494.0	593.7	701.3	861.0	1,068.9	1,316.8	
	15.3	14.7	14.3	13.7	13.3	12.8	12.3	11.9	
Accesses	20,119.3	19,782.3	19,428.0	19,002.1	18,064.7	17,863.6	17,749.7	17,575.4	
	4,966.5	4,769.5	4,560.0	4,262.7	3,996.7	3,767.8	3,559.2	3,328.1	
	15,152.7	15,012.8	14,867.9	14,739.3	14,068.0	14,095.8	14,190.5	14,247.3	
	1,927.2	1,961.3	1,979.4	1,991.3	1,446.6	1,491.9	1,566.9	1,612.4	
(5)	659.9	632.5	609.3	672.7	730.3	1,209.5	1,579.4	1,884.7	
Mobile Accesses	4,502.0	4,626.5	4,792.2	4,990.1	5,150.3	5,238.0	5,309.0	5,366.0	
	485.9	488.6	506.6	525.8	541.7	556.0	564.0	570.6	
Fixed loops	3,358.1	3,475.3	3,619.0	3,787.1	3,910.8	3,979.1	4,034.1	4,087.3	
UJLL	169.5	157.6	147.3	130.6	116.1	105.5	96.6	94.1	
L (7)	3,188.6	3,317.6	3,471.7	3,656.5	3,794.7	3,873.7	3,937.5	3,993.3	
Mobile ADSL	657.6	662.2	666.2	676.8	697.5	702.5	710.6	707.8	
	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	
Accesses	42,698.6	42,322.0	41,963.3	41,653.6	40,738.7	40,940.4	41,154.3	41,202.7	

TELEFÓNICA ESPAÑA

ACCESSES

Unaudited figures (thousands)

	2013				2014				%
	March	June	September	December	March	June	September	December	
Percentage (%)	24.7%	24.1%	23.5%	22.4%	22.1%	21.1%	20.1%	18.9%	(3)
Percentage (%)	75.3%	75.9%	76.5%	77.6%	77.9%	78.9%	79.9%	81.1%	
Accesses (000)	7,888.8	8,375.8	8,486.8	8,761.5	9,055.8	9,271.7	9,259.0	9,754.4	
Penetration (%)	39%	42%	44%	46%	50%	52%	52%	56%	

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Phones ('000)	7,230.7	7,841.8	8,027.3	8,382.6	8,738.2	8,989.7	9,008.8	9,535.9	
Phone penetration (%)	41%	45%	47%	50%	54%	56%	57%	61%	100%

TELEFONICA ESPAÑA

ADSL ACCESSSES

Reported figures (thousands)

	2013				2014				%
	March	June	September	December	March	June	September	December	
Customers	1,733.7	2,190.7	2,566.2	2,916.3	3,221.3	3,389.3	3,557.5	3,716.9	
Add-ons	704.2	864.6	1,012.2	1,139.9	1,245.0	1,303.6	1,352.9	1,394.9	

- (1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Digital Access x30. Company's accesses for internal use included. Includes VoIP and Naked ADSL.
- (2) Includes ADSL, satellite, optical fiber, cable modem and broadband circuits.
- (3) Leased lines.
- (4) In the first quarter of 2014, 569 thousand inactive accesses were disconnected.
- (5) In the second quarter of 2014, Pay TV accesses include 131 thousand TV Mini customers.
- (6) Wholesale Line Rental.
- (7) Includes naked shared loops.
- (8) Wholesale circuits.

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TELEFÓNICA ESPAÑA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December		% Chg		October - December		% Chg	
	2014	2013	Reported	Organic	2014	2013	Reported	Organic
Revenues	12,023	12,959	(7.2)	(7.2)	3,038	3,195	(4.9)	(4.9)
Revenues ex-handset revenues	11,355	12,417	(8.6)	(8.6)	2,832	3,015	(6.1)	(6.1)
Wireless Business	4,556	5,121	(11.0)	(11.0)	1,138	1,226	(7.1)	(7.1)
Mobile service revenues	3,888	4,580	(15.1)	(15.1)	932	1,046	(10.9)	(10.9)
Data revenues	1,508	1,606	(6.1)	(6.1)	379	394	(3.9)	(3.9)
Handset revenues	668	542	23.4	23.4	207	180	14.7	14.7
Wireline Business	8,543	8,861	(3.6)	(3.6)	2,225	2,243	(0.8)	(0.8)
FBB and new services (1)	4,368	4,289	1.8	1.8	1,141	1,091	4.6	4.6
Voice & access revenues	3,547	4,096	(13.4)	(13.4)	854	1,018	(16.2)	(16.2)
Other	627	476	31.9	31.9	230	134	71.3	71.3
Internal expenditure capitalized in fixed assets	316	286	10.5	10.5	92	87	6.2	6.2
Operating expenses	(6,965)	(7,042)	(1.1)	(1.1)	(1,783)	(1,784)	(0.1)	(0.1)
Supplies	(2,592)	(2,486)	4.2	4.2	(712)	(658)	8.1	8.1
Personnel expenses	(2,139)	(2,113)	1.2	1.2	(538)	(509)	5.7	5.7
Other operating expenses	(2,234)	(2,442)	(8.5)	(8.5)	(533)	(617)	(13.6)	(13.6)
Other net income (expense)	32	50	(35.7)	(30.2)	3	30	(88.7)	(79.8)
Gain (loss) on sale of fixed assets	268	97	n.m.	n.m.	202	81	n.m.	n.m.
Impairment of goodwill and other assets	(3)	(9)	(67.3)	(67.3)	(2)	(5)	(62.8)	(62.8)
Operating income before D&A (OIBDA)	5,671	6,340	(10.6)	(12.6)	1,551	1,604	(3.3)	(7.8)
OIBDA Margin	47.2%	48.9%	(1.8 p.p.)	(2.8 p.p.)	51.0%	50.2%	0.8 p.p.	(1.4 p.p.)
CapEx (2)	1,732	1,529	13.3	15.2	546	620	(12.0)	(13.0)

Spectrum		69	n.m.	n.m.		n.m.	n.m.
OpCF							
(OIBDA-CapEx)							
(2)	3,939	4,811	(18.1)	(21.0)	1,005	984	2.1 (4.3)

Note:

OIBDA and OI before management and brand fees.

