

TELEFONICA S A
Form 6-K
November 12, 2014
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of November, 2014

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant's name into English)

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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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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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CONSOLIDATED RESULTS

Telefónica delivered a solid set of results for the third quarter of 2014, with year-on-year revenue and OIBDA growth accelerating as a result of the sustained commercial momentum in high-value customers and services.

Smartphone and fibre net additions in the quarter reached record levels. In addition, the ongoing efforts to maximise efficiencies, unlock synergies and simplify our operating model enabled us to stabilize OIBDA margin year-on-year erosion and to post a sequential margin expansion despite higher commercial (focused on maintaining revenue growth acceleration) and network (oriented to manage the strong increase in data traffic) costs.

Telefónica's total accesses stood at 316.1 million at the end of September 2014, up 2% year-on-year in organic terms (excluding the accesses of T. Czech Republic and T. Ireland from the basis of 2013, following their disposal in January and July 2014, respectively), driven by the sustained growth of higher value and quality segments such as mobile contract (smartphones and LTE), fibre and pay TV, which maintained a high level of commercial activity in the quarter. Total churn in the quarter stood at 2.8%, virtually flat both year-on-year and quarter-on-quarter (+0.1 percentage points in both cases).

Mobile accesses totalled 249.4 million, up 2% in organic terms compared with September 2013. Mobile contract accesses grew at a faster pace (+8% year-on-year in organic terms) and now account for 36% of mobile accesses (+1 percentage point year-on-year). Particularly noteworthy was the gradual improvement at T. España, with 95 thousand mobile contract net additions in the quarter after returning to growth in the previous quarter.

As a result of the Company's strategic focus on growing data services, **smartphones** (all with a data plan attached) stood at 82.3 million, up 43% year-on-year in organic terms (+5 percentage points compared with June), reaching a penetration rate of 35% over total access base (+10 percentage points year-on-year). Organic quarterly net additions reached 8.5 million accesses boosted by Telefónica Brasil, with 5.8 million net additions, almost 3 times the figure posted in the same period of the last year. Organic net additions in the first nine months totalled 19.3 million (+28% year-on-year).

Retail fixed broadband accesses totalled 17.7 million (+1% year-on-year organic) posting a sustained figure of 52 thousand net additions in the quarter in organic terms (57 thousand accesses in the second quarter).

Fibre accesses stood at 1.4 million at September 2014, 2.1 times vs. September 2013, after posting record net additions in the quarter of 265 thousand accesses (206 thousand accesses in the second quarter) boosted by T. España (208 thousand accesses).

Pay TV accesses totalled 4.6 million, with growth accelerating for the sixth consecutive quarter to 41% in organic terms on the back of 458 thousand net additions in the quarter, 4 times the figure in July-September 2013. This acceleration in commercial activity was primarily driven by Telefónica España, which posted net quarterly additions of 370 thousand accesses (+6.2% compared with the second quarter). Net additions in organic terms in the first nine months totalled 1.1 million accesses (over 10 times greater year-on-year). Also noteworthy were the performances of T. Brasil and T. Hispanoamérica, both posting double-digit year-on-year growth in their customer bases.

In the first nine months of 2014, the year-on-year evolution of exchange rates negatively impacted financial results, in particular the depreciation of the Argentine peso, the implicit devaluation of the Venezuelan bolivar following the introduction of the new exchange rate mechanism (SICAD I), along with the depreciation of the Brazilian real. Thus, in the January-September period exchange rates reduced both year-on-year revenue and OIBDA growth by 9.3 percentage points. This impact eased in the third quarter mainly due to the performance of the Brazilian real and reduced year-on-year revenue and OIBDA growth by 6.1 and 6.0 percentage points, respectively (3.9 and 4.0 percentage points less, respectively, than their contribution in the second quarter of 2014).

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Exchange rate fluctuations also reduced payments in euros related to CapEx, interest, taxes and minorities, offsetting the negative impact of exchange rates on OIBDA and neutralising the impact on cash flow generation in the first nine months of the year.

The results of Telefónica Czech Republic and Telefónica Ireland were deconsolidated from January 2014 and July 2014, respectively, as a result of the disposal of both companies, therefore affecting the year-on-year comparison of Telefónica's reported financial results.