(1) *Includes FBB connectivity services (retail and wholesale), including value added services, TV services, ICT revenues and other services over connectivity.*

(2) *In the third and the fourth quarter of 2014, CapEx organic variance also excludes the changes in the urban qualification of real estate properties.*

TELEFÓNICA ESPAÑA

SELECTED OPERATING MOBILE BUSINESS DATA

Unaudited figures

	2013		2014			% Chg Local Cur
	Q4	Q1	Q2	Q3	Q4	
Voice Traffic (Million minutes)	8,768	8,588	8,988	8,992	9,033	3.0
Data traffic (TB)	13,579	14,058	15,197	18,295	22,278	64.1
ARPU (EUR) (1)	16.4	16.1	16.0	16.0	15.5	(5.5)
Prepay	6.5	6.3	6.0	6.6	5.9	(9.5)
Contract (2)	22.3	21.0	20.8	20.6	20.0	(10.3)
Data ARPU (EUR) (1)	6.8	6.9	6.9	7.1	7.1	4.6
% non-SMS over data revenues	93.8%	94.8%	95.4%	94.5%	95.3%	1.5 p.p.
Churn (1)	2.3%	3.5%	2.0%	1.8%	1.9%	(0.4 p.p.)
Contract (2)	2.0%	2.2%	1.7%	1.5%	1.5%	(0.5 p.p.)

	2013		2014			% Chg Local Cur
	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec	
Voice Traffic (Million minutes)	34,428	8,588	17,575	26,567	35,600	3.4
Data traffic (TB)	54,590	14,058	29,255	47,549	69,827	27.9
ARPU (EUR) (1)	17.7	16.1	16.0	16.0	15.9	(10.1)
Prepay	7.3	6.3	6.1	6.3	6.2	(14.5)
Contract (2)	24.0	21.0	20.9	20.8	20.6	(14.2)
Data ARPU (EUR) (1)	6.8	6.9	6.9	7.0	7.0	3.6
% non-SMS over data revenues	92.1%	94.8%	95.1%	94.9%	95.0%	2.8 p.p.
Churn (1)	2.2%	3.5%	2.8%	2.5%	2.3%	0.1 p.p.
Contract (2)	2.0%	2.2%	1.9%	1.8%	1.7%	(0.3 p.p.)

Notes:

ARPU: monthly average revenue divided by the monthly average accesses of the period.

Voice traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company s

mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.

Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10¹² bytes). Promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non rounded.

- (1) Impacted by the disconnection of 569 thousand inactive M2M accesses in the first quarter of 2014.*
- (2) Excludes M2M.*

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TELEFÓNICA UK

(year-on-year changes in local currency)

In January 2015, Telefónica and Hutchison Whampoa agreed to enter into exclusive non-binding negotiations for the potential acquisition of O2 UK for an indicative price in cash of £10.25bn.

In the last quarter 2014, Telefónica UK showed strong trends building on momentum from previous quarters, which has been underpinned by the strength of the O2 brand, successful commercial propositions and customer loyalty. With this, the Company delivered positive revenue growth year-on-year, strong contract and prepay trading and OIBDA margin stability for the full year.

Fast LTE deployment continued, reaching 58% outdoor population coverage at December (+20 percentage points year-on-year), giving a strong opportunity to further increase data traffic (data usage of LTE customers is 3 times higher vs 3G) and resulting into high single digit ARPU uplift. This has led to LTE customers representing 19% of the mobile base at the end of December.

Total accesses grew 3% year-on-year and totalled 24.7 million at December. It is worth highlighting:

Total mobile accesses reached 24.5 million at the end of 2014 (+4% year-on-year). The **mobile contract customer base** grew 6% year-on-year to account for 56% of the base as of December (+2 percentage points year-on-year). The **prepay mobile base** remained stable year-on-year, reversing declining trends of previous quarters (-1% at the end of September).

Contract net additions, excluding M2M, totalled 215 thousand in the fourth quarter (291 thousand including M2M), a growth of 13% year-on-year (+14% quarter-on-quarter). In 2014, contract net additions reached 616 thousand; 834 thousand including M2M.

Prepay net additions in October-December were 103 thousand (-3 thousand in 2014) due to the continued success of the new set of tariffs launched in May (Big Bundles).

This contributed to **total quarterly net additions** of 394 thousand (+78% year-on-year; +24% quarter-on-quarter), the strongest performance in six years. Total net additions for the year to December 2014 were 830 thousand (+6% year-on-year).

Contract churn, excluding M2M, remained at market leading levels of 1.0% in the quarter and for the full year, improving 0.1 percentage points year-on-year in both periods.

The **Smartphone base** stood at 11.3 million at the end of December, with a penetration of 52% (+3 percentage points year-on-year).

Data traffic increased 72% year-on-year in 2014 and accelerated to 87% in the fourth quarter thanks to the increased smartphone penetration and higher usage per customer.

ARPU¹ continued to show an improving trend year-on-year during the fourth quarter, and excluding O2 Refresh declined 0.6% year-on-year (-1.4%, -2.6% and -5.3%, respectively, in the third, second and first quarter). In January-December, it was 2.5% lower year-on-year.

Revenue in the October-December period accelerated its growth to 5.4% year-on-year excluding the impact of O2 Refresh (+2.3% year-on-year in the third quarter), leading to a positive full year growth of 0.6%. Reported revenue reached 7,062 million euros (+0.2% year-on-year in 2014; +3.2% in the last three months) on the back of improving mobile service revenue trends and growing handset and others revenue on the back of strong trading of high-end devices (+28.8% year-on-year in the fourth quarter vs +10.3% in the third quarter).

¹ Revenues from the O2 Refresh model are not being reported under mobile service revenues and are instead reported in handset revenues, thus smartphone device sales are not being reflected in ARPU.

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Mobile service revenue, excluding the impact of O2 Refresh, improved in the fourth quarter to 2.9% year-on-year (+1.1% in the third quarter) benefiting from strong base growth, increased data usage and price stabilisation. Mobile service revenue totalled 5,397 million euros in 2014 (-6.2% year-on-year) and strengthened its performance in the October-December period to -4.5% year-on-year (-5.5% in the third quarter).

Data revenue improved 1.1% year-on-year in the last quarter of 2014 (+1.5% in the full year), driven by the sustained growth of non-SMS data revenue (+18.6% year-on-year in the fourth quarter). This resulted in non-SMS data revenue increasing its weight by 8 percentage points in the year to account for 58% of data revenue, while data revenue represented 57% of mobile service revenue (+4 percentage points year-on-year).

Operating expenses reached 5,485 million euros in the year, 0.9% lower than in the same period of 2013 (+4.3% in the fourth quarter).

Supplies (3,520 million euros) increased 3.5% year-on-year in the fourth quarter (-1.8% year-on-year in the third quarter) due to higher handset volumes from the improved trading in the period. In 2014, supplies declined 1.8% year-on-year due to lower mobile termination expenses. Also, it should be mentioned that in the first quarter of 2014 there was a positive non-recurrent impact of 24 million euros (true-up of past commissions).

Personnel expenses totalled 460 million euros and declined 1.2% year-on-year in the quarter (-5.7% in the previous quarter) due to the benefits of outsourcing the customer service annualising. The performance in the year (-19.6% year-on-year) was also affected by non-recurrent restructuring expenses (5 million euros in the first quarter of 2014 and 48 million euros in the first half of 2013).

Other expenses increased 9.1% year-on-year in the year to reach 1,505 million euros (+8.2% year-on-year in the fourth quarter) due to the outsourcing of customer service activities.

OIBDA reached 1,744 million euros in 2014 (+1.1% year-on-year; -3.0% year-on-year in the quarter) and was impacted by non-recurrent effects mostly related to the disposal of fixed business assets in 2013 (73 million in the second quarter of 2013; 10 million euros in the fourth quarter of 2013; 34 million euros in the third quarter of 2014). Excluding these effects and the previously mentioned true-up commission and restructuring expenses, OIBDA in the fourth quarter remained broadly flat (-0.6% year-on-year vs -4.8% year-on-year in the third quarter) and grew 1.3% in the full year.

This resulted in an **OIBDA margin** of 24.7% in the year to December 2014 (+0.2 percentage points year-on-year; +0.3 percentage points excluding non-recurrent items mentioned above) and 23.9% in the fourth quarter (-1.5 percentage points year-on-year; -0.9 percentage points, excluding non-recurrent items). O2 Refresh contributed 3.7 percentage points to OIBDA margin in the year, but with a broadly flat contribution of O2 Refresh to year-on-year change in 2014.

CapEx amounted to 755 million euros in 2014, an increase of 7.5% year-on-year excluding spectrum (719 million in 2013), mainly focused on LTE expansion.

Operating Cash Flow (OIBDA-CapEx) totalled 989 million euros.

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TELEFÓNICA UK

ACCESSES

Unaudited figures (Thousands)

	2013				2014				% Chg
	March	June	September	December	March	June	September	December	
Final Clients									
Accesses	23,814.0	23,326.8	23,639.5	23,872.0	23,803.9	24,001.3	24,324.5	24,726.4	3.6
Fixed telephony accesses									
(1)	384.5	192.7	198.7	208.2	211.4	217.9	221.5	228.0	9.5
Internet and data accesses	519.4	10.4	13.6	14.8	16.4	16.8	17.8	19.2	29.8
Broadband	519.4	10.4	13.6	14.8	16.4	16.8	17.8	19.2	29.8
Mobile accesses	22,910.1	23,123.7	23,427.2	23,649.0	23,576.1	23,766.6	24,085.2	24,479.1	3.5
Prepay	10,758.0	10,680.0	10,764.7	10,764.7	10,556.7	10,548.6	10,658.4	10,761.2	(0.0)
Contract	12,152.1	12,443.7	12,662.4	12,884.3	13,019.4	13,218.0	13,426.7	13,717.9	6.5
M2M	1,750.5	1,872.3	1,943.3	1,974.5	2,038.0	2,096.1	2,116.2	2,192.0	11.0
Wholesale Accesses									
(2)	42.4	36.8	40.7	31.6					
Total									
Accesses	23,856.4	23,363.6	23,680.2	23,903.6	23,803.9	24,001.3	24,324.5	24,726.4	3.4

TELEFÓNICA UK

MOBILE ACCESSES

Unaudited figures (thousands)

	2013				2014				% Chg
	March	June	September	December	March	June	September	December	
Prepay percentage	47.0%	46.2%	45.9%	45.5%	44.8%	44.4%	44.3%	44.0%	(1.6 p.p.)

(%)										
Contract percentage										
(%)	53.0%	53.8%	54.1%	54.5%	55.2%	55.6%	55.7%	56.0%	1.6 p.p.	
MBB accesses										
(000)	10,214.3	10,354.3	10,647.7	10,955.8	11,044.9	10,979.5	11,338.9	11,880.2	8.4%	
MBB penetration										
(%)	45%	45%	45%	46%	47%	46%	47%	49%	2.2 p.p.	
Smartphones										
(000)	9,718.0	9,866.1	10,158.3	10,478.0	10,566.8	10,501.2	10,835.1	11,338.0	8.2%	
Smartphone penetration										
(%)	47%	48%	48%	49%	50%	50%	50%	52%	2.7 p.p.	

(1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Digital Access x30. Company's accesses for internal use included. Includes VoIP and Naked ADSL.