Thus, in January-September changes in the perimeter of consolidation reduced year-on-year revenue growth by 3.4 percentage points and year-on-year OIBDA growth by 4.0 percentage points (revenues -3.9 percentage points and OIBDA -4.5 percentage points in the third quarter).

Revenues totalled 37,978 million euros in January-September 2014 (13,021 million euros in the third quarter), up 1.9% year-on-year in organic terms, with growth accelerating to 2.8% year-on-year in the third quarter.

The improvement in revenue growth was driven by T. Hispanoamérica, which continued to post double-digit growth, and by mobile data and digital services revenues, with improving contribution from T. España and T. Deutschland (+0.6 percentage points and +0.3 percentage points, respectively, compared with the second quarter).

Mobile data revenues in January-September 2014 accounted for 40% of mobile service revenues (+3 percentage points year-on-year) and increased by 9.7% year-on-year in organic terms, with growth accelerating for the third consecutive quarter to 11.1%. Non-SMS data revenues advanced 24.3% year-on-year in organic terms to September (improving to 25.3% in the quarter) and now account for 73% of data revenues (+9 percentage points compared with January-September 2013).

Excluding the negative impact of regulation, revenues in organic terms grew 3.6% year-on-year both in the third quarter and in January-September 2014.

In reported terms, revenues fell by 7.4% year-on-year in July-September (-10.9% in January-September), impacted by exchange rate fluctuations and changes to the consolidation perimeter mentioned above.

Operating expenses in January-September totalled 26,486 million euros, up by 2.7% year-on-year in organic terms (-9.6% reported) and by 5.0% in the quarter (-4.8% reported) despite the savings resulting from the transformation of the operating model and Telefónica's scale, due to higher commercial and network and systems costs.

Breakdown by component:

Supplies (11,101 million euros in January-September 2014) declined 2.0% year-on-year in organic terms (-12.2% reported), and fell 1.5% in the third quarter, mainly due to lower mobile interconnection costs, despite increased handset consumption owing to larger sales of high-end devices and higher TV content costs.

Personnel expenses, 4,949 million euros in the first nine months of the year, grew 4.3% year-on-year in organic terms (-9.0% reported) and by 7.5% compared with July-September 2013 (-4.0% reported), impacted by the increase in prices in some countries, which was partially offset by the savings from restructuring plans carried out in recent years (mainly in Spain, Brazil and the UK). Non-recurring restructuring expenses amounted to 23 million euros in the first nine months of 2014 (8 million euros in Germany in the third quarter) compared with 105 million euros in 2013, mainly in the UK and Brazil (mostly in the first half). The average headcount declined by 8.4% compared with January-September 2013 (-3.3% excluding the deconsolidation of T. Czech Republic and T. Ireland) and stood at 119,722 employees.

Other operating expenses stood at 10,436 million euros in the first nine months of 2014, 7.2% higher in organic terms year-on-year (-6.9% reported), mainly due to commercial expenses associated with the increased commercial momentum in the quarter, network costs related to data traffic growth and expenses associated with network modernisation. In the third quarter, year-on-year growth stood at 11.3% in organic terms (-0.6% reported) due to the greater commercial effort and the increase in network and system costs.

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Gains on sales of fixed assets totalled 119 million euros in the first nine months of 2014 (61 million euros in the third quarter), mainly associated with the sale of non-strategic towers (58 million euros of impact on OIBDA, 3 million euros in the third quarter in Latin America) and the reporting of a profit associated with the asset disposal of the United Kingdom fixed business once all the conditions set out in the sale agreement had been satisfied.

Operating income before depreciation and amortisation (OIBDA) in the first nine months amounted to 12,325 million euros (4,269 million euros), up slightly year-on-year in organic terms (+0.2%). Organic growth accelerated in the third quarter to 0.8% year-on-year driven by better sales momentum and despite the higher commercial efforts. In the quarter, especially noteworthy were the double-digit growth posted by T. Hispanoamérica (+15.1% underpinned by the acceleration in Mexico, Colombia and Perú), the growing contribution of T. Brasil (+0.2 percentage points quarter-on-quarter) and the lower negative contribution from T. España (+0.6 percentage points compared with the second quarter).

Excluding the negative impact of regulation, organic OIBDA growth stood at 1.5% in the first nine months and 1.6% in the quarter.

In reported terms, OIBDA fell by 12.6% year-on-year in January-September, impacted by the exchange rate fluctuations and changes to the consolidation perimeter mentioned earlier (-8.7% year-on-year in July-September).