(2) From the first quarter of 2014, the company stopped offering a wholesale service.

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TELEFÓNICA UK

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December		% Chg		October - December		% Chg	
	2014	2013	Reported	Organic	2014	2013	Reported	Organic
Revenues	7,062	6,692	5.5	0.2	1,913	1,742	9.8	3.2
Mobile service revenues	5,397	5,461	(1.2)	(6.2)	1,361	1,338	1.7	(4.5)
Data revenues	3,096	2,897	6.9	1.5	781	725	7.7	1.1
Handset revenues and other	1,665	1,231	35.3	28.4	552	404	36.7	28.8
Internal expenditure								
capitalized in fixed assets	122	113	8.6	3.1	39	31	24.6	17.5
Operating expenses	(5,485)	(5,256)	4.4	(0.9)	(1,490)	(1,343)	10.9	4.3
Supplies	(3,520)	(3,403)	3.4	(1.8)	(976)	(887)	10.0	3.5
Personnel expenses	(460)	(543)	(15.3)	(19.6)	(120)	(115)	5.0	(1.2)
Other operating expenses	(1,505)	(1,310)	14.9	9.1	(393)	(341)	15.3	8.2
Other net income (expense)	(4)	(0)	n.m.	n.m.	(6)	(0)	n.m.	n.m.
Gain (loss) on sale of fixed assets	59	88	(33.8)	(37.1)	0	12	(96.6)	c.s.
Impairment of goodwill and other assets	(10)	0	n.m.	c.s.	(0)	0	n.m.	c.s.
Operating income before D&A (OIBDA)	1,744	1,637	6.5	1.1	457	442	3.4	(3.0)
OIBDA Margin	24.7%	24.5%	0.2 p.p.		23.9%	25.4%	(1.5 p.p.)	
CapEx	755	1,385	(45.5)	7.5	181	147	23.3	17.7
Spectrum		719	n.m.	n.m.		2	n.m.	n.m.
OpCF (OIBDA-CapEx)	989	252	n.m.	(3.2)	276	295	(6.5)	(12.9)

Note:

OIBDA and OI before management and brand fees.
TELEFÓNICA UK

SELECTED OPERATING MOBILE BUSINESS DATA

Unaudited figures

2013

2014

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	Q4	Q1	Q2	Q3	Q4	% Chg Local Cur
Voice Traffic (Million minutes)	12,238	11,973	12,361	12,252	12,510	2.2
Data traffic (TB)	14,684	15,978	20,550	24,199	27,524	87.4
ARPU (EUR)	19.0	18.5	18.9	19.3	18.6	(7.8)
Prepay	7.4	7.0	7.3	7.6	7.4	(6.8)
Contract (1)	33.6	32.8	33.3	33.7	32.5	(9.2)
Data ARPU (EUR)	10.3	10.6	10.9	11.1	10.7	(2.3)
% non-SMS over data revenues	50.1%	56.5%	58.0%	58.5%	58.7%	8.6 p.p.
Churn	2.2%	2.1%	1.8%	1.9%	1.8%	(0.5 p.p.)
Contract (1)	1.1%	1.1%	1.0%	1.0%	1.0%	(0.1 p.p.)

	2013		2014		Jan-Dec	% Chg Local Cur
	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sep		
Voice Traffic (Million minutes)	48,479	11,973	24,334	36,587	49,096	1.3
Data traffic (TB)	51,319	15,978	36,528	60,727	88,251	72.0
ARPU (EUR)	19.6	18.5	18.7	18.9	18.8	(8.8)
Prepay	7.7	7.0	7.2	7.3	7.3	(9.3)
Contract (1)	35.0	32.8	33.0	33.3	33.1	(10.1)
Data ARPU (EUR)	10.4	10.6	10.7	10.8	10.8	(1.5)
% non-SMS over data revenues	50.0%	56.5%	57.3%	57.7%	57.9%	7.9 p.p.
Churn	2.3%	2.1%	2.0%	1.9%	1.9%	(0.4 p.p.)
Contract (1)	1.1%	1.1%	1.0%	1.0%	1.0%	(0.1 p.p.)

Notes:

ARPU: monthly average revenue divided by the monthly average accesses of the period.

Voice traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded.

Traffic volume non rounded.

Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10¹² bytes). Promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non rounded.

(1) Excludes M2M.

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04

TELEFÓNICA DEUTSCHLAND

The fourth quarter of 2014 reflects the starting point for the new Telefónica Deutschland with the integration of E-Plus Group from October 1, 2014 onwards. The new Company aims to become the leading Digital Telco in Germany, starting as the clear number one in terms of mobile customer base, with 42.1 million accesses at the end of December.

It expects to deliver synergies of more than 5 billion euros with an annual run rate contribution to Operating Cash Flow of 800 million euros from year 5 of the integration, primarily from the combination of networks, rationalization of the retail shop footprint, reduction of overhead and additional revenue-generating opportunities.

From 3rd February 2015, the Company enabled LTE access for all O2 contract customers and started a country-wide marketing campaign to encumber this technology as the key driver of a more digital lifestyle. From that same date, the O2 Blue tariff portfolio was updated, with increased data allowance. In addition, a new attractive roam like home package is included from the L tariff and a new data automatic top-up feature guarantees the quality of the service contracted without any disruption in the event that monthly allowance is reached. EU

The fourth quarter of the year saw the new Telefónica Deutschland sustaining a strong trading performance across segments and brands, which is the result of a successful start of joint commercial activities, with a focus on data monetization driven by LTE and the launch of new devices.

At the end of December, Telefónica Deutschland's **total access base** stood at 47.7 million, with strong mobile contract trading in the quarter and an improving trend for the retail DSL business, reflecting an increasing demand for higher speed accesses.

Operating highlights were:

Contract mobile customer base reached 18.8 million at the end of December while the **prepaid access base** totalled 23.4 million, with a strong performance of key partners. **Total mobile accesses** (42.1 million) more than doubled over last year figure as a consequence of the incorporation of E-Plus customers, resulting in a share of contract customers over total base of 45%.

Smartphone penetration stood at 29% at the end of the fourth quarter on the back of a continued commercial focus on handset renewals and bundles of smartphone tariffs with devices.

Contract net additions totalled 318 thousand¹ in the period October to December leveraging strong demand for new devices in a competitive market. **Prepaid net additions** reached 35 thousand. As a result, total net additions in the fourth quarter totalled 353 thousand.

Contract churn excluding M2M stood at 1.9%² in the fourth quarter.

Mobile ARPU in the fourth quarter was 10.9 euros, with **data ARPU** at 5.7 euros, representing 52% of total mobile ARPU.

Retail broadband accesses trend improved to a quarterly net loss of 17 thousand, with VDSL contributing a total number of net additions of 65 thousands at the high-end of the portfolio; +20% over the previous quarter.

Revenues totalled 5,522 million euros for January to December 2014, +12.4% year-on-year due to the consolidation of the E-Plus Group from October 1, 2014. In the fourth quarter, revenues amounted to 2,019 million euros, broadly stable year-on-year vs. combined revenues from both Companies in the same period of 2013.

¹ Excluding the impact from customer base adjustments in the former E-Plus Group (428 thousands) driven by the finalization of the harmonization of customer activity criteria and the disconnection of a partner.

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Mobile service revenues amounted to 1,391 million euros in the last three months of 2014, consolidating the positive year-on-year performance (including mobile service revenue of both Companies in last quarter of 2013). This was mainly driven by premium brands, with a continued favourable mix in both acquisition of new customers and tariff renewals, and increased demand for LTE. For the full year 2014 (including the new Telefónica Deutschland in the fourth quarter), mobile service revenues amounted to 3,580 million euros.

Mobile data revenues totalled 723 million euros in the fourth quarter and 1,793 million euros in 2014 representing now 50% over mobile service revenues. **Non-SMS data revenue** grew to 499 million euros in October-December and 1,277 million euros in January-December, increasing its total share over data revenue to 71%.

Handset revenues increased to 795 million euros in 2014 (350 million euros in the quarter) from a good acceptance of new devices and bundles with tariffs.

Fixed revenues in the fourth quarter showed an improvement in the rate of decline over the previous quarter (-7.7% year-on-year vs. -9.0% in the third quarter) to 274 million euros. This was mainly due to a lower retail fixed broadband customer base, partly compensated by the uptake in demand for VDSL from new and existing customers. In 2014 fixed revenues reached 1,138 million euros (-7.8% year-on-year).

The fourth quarter of 2014 was significantly impacted by a 401 million euros non-cash provision for restructuring activities following the acquisition of E-Plus Group (409 million euros in the full year). The employee leaver program (314 million euros in the fourth quarter and 321 million euros in the full year) affected the evolution of personnel expenses, while 87 million euros were recorded under the caption of other net income (expense) in the fourth quarter.

Operating expenses were 4,817 million euros in 2014 and totalled 2,006 million euros in the fourth quarter of 2014, significantly impacted the previously mentioned provision.

Breakdown by component:

Supplies 2,144 million euros in January-December (762 million euros in the quarter) were mainly driven by the increased sales of devices in the period amid intense commercial activity.

Personnel expenses were 828 million euros in 2014 (498 million euros in the fourth quarter), significantly impacted by restructuring costs related to the acquisition of the E-Plus Group, as mentioned above.

Other operating expenses (1,846 million euros in January-December; 745 million euros in the fourth quarter) increased following the continued commercial spend to capture opportunities from the rising demand for LTE in the market.

OIBDA for 2014 amounted to 733 million euros and was negative in 38 million euros in the last quarter following the provision for restructuring activities (401 million euros in the fourth quarter; 409 million euros in the full year). OIBDA margin excluding restructuring costs reached 18.0% in the fourth quarter. Also to remind that in the fourth

quarter of 2013, OIBDA was also affected by the positive impact of capital gains from the sale of assets of 76 million euros.

CapEx in 2014 totalled 849 million euros, with a clear focus of the accelerated deployment of the LTE network (outdoor coverage of 62% at the end of December; +20 percentage points year-on-year), and the initial activities for the integration of the two Companies.

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TELEFÓNICA DEUTSCHLAND

ACCESSES

Unaudited figures (Thousands)

	2013				2014				% Chg
	March	June	September	December	March	June	September	December	
Final Clients									
Accesses	24,218.9	24,216.2	24,306.2	24,042.0	23,875.7	23,964.3	24,113.2	46,548.3	93.6
Fixed telephony accesses (1)	2,212.8	2,176.0	2,144.9	2,124.9	2,109.1	2,078.2	2,050.9	2,036.4	(4.2)
Internet and data accesses	2,630.2	2,583.1	2,543.5	2,516.1	2,491.7	2,450.2	2,413.4	2,387.0	(5.1)
Narrowband	294.6	287.9	277.2	271.7	265.8	258.8	252.5	243.2	(10.5)
Broadband	2,335.6	2,295.1	2,266.2	2,244.3	2,225.9	2,191.4	2,160.8	2,143.8	(4.5)
Mobile accesses	19,324.5	19,411.1	19,576.4	19,401.0	19,274.9	19,435.9	19,648.9	42,124.9	117.1
Prepay	9,123.6	9,150.6	9,260.7	9,114.9	8,910.9	8,919.7	8,989.3	23,350.7	156.2
Contract (2)	10,200.9	10,260.5	10,315.7	10,286.1	10,364.0	10,516.1	10,659.6	18,774.1	82.5
M2M	82.9	84.7	89.9	90.5	94.6	97.5	106.0	414.0	n.m.
Pay TV (3)	51.3	46.0	41.5						
Wholesale Accesses	1,112.9	1,127.2	1,130.4	1,125.0	1,128.0	1,151.8	1,137.6	1,113.3	(1.0)
Total Accesses	25,331.8	25,343.3	25,436.6	25,166.9	25,003.7	25,116.1	25,250.8	47,661.5	89.4

TELEFÓNICA DEUTSCHLAND

MOBILE ACCESSES

Unaudited figures (thousands)

	2013				2014				% Chg
	March	June	September	December	March	June	September	December	
Prepay percentage	47.2%	47.1%	47.3%	47.0%	46.2%	45.9%	45.7%	55.4%	8.5 p.p.