OIBDA margin stood at 32.5% in the first nine months of 2014, with limited year-on-year erosion in organic terms (-0.5 percentage points). In the third quarter the margin expanded sequentially 0.4 percentage points to 32.8% (-0.6 percentage points year-on-year in organic terms).

Depreciation and amortisation in January-September 2014 totalled 6,291 million euros, 4.0% lower year-on-year in organic terms (+3.3% in the third quarter) and -15.1% in reported terms (-7.8% in July-September) due to lower fixed asset depreciation. Total depreciation and amortisation charges arising from purchase price allocation processes amounted to 482 million euros (-29.5% year-on-year).

Operating income (OI) totalled 6,034 million euros in the January-September period, 4.5% higher year-on-year in organic terms, with a change in trend in the third quarter (-1.3%). In reported terms, OI fell 9.7% year-on-year in the first nine months and 9.6% in the third quarter.

Share of profit (loss) of **investments accounted for by the equity method** amounted to -69 million euros in the first nine months (-9 million euros in July-September), mainly due to losses registered on the Telco, S.p.A. investment in the second quarter. In 2013, this item amounted to -117 million euros (-145 million euros in the third quarter), mainly due to the impact of Telco S.p.A.'s adjustments of the value of its investment in Telecom Italia.

Net financial expenses amounted to 2,114 million euros in the first nine months of 2014, of which 193 million euros were due to net negative foreign exchange differences primarily as a result of the implicit devaluation of the Venezuelan bolivar against the US dollar. Excluding this effect, net financial expenses fell 5.3% year-on-year (108 million euros) due to a 13.6% reduction in average debt, an improvement in credit spreads and the fall of interest rates in the eurozone. The effective cost of debt over the last twelve months was 5.73%, 39 basis points higher than in December 2013, as most of the average debt reduction has been in euros and Czech crowns and as liquidity position (cash) in euros has increased to complete the payment of the acquisitions, resulting in a larger proportion of Latin American debt (with above average costs).

Corporate income tax in January-September 2014 totalled 723 million euros, implying an effective tax rate of 18.8%. This is 6.1 percentage points lower year-on-year, mainly due to the impact 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 279 million euros in the first nine months of 2014 (-190 million euros in the first nine months of 2013) mainly as a result of the revaluation of deferred taxes at Telefónica Brasil in the second quarter mentioned above. In the third quarter this item amounted to -80 million euros (-52 million euros in the same period of 2013), mainly due to the higher profit attributed to minority interests in Brazil as a result of the improved operating performance of the business.

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As a result, **consolidated net income** in the first nine months of 2014 amounted to 2,849 million euros (947 million euros in July-September), down 9.4% year-on-year (-13.0% in the third quarter). **Basic earnings per share** amounted to 0.61 euros (-12.9% year-on-year) and to 0.20 euros in the third quarter (-16.6% year-on-year).

In the third quarter, the Company remained focused on technological transformation and network modernisation, with over 73% of total investment in the year devoted to transformation and growth. As a result, **CapEx** grew 26.2% year-on-year in organic terms in the first nine months (+24.6% year-on-year in July-September) and totalled 5,738 million euros, including 192 million euros relating to spectrum acquisition (in Colombia and Central America in the first quarter), 43 million euros relating to changes in the urban qualification of real estate properties in July-September and 29 million euros corresponding to the purchase of Telefónica's headquarters in Barcelona, also in the third quarter.

Operating cash flow (OIBDA-CapEx) totalled 6,587 million euros in the first nine months, 14.4% lower year-on-year in organic terms (-18.5% reported).

Interest payments amounted to 2,117 million euros in the first nine months of 2014, 7.1% higher year-on-year, due to the greater concentration of coupon payments in the period, interest payment on a zero-coupon bond and a series of non-recurring impacts that offset lower interest payments relating to the 13.6% reduction in average debt.

Payment of taxes in the first nine months of 2014 totalled 875 million euros, which, over an income before taxes of 3,851 million euros, implied an effective tax rate of 22.7%, 3.2 percentage points lower than in the same period of 2013 mainly due to compensation of losses from previous years in 2014 and lower advanced payments year-on-year.