(%)										
Contract percentage										
(%)	52.8%	52.9%	52.7%	53.0%	53.8%	54.1%	54.3%	44.6%	(8.5 p.p.)	
MBB accesses										
(000)	6,142.9	6,339.2	6,559.5	6,780.1	6,994.0	7,120.5	7,341.7	13,697.5	102.0%	
MBB penetration										
(%)	32%	33%	34%	35%	36%	37%	37%	33%	(2.4 p.p.)	
Smartphones										
(000)	5,059.8	5,260.5	5,491.4	5,738.0	5,957.2	6,057.2	6,230.7	11,422.2	99.1%	
Smartphone penetration										
(%)	28%	29%	30%	31%	33%	33%	34%	29%	(2.4 p.p.)	

E-Plus accesses are consolidated from the fourth quarter 2014.

- (1) *PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Digital Access x30. Company's accesses for internal use included. Includes VoIP and Naked ADSL.*
- (2) *In the fourth quarter of 2014, 428 thousand accesses were excluded from customer base on adjustments in the former E-Plus driven by the harmonization of criteria and the disconnection of a partner.*
- (3) *From the fourth quarter of 2013, the company stopped offering a TV service.*

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TELEFÓNICA DEUTSCHLAND

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December		% Chg		October - December		% Chg	
	2014	2013	Reported	Organic	2014	2013	Reported	Organic
Revenues	5,522	4,914	12.4	(3.5)	2,019	1,243	62.4	(0.4)
Wireless Business	4,375	3,673	19.1	(2.2)	1,742	944	84.5	1.6
Mobile service revenues	3,580	2,989	19.8	(2.3)	1,391	743	87.3	(1.4)
Data revenues	1,793	1,443	24.3	(1.6)	723	364	98.9	(3.9)
Handset revenues	795	684	16.2	(1.7)	350	201	74.0	13.0
Wireline Business	1,138	1,235	(7.8)	(7.8)	274	297	(7.7)	(7.5)
FBB and new services (1)	815	869	(6.2)	(6.2)	197	205	(4.1)	(4.1)
Voice & access revenues	306	355	(13.8)	(13.7)	72	88	(18.0)	(17.3)
Other	18	11	61.6	61.6	5	4	32.1	32.1
Internal expenditure capitalized in fixed assets	92	74	24.3	9.3	34	22	56.9	5.3
Operating expenses	(4,817)	(3,799)	26.8	0.8	(2,006)	(968)	n.m.	5.9
Supplies	(2,144)	(1,958)	9.5	(3.9)	(762)	(507)	50.4	(1.2)
Personnel expenses	(828)	(419)	97.7	5.6	(498)	(107)	n.m.	13.2
Other operating expenses	(1,846)	(1,423)	29.7	5.7	(745)	(355)	n.m.	13.8
Other net income (expense)	(64)	43	c.s.	c.s.	(85)	17	c.s.	c.s.
Gain (loss) on sale of fixed assets	0	76	(99.6)	(99.6)	(0)	76	c.s.	c.s.
Impairment of goodwill and other assets	0	0			0	0		
Operating income before D&A (OIBDA)	733	1,308	(44.0)	(22.1)	(38)	390	c.s.	(38.2)
OIBDA Margin	13.3%	26.6%	(13.4 p.p.)	(5.1 p.p.)	(1.9%)	31.4%	(33.2 p.p.)	(11.9 p.p.)
CapEx	849	666	27.5	(6.4)	438	198	n.m.	7.1
Spectrum			n.m.				n.m.	
OpCF (OIBDA-CapEx)	(116)	642	c.s.	(38.3)	(476)	192	c.s.	(85.0)

Note:

The Consolidated Income Statement of Telefónica Deutschland include E-Plus Consolidated Income Statement from the fourth quarter 2014.

OIBDA and OI before management and brand fees.

(1) Includes FBB connectivity services (retail and wholesale), including value added services, TV services, ICT revenues and other services over connectivity.

TELEFÓNICA DEUTSCHLAND

SELECTED OPERATING MOBILE BUSINESS DATA

Unaudited figures

	2013		2014			% Chg Local Cur
	Q4	Q1	Q2	Q3	Q4	
Voice Traffic (Million minutes)	7,520	7,572	7,775	7,398	18,441	n.m.
Data traffic (TB)	10,042	10,569	11,247	12,898	37,159	n.m.
ARPU (EUR)	12.5	12.1	12.5	12.7	10.9	(13.3)
Prepay	5.1	5.0	5.2	5.3	5.6	9.2
Contract (1)	19.3	18.5	18.8	19.1	17.7	(8.2)
Data ARPU (EUR)	6.2	6.0	6.1	6.2	5.7	(8.3)
% non-SMS over data revenues	69.6%	72.0%	72.5%	73.8%	68.9%	(0.7p.p.)
Churn	2.8%	2.4%	1.9%	1.9%	2.9%	0.1 p.p.
Contract (1)	2.1%	1.6%	1.3%	1.5%	2.7%	0.6 p.p.

	2013		2014			% Chg Local Cur
	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec	
Voice Traffic (Million minutes)	30,152	7,572	15,347	22,745	41,186	0.4
Data traffic (TB)	36,255	10,569	21,815	34,714	71,873	1.0
ARPU (EUR)	12.7	12.1	12.3	12.4	11.8	(7.1)
Prepay	5.1	5.0	5.1	5.2	5.4	4.5
Contract (1)	19.6	18.5	18.7	18.8	18.4	(6.0)
Data ARPU (EUR)	6.2	6.0	6.1	6.1	5.9	(3.9)
% non-SMS over data revenues	66.5%	72.0%	72.3%	72.8%	71.2%	4.7 p.p.
Churn	2.4%	2.4%	2.1%	2.1%	2.4%	0.1 p.p.
Contract (1)	1.6%	1.6%	1.4%	1.5%	1.9%	0.3 p.p.