Working capital consumed 376 million euros in the January-September period and improved by 773 million euros compared with the first nine months of 2013 mainly due to the increase of deferred income from advanced collections in Germany, Brazil and Mexico, lower spectrum acquisition payments vs. accruals and working capital management measures (focused on factoring collections from handset sales and maintaining supplier financing). In the third quarter, working capital generation stood at 95 million euros.

Operations with minority shareholders totalled 271 million euros in January-September 2014, 36 million euros less than in the same period of 2013, mainly affected by the performance of the Brazilian real on Telefónica Brasil dividend payment and changes in the perimeter of consolidation (sale of Telefónica Czech Republic).

As a result, **free cash flow** amounted to 2,839 million euros in the first nine months.

Net financial debt stood at 41,200 million euros at the end of September 2014, down 4,181 million euros year-on-year and 2,591 million euros lower quarter-on-quarter, prior to the acquisition of E-Plus, which was completed on 1 October.

Net financial debt reduction in January-September was mainly due to the issue of equity instruments for a total amount of 3,853 million euros (including minorities from the capital increase in Germany), free cash flow generation before spectrum payments of 3,018 million euros, and proceeds of 3,136 million euros from disposals (the sale of T. Czech Republic for 2,306 million euros and the sale of T. Ireland for 830 million euros). In contrast, factors that increased debt include 2,854 million euros as remuneration of equity instruments (including the net purchase of treasury stock), the impact of 1,711 million euros from exchange rate fluctuations, in particular the implicit

devaluation of the Venezuelan bolivar (accounting for two thirds) and the average appreciation of Latin American currencies and the US dollar (one third), the payment of labour commitments mainly associated with early retirements (600 million euros), net financial investments (424 million euros), spectrum payments (179 million euros) and other factors that increased debt by 58 million euros.

Net financial debt reduction vs. June 2014 was mainly due to the issue of equity instruments for a total amount of 2,104 million euros (including minorities from the capital increase in Germany), free cash flow generation before spectrum payments of 1,197 million euros and proceeds of 830 million euros from disposals (T. Ireland). In contrast, factors that increased debt include the impact of 382 million euros from exchange rate fluctuations, the payment of labour commitments mainly associated with early retirements (141 million euros), spectrum payments (22 million euros) and other factors that increased debt by 993 million euros, including financial investments and the net purchase of treasury stock.

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The **leverage ratio (net debt over OIBDA)** for the last 12 months stood at 2.39 times and at 2.52 times¹ including post-closing events (related to the acquisition of E-Plus, the sale of 2.5% of the stake in China Unicom and the sale of the remaining 4.9% stake in O2 Czech Republic along with the changes to the Licence Agreement of the brand O2).

In the first nine months of 2014, Telefónica's **financing activity** through capital markets stood at around 13,900 million equivalent euros. This activity was mainly focused on completing the financing for the acquisition of E-Plus (via the issue of a 1,500 million euro bond mandatorily convertible into Telefónica shares and the execution of T. Deutschland capital increase), 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 September, the Group maintains a comfortable liquidity position to accommodate the next debt maturities. In Hispanoamérica, Telefónica's subsidiaries tapped financing markets for approximately 235 million equivalent euros in the January-September 2014 period. Also noteworthy is the 500 million euro bond placement by T. Deutschland in January.

T. Deutschland completed a capital increase entirely subscribed by Telefónica, S.A. and other minority shareholders, the latter increasing total Telefónica's financing amount in over 800 million euros.

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 1,633 million euros at the end of September.

Telefónica maintains total undrawn committed credit lines with different credit entities for an approximate amount of 11,500 million euros, with around 10,600 million euros maturing in more than 12 months, which, together with the cash position, increases liquidity to 23.3 billion euros (not including the payment related to the acquisition of E-Plus).

Digital Services

Third-quarter highlights in the area of the Chief Commercial Digital Officer (CCDO) include the following progress:

In **Consumer**, revenue of the **Video** business amounted to 717 million euros in the first nine months of the 2014. Year-on-year growth in organic terms accelerated for the third quarter in a row to 24% in January-September (vs. +15% January-June 2014), reflecting the higher customer base at September (+41% year-on-year organic), with Spain nearly tripling the access base at September 2013, Brazil growing by 24% and Hispanoamérica by 14%.

On the other hand, Telefónica signed in Spain a strategic agreement with Samsung, whereby its SmartTVs come integrated with the Movistar TV service, in order to make it easier for customers to configure the service and avoid the installation of additional equipment at home.

In **Financial Services**, Yaap Money was launched in Spain, a new mobile application for person-to-person money transfers, which follows Yaap Shopping customer loyalty community application, launched in the second quarter by the joint venture with CaixaBank and Santander. In Peru, the Movistar: tu dinero móvil service was extended nationwide in order to capture opportunities from the remittances business.

Global Device Management continued to drive the acceleration of the smartphone adoption, with a special focus on LTE. Thus, in the third quarter, 72% of total devices acquired by the Company were smartphones, and 30% were LTE (24% in the first nine months of the year).

¹ Includes annualized first half of 2014 OIBDA of E-Plus

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Additionally, Firefox was launched during the third quarter in Germany, Panama, Nicaragua, El Salvador and Guatemala, reaching 13 countries.

In the area of **Security** for end customers, Brazil reached 6.3 million customers as of September, (2.4 times more than in September 2013), and additional device security products were launched during the quarter in Chile and Mexico.

The number of active Evernote and Rhapsody subscribers continued to rise and reached 470 thousand and 153 thousand respectively, as a result of the **Global Partnerships** formed by the Company.

In the **Corporate (B2B)** area, **M2M** revenues stood at 146 million euros in the first nine months of the year (+44% year-on-year in organic terms), fostered by the growth of M2M accesses (+15% year-on-year organic). On the other hand, revenues from the **Cloud** business grew by 31% year-on-year in organic terms to reach 241 million euros.

In the **Information Security** area, revenues in the first nine months of 2014 stood at 75 million euros, with a year-on-year growth of 42% organic. The Company continued to improve its value proposition through the launch of **Sinfonier**, a knowledge cooperation community in security intelligence, allowing for a new communication channel between Cybersecurity organizations, companies and specialists.

Telefónica Global Resources

Telefónica Global Resources continued to drive the Company's technological transformation, with the benefits in investments and efficiency initiatives to modernise and transform the networks and systems now becoming visible, enabling the Company to differentiate its propositions in key markets.

The **Global Network and Operations unit** stepped up the UBB rollout, reaching 12.5 million premises passed with fibre at the end of September (around 2 times more than in September 2013), surpassing 16,500 base stations with LTE (2.5 times more year-on-year), with over 80% of 3G and LTE base stations connected at high speed to the transmission network. 4G coverage in Europe stands at 54%, while availability is steadily growing in Latin America, with 8 countries now in service. Additionally, regarding the expansion of network capacity, it should be highlighted:

Telefonica was the first Spanish operator to roll out LTE-A, with speeds of up to 300 Mb, doubling LTE speeds. Madrid and Barcelona are the first cities to benefit from this new technological development, which benefits all customers as it releases capacity and increases bandwidth for non-LTE-A customers. This new technology will be deployed over 2014 in the main Spanish capital cities and will be fully developed in 2015 when the 800 Mhz band becomes available.

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

This allows to anticipate the network development to the strong data traffic growth (+37% year-on-year in the third quarter), mainly driven by mobile broadband traffic (+55% year-on-year) and fixed broadband traffic (+35%

year-on-year).

Network modernisation and the benefits of scale enabled the Company to execute several initiatives around simplification, process homogenisation (processes and tools) and standardisation (requirements and specifications) that helped to improve operational efficiency. These include:

Effective implementation of the OSS transformation office, which will lead the standardisation, simplification and global optimisation of processes and support systems.

Introduction of end-to-end management of customer equipment specifications, which resulted in lower costs and faster innovation.

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The **global IT area** uses technology as a transformation driver to achieve better levels of efficiency, service and customer relationship and promotes projects focused on automation, standardisation, recycle and modernisation to enhance agility and efficiency. As an example, it should be highlighted projects related to digital capabilities and customer experience:

The new online convergent customer channel in Spain.

The launch of the first virtual assistant for Vivo customers.

Improvement of the online channel in Latin America with a unified e-commerce function.

The full digitalisation of processes such as order management in Brazil.

Additionally, this area contributes to maximise the benefits of scale through shared IT services, in order to progress towards *doing things once*, unlocking efficiencies and quality improvements. As such, there has been a boost on transforming applications and processes via Full Stack projects (in Argentina all prepay customers are managed with the new system and has already started to apply to the contract segment while work is being done with other Hispanoamérica countries) and unified convergent data warehouse has been launched through Hispanoamérica.