Notes:

The operating data include E-Plus from the fourth quarter 2014.

ARPU: monthly average revenue divided by the monthly average accesses of the period.

Voice traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded.

Traffic volume non rounded.

Data traffic is defined as Terabytes used by the company customers, both upload and download (1TByte = 10¹² bytes). Promotional traffic is included. Traffic not associated to the Company's mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non rounded.

(1) *Excludes M2M.*

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TELEFÓNICA BRASIL

(year-on-year changes in organic terms)

In 2014 Telefónica Brasil significantly reinforced its competitive position in the market. In the mobile business, the strategic focus on quality and innovation enabled the Company to strengthen its leadership in the higher value segments, capturing more than half of contract net additions in the market in 2014 and more than 38% of LTE net additions. In the fixed business, significant advances were made in the Company's transformation process, accelerating the fibre network deployment (4.1 million premises passed; 375 thousand customers connected) and significantly increasing Pay TV accesses (+20% year-on-year).

In addition, an agreement was reached with Vivendi to acquire GVT, which will allow the Company to reinforce its competitive positioning through the creation of an integrated operator with nationwide coverage and focused on value customers. The acquisition is still pending final regulatory approval by Anatel, and the approval of Cade, the Brazilian competition watchdog.

Moreover, in the fourth quarter the Company acquired the spectrum that was awarded in the auction held on 30 September 2014 of one of the three national blocks of spectrum in the 700 MHz band for the provision of LTE services (889 million euros including the cost of the license and the clean-up of the spectrum).

At December 2014, Telefónica managed 95.6 million **accesses** in Brazil, 3% more than at December 2013; despite the application of more restrictive reporting criteria for prepaid customers.

Regarding operating trends in the **mobile business**:

The Company continued leading the market, reaching a **market share** of 28.5% (stable year-on-year) reinforcing its leadership in the contract segment with a market share of 41.8% (+2.0 percentage points year-on-year; +0.3 percentage points quarter-on-quarter) after capturing 56% of new accesses in the year (50% in the quarter). Meanwhile, a particular highlight was the LTE market share leadership (38.9%), offering the widest service coverage in the country at December (140 cities).

Mobile accesses reached 79.9 million at the end of 2014 (+3% year-on-year) boosted by the sharp increase in contract accesses (+20% year-on-year), which accounted for 35% of the total (+5 percentage points year-on-year). Also noteworthy was the strong growth of **smartphones** (+77% year-on-year in 2014) reaching a penetration of 41% (+17 percentage points year-on-year).

In quarterly **net additions**, contract accesses performed particularly well, surpassing one million accesses for the seventh consecutive quarter (1.2 million in the quarter; 4.7 million in the year). Commercial activity and contract net additions reached new record levels in December thanks to the new commercial offer, which is simpler (a significant reduction in the number of plans) and includes more mobile data. The positive performance of **Multivivo** (data and/or voice shared between several devices) was also salient, with 2.1 million users. Total net additions in the quarter stood

at 115 thousand accesses (2.7 million in the year) due to the disconnection of prepay customers.

Prepay accesses, with a net loss of 1.1 million accesses in October-December (2.0 million in January-December), were affected by the application of more restrictive reporting criteria for customers as the Company is focused on their profitability, and by the success of campaigns migrating higher-value customers to the contract segment. The improvement in Vivo Tudo (integrated service package that aims to intensify data use) connections in the quarter should be noted, which ended 2014 with 13 million users.

Data traffic grew by 72% and 59% year-on-year in the quarter and the year respectively, supported by the sharp growth in the smartphones base. Likewise, the higher quality of accesses is translated into **voice traffic** growth (+10% in the quarter and +9% in the year), which greatly exceeded accesses growth.

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ARPU was virtually stable in the quarter and in the year (+0.4% and -0.6% respectively) thanks to the capture of value customers, which offsets the strong regulatory impact. Thus, outgoing ARPU grew 5.9% and 5.3% year-on-year in the quarter and in 2014 respectively, while data ARPU increased 16.2% and 16.0% respectively.

In the **fixed business**:

Traditional fixed accesses stood at 10.7 million, virtually stable compared with December 2013. In the fourth quarter the Company registered a net loss of 199 thousand customers (-4 thousand in the year) related to the increase in low-value customers churn, both in copper line and Fixed Wireless, due to strict credit control policies which limit the volume of gross additions but positively impact on their quality.

Retail broadband accesses (3.9 million of accesses) were virtually stable year-on-year, and registered a net loss in the quarter of 22 thousand accesses (+3 thousand accesses in 2014) due to the loss of copper accesses. Nonetheless, fibre accesses again showed a significant acceleration in the quarter, with net additions of 53 thousand accesses (171 thousand in the year) to reach 375 thousand accesses connected (+84% year-on-year). The Company ended 2014 with 4.1 million premises passed in Sao Paulo (606 thousand passed in the last quarter).

Pay TV accesses grew 20% year-on-year to reach 771 thousand, after posting net additions of 43 thousand accesses in the quarter (131 thousand in the year). Accesses connected with fibre through IPTV technology with higher ARPU compared with the average of the pay TV accesses reached 95 thousand accesses, double 2013 base (net additions of 17 thousand in the last quarter).

Regarding the financial results, it should be highlighted that they were affected by the reduction of mobile termination rates on 26 February 2014 (-25.0%), the reduction of the fixed-mobile retail tariff (VC: -13.0%) and from June 2014 by the reduction in the fee of the basic plans in the fixed business set by Anatel with the target of passing to customers the benefits arising from the merger of the mobile and fixed businesses.