Finally, the strategic indicators showed continuous simplification of the IT environment:

A 10% reduction in physical servers and around 300 applications were eliminated in the first nine months, reaching in advanced the targets set for the end of 2014.

Increase of virtualised servers to 40% at the end of September (5.9 percentage points more vs. December 2013).

Three data centers were closed this year including Brazil and Argentina in the third quarter.

Definitions

2014 guidance criteria: 2014 guidance in organic terms assumes constant 2013 exchange rates (average FX in 2013), excludes Venezuela in both years and considers a constant perimeter of consolidation. OIBDA level guidance excludes write-offs, capital gains/losses from the sale of companies, tower sales and material non-recurring impacts such as restructurings, etc. CapEx also excludes spectrum acquisition and, in the third quarter of 2014, CapEx excludes changes in the urban qualification of real estate properties and the investment in Telefónica's headquarters in Barcelona.

Organic growth: Assumes constant exchange rates as of 2013 (average FX in 2013), excludes hyperinflationary accounting in Venezuela in both years and considers a 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. CapEx also excludes spectrum acquisition and, in the third quarter of 2014, CapEx excludes changes in the urban qualification of real estate properties and the investment in Telefónica's headquarters in Barcelona.

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TELEFÓNICA

ACCESSES

Unaudited figures (thousands)

	2013				2014			% Chg
	March	June	September	December	March	June	September	
Final Clients								
Accesses	309,785.3	311,331.2	314,141.6	316,759.9	306,816.6	309,332.7	309,561.4	(1.5)
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	(5.3)
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	(4.9)
Broadband	618.2	590.0	567.7	510.8	421.0	411.9	397.8	(29.9)
(4)	18,633.7	18,287.3	18,395.6	18,447.8	17,585.5	17,642.6	17,657.9	(4.0)
Other (5)	152.7	145.9	149.1	143.4	115.4	113.6	112.4	(24.6)
Mobile accesses								
Prepay (6)	247,312.0	249,460.0	252,188.1	254,717.2	247,534.1	249,428.6	249,417.9	(1.1)
Contract	164,500.5	164,550.6	165,133.3	165,557.0	161,410.9	161,299.0	160,535.5	(2.8)
M2M (7)	82,811.5	84,909.4	87,054.9	89,160.3	86,123.3	88,129.6	88,882.5	2.1
Pay TV (8)	7,142.7	7,768.0	8,175.8	8,631.8	8,307.0	8,761.2	8,957.5	9.6
Wholesale								
Accesses	3,304.5	3,327.1	3,441.2	3,602.2	3,567.1	4,191.9	4,650.0	35.1
Unbundled loops	5,866.1	6,003.2	6,173.9	6,358.5	6,327.7	6,438.6	6,585.6	6.7
Shared ULL	3,404.8	3,522.0	3,665.4	3,833.4	3,910.8	3,979.1	4,034.1	10.1
Full ULL	169.5	157.6	147.3	130.6	116.1	105.5	96.6	(34.4)
Wholesale								
ADSL	3,235.3	3,364.4	3,518.1	3,702.9	3,794.7	3,873.7	3,937.5	11.9
Other	854.7	857.6	864.0	866.9	746.8	751.3	849.5	(1.7)
Total								
Accesses	1,606.7	1,623.6	1,644.5	1,658.2	1,670.1	1,708.1	1,702.0	3.5
Total								
Accesses	315,651.4	317,334.4	320,315.5	323,118.4	313,144.3	315,771.3	316,147.0	(1.3)

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MOBILE ACCESSES

Unaudited figures (thousands)

	2013				2014			% Chg
	March	June	September	December	March	June	September	
Prepay percentage (%)	66.5%	66.0%	65.5%	65.0%	65.2%	64.7%	64.4%	(1.1 p.p.)
Contract percentage (%)	33.5%	34.0%	34.5%	35.0%	34.8%	35.3%	35.6%	1.1 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	32.2%
MBB penetration (%)	22%	25%	27%	29%	31%	33%	36%	9.0 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	38.6%
Smartphone penetration (%)	20%	24%	25%	27%	30%	32%	35%	10.0 p.p.

Note:

T. Czech Republic accesses are de-consolidated since the first quarter of 2014. T. Ireland accesses are de-consolidated since the third 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 included. Voice fixed wireless accesses 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 first quarter of 2014, 569 thousand inactive accesses were disconnected in Spain.*
- (8) In the second quarter of 2014, Pay TV accesses included 131 thousand TV Mini customers in Spain.*

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CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - September		% Chg		July - September		% Chg	
	2014	2013	Reported	Organic	2014	2013	Reported	Organic
Revenues	37,978	42,626	(10.9)	1.9	13,021	14,063	(7.4)	2.8
Internal exp. capitalized in fixed assets	536	579	(7.4)	(3.0)	195	185	5.4	8.8
Operating expenses	(26,486)	(29,290)	(9.6)	2.7	(9,058)	(9,515)	(4.8)	5.0
Supplies	(11,101)	(12,644)	(12.2)	(2.0)	(3,836)	(4,203)	(8.7)	(1.5)
Personnel expenses	(4,949)	(5,440)	(9.0)	4.3	(1,672)	(1,741)	(4.0)	7.5
Other operating expenses	(10,436)	(11,206)	(6.9)	7.2	(3,550)	(3,571)	(0.6)	11.3
Other net income (expense)	189	92	n.m.	n.m.	54	1	n.m.	n.m.
Gain (loss) on sale of fixed assets	119	103	15.2	(47.6)	61	(49)	c.s.	n.m.
Impairment of goodwill and other assets	(11)	(10)	15.9	14.8	(3)	(6)	(55.6)	(52.3)
Operating income before D&A (OIBDA)	12,325	14,100	(12.6)	0.2	4,269	4,678	(8.7)	0.8
OIBDA Margin	32.5%	33.1%	(0.6 p.p.)	(0.5 p.p.)	32.8%	33.3%	(0.5 p.p.)	(0.6 p.p.)
Depreciation and amortization	(6,291)	(7,414)	(15.1)	(4.0)	(2,128)	(2,309)	(7.8)	3.3
Operating income (OI)	6,034	6,686	(9.7)	4.5	2,141	2,370	(9.6)	(1.3)
Share of profit (loss) of investments accounted for by the equity method	(69)	(117)	(41.2)		(9)	(145)	(93.8)	
Net financial income (expense)	(2,114)	(2,129)	(0.7)		(733)	(730)	0.4	
Income before taxes	3,851	4,440	(13.3)		1,399	1,495	(6.4)	
Income taxes	(723)	(1,105)	(34.6)		(373)	(354)	5.4	
Income from continuing operations	3,128	3,335	(6.2)		1,026	1,141	(10.1)	

Non-controlling interests	(279)	(190)	46.8	(80)	(52)	52.4
Net income	2,849	3,145	(9.4)	947	1,089	(13.0)
Weighted average number of ordinary shares outstanding during the period (millions)	4,477	4,515	(0.8)	4,455	4,518	(1.4)
Basic earnings per share (euros)	0.61	0.70	(12.9)	0.20	0.24	(16.6)

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.

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

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GUIDANCE 2014

	2014			Guidance 2014
	Jan-Mar	Jan-Jun	Jan-Sep	(organic and excluding Venezuela)
Revenues (% Chg YoY)	(0.1%)	0.1%	0.4%	Positive revenue growth
OIBDA margin (Chg YoY)	(0.4 p.p.)	(0.9 p.p.)	(0.7 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%	CapEx / Sales: 15.5%-16%
Net financial debt	42,724	43,791	41,200	Guidance 2014 (reported) 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. CapEx excludes spectrum acquisition and, in the third quarter of 2014, CapEx excludes the changes in the urban qualification of real estate properties in T. España and the investment in Telefónica's headquarters in Barcelona at Group level. 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.

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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 - September			%	
	2014 Reported	2014 Organic	2013 Organic	Organic Change y-o-y	Reported Change y-o-y
Revenues	37,978	41,666	40,905	1.9	(10.9)
OIBDA	12,325	13,482	13,454	0.2	(12.6)
OIBDA margin	32.5%	32.4%	32.9%	(0.5 p.p.)	(0.6 p.p.)
Operating Income (OI)	6,034	6,956	6,655	4.5	(9.7)
CapEx	5,738	6,112	4,844	26.2	(4.7)
OpCF (OIBDA-CapEx)	6,587	7,370	8,611	(14.4)	(18.5)