Revenues amounted to 11,231 million euros, up 0.5% year-on-year. Revenues in the fourth quarter decreased by 0.3% year-on-year due to the positive impact of a tax reversal in the same quarter of 2013 (58 million euros; contributing -1.8 percentage points to the year-on-year change). In addition, the negative impact of regulation reduced year-on-year growth by 3.4 percentage points in 2014 and by 3.2 percentage points in the quarter.

Mobile revenues reached 7,617 million euros in 2014, with a year-on-year growth of 2.9% (+1.9% in the quarter).

Mobile service revenues (7,228 million euros) increased by 3.8% year-on-year (+2.7% in the fourth quarter), boosted by the sharp growth of data revenues and in spite of the negative impact of regulation (-3.7 percentage points in the year; -3.1 percentage points in the quarter). In addition, the above-mentioned tax reversal in the fourth quarter of 2013 negatively impacted the year-on-year

change (-0.8 percentage points in the year; -3.0 percentage points in the last three months).

Data revenues rose by 19.9% year-on-year in January-December (+20.3% in October-December), accounting for 34% of service revenues (+5 percentage points year-on-year), as a consequence of the strong growth in non-SMS data revenues (+38.5% year-on-year at December; +35.5% year-on-year in the quarter), already accounting for 77% of mobile data revenues (+10 percentage points year-on-year).

Handset revenues were down 11.9% in 2014 (-11.3% year-on-year in the quarter) as a result of lower commercial activity including handsets.

Fixed revenues totalled 3,613 million euros, down 4.2% year-on-year in 2014 (-4.8% year-on-year in the quarter), impacted by the fixed-mobile substitution effect and the above-mentioned regulatory impacts, which reduced year-on-year growth by 3.4 percentage points in the year (-3.7 percentage points in the fourth quarter).

Broadband and new services revenues advanced 4.0% year-on-year in January-December (+2.1% in October-December), mainly driven by the acceleration in the increase of accesses connected through fibre, with higher ARPU, and the higher commercial activity in pay TV.

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Voice and access revenues were down 9.2% year-on-year in 2014 (-9.0% in the final quarter), affected by regulatory impacts and the fixed-mobile substitution effect.

Operating expenses in 2014 (7,742 million euros) were virtually stable year-on-year, although they fell for the second consecutive quarter in October-December (-0.5% year-on-year), in spite of the effort made in acquiring high-value customers and in the deployment and improvement of fixed and mobile networks.

Breakdown by component:

Supplies (2,680 million euros) decreased by 6.3% year-on-year in 2014 (-6.4% in the fourth quarter) due to lower termination rates derived from regulatory changes and lower handsets consumption.

Personnel expenses (976 million euros) were down 4.2% year-on-year in January-December and 6.3% compared with October-December 2013. The year-on-year comparison reflects the benefits associated with the headcount restructuring and incentivised redundancies in 2013 (non-recurrent impact of 25 million euros in the fourth quarter and of 51 million euros in the year). Additionally, the fourth quarter of 2014 includes a provision of 68 million euros for restructuring costs. Excluding these non-recurrent effects related to headcount restructuring plans, personnel expenses were virtually stable year-on-year (+0.8%) and would have increased by 3.5% in the fourth quarter.

Other operating expenses (4,085 million euros) increased 6.0% year-on-year in 2014 (+5.5% in the quarter) as a result of higher commercial expenses associated with capturing contract and fibre customers and higher network expenses related with the deployment and improvement of fixed and mobile networks.

OIBDA totalled 3,543 million euros, with a year-on-year growth of 0.9% in 2014 (-1.3% in the quarter). The regulatory impact reduced year-on-year growth by 3.9 percentage points (-3.8 percentage points in the quarter).

The **OIBDA margin** stood at 31.5% in 2014 (+0.1 percentage points year-on-year) and at 32.6% in the quarter (-0.4 percentage points year-on-year), in spite of the significant commercial effort and the deployment and improvement of the network, which were offset by the efficiency measures carried out.

CapEx totalled 2,933 million euros in 2014 (+15.0% year-on-year in organic terms, excluding 889 million euros for the acquisition of spectrum in the fourth quarter of 2014 and 185 million euros registered in 2013) and was mainly designated towards the development, quality and capacity of mobile networks and expansion of the fibre network.

As a result, **operating cash flow (OIBDA-CapEx)** totalled 610 million euros in 2014 (-13.0% year-on-year organic).

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TELEFÓNICA BRASIL

ACCESSES

Unaudited figures (thousands)

	2013				2014				% Chg
	March	June	September	December	March	June	September	December	
Final Clients									
Accesses	91,064.4	91,335.8	91,907.9	92,730.0	94,028.1	95,071.1	95,601.5	95,528.6	3.0
Fixed telephony accesses (1)	10,550.2	10,563.5	10,624.1	10,747.8	10,828.1	10,929.1	10,942.1	10,743.4	(0.0)
Internet and data accesses	3,961.0	4,035.2	4,081.8	4,102.0	4,094.5	4,103.5	4,114.8	4,082.6	(0.5)
Narrowband	116.5	108.2	105.6	92.1	88.1	86.4	82.0	73.7	(19.9)
Broadband (2)	3,767.9	3,852.1	3,898.0	3,936.7	3,933.0	3,944.9	3,961.6	3,939.8	0.1
Fibre	125.1	144.6	170.9	204.1	235.8	273.3	322.1	374.6	83.5
Other (3)	76.5	74.9	78.2	73.2	73.3	72.1	71.2	69.0	(5.8)
Mobile accesses	75,987.5	76,199.6	76,614.3	77,240.2	78,460.8	79,350.7	79,817.0	79,932.1	3.5
Prepay	56,469.6	55,515.1	54,476.4	53,551.9	53,552.8	53,188.5	52,639.8	51,582.4	(3.7)
Contract	19,517.9	20,684.5	22,138.0	23,688.3	24,908.0				