	2014	2013
Reported revenues	37,978	42,626
Forex impact	3,921	
Hyperinflation in Venezuela	(232)	(288)
Changes in the consolidation perimeter		(1,432)
Organic revenues	41,666	40,905
Reported OIBDA	12,325	14,100
Forex impact	1,308	
Hyperinflation in Venezuela	(100)	(96)
Tower sales	(58)	(39)
T. Deutschland restructuring	8	
T. Ireland negative fair value adjustment		16
T. Czech Republic negative fair value adjustment		56
Hispatat disposal		(21)
Changes in the consolidation perimeter		(561)
Organic OIBDA	13,482	13,454
Reported CapEx	5,738	6,019
Forex impact	672	
Hyperinflation in Venezuela	(23)	(29)
Spectrum acquisition	(203)	(997)
Urban qualification of real estate properties	(43)	

HQ Barcelona	(29)	
Changes in the consolidation perimeter		(149)
Organic CapEx	6,112	4,844

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 as of September 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 companies disposals, tower sales and material non-recurring impacts. CapEx excludes spectrum acquisition and, in the third quarter of 2014, CapEx excludes the changes in the urban qualification of real estate properties in T. España and the investment in Telefónica's headquarters in Barcelona at Group level.*

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TELEFÓNICA

REPORTED VS. ORGANIC

Unaudited figures (Euros in millions)

	July - September			%	
	2014 Reported	2014 Organic	2013 Organic	Organic Change y-o-y	Reported Change y-o-y
Revenues	13,021	13,754	13,384	2.8	(7.4)
OIBDA	4,269	4,508	4,472	0.8	(8.7)
OIBDA margin	32.8%	32.8%	33.4%	(0.6 p.p.)	(0.5 p.p.)
Operating Income (OI)	2,141	2,399	2,430	(1.3)	(9.6)
CapEx	2,215	2,342	1,879	24.6	4.7
OpCF (OIBDA-CapEx)	2,054	2,167	2,593	(16.4)	(19.8)

	2014	2013
Reported revenues	13,021	14,063
Forex impact	823	
Hyperinflation in Venezuela	(89)	(131)
Changes in the consolidation perimeter		(548)
Organic revenues	13,754	13,384
Reported OIBDA	4,269	4,678
Forex impact	278	
Hyperinflation in Venezuela	(43)	(47)
Tower sales	(3)	(4)
T. Deutschland restructuring	8	
T. Czech Republic negative fair value adjustment		56
Changes in the consolidation perimeter		(211)
Organic OIBDA	4,508	4,472
Reported CapEx	2,215	2,116
Forex impact	209	
Hyperinflation in Venezuela	(13)	(10)
Spectrum acquisition	2	(163)
Urban qualification of real estate properties	(43)	
HQ Barcelona	(29)	
Changes in the consolidation perimeter		(64)

Organic CapEx	2,342	1,879
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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 as of September 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 companies disposals, tower sales and material non-recurring impacts. CapEx excludes spectrum acquisition and, in the third quarter of 2014, CapEx excludes the changes in the urban qualification of real estate properties in T. España and the investment in Telefónica's headquarters in Barcelona at Group level.*

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TELEFÓNICA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited figures (Euros in millions)

	September 2014	December 2013	% Chg
Non-current assets	92,917	89,597	3.7
Intangible assets	17,942	18,548	(3.3)
Goodwill	24,142	23,434	3.0
Property, plant and equipment and Investment properties	31,923	31,040	2.8
Investments accounted for by the equity method	2,841	2,424	17.2
Non-current financial assets	9,173	7,775	18.0
Deferred tax assets	6,896	6,376	8.2
Current assets	27,548	29,265	(5.9)
Inventories	1,350	985	37.1
Trade and other receivables	10,082	9,640	4.6
Current financial assets	3,163	2,117	49.4
Tax receivables	1,621	1,664	(2.6)
Cash and cash equivalents	11,246	9,977	12.7
Non-current assets classified as held for sale	86	4,882	(98.2)
Total Assets = Total Equity and Liabilities	120,465	118,862	1.3
Equity	30,619	27,482	11.4
Equity attributable to equity holders of the parent and other holders of equity instruments	23,999	21,185	13.3
Non-controlling interests	6,620	6,297	5.1
Non-current liabilities	61,847	62,236	(0.6)
Non-current interest-bearing debt	50,640	51,172	(1.0)
Non-current trade and other payables	2,061	1,701	21.2
Deferred tax liabilities	2,930	3,063	(4.4)
Non-current provisions	6,216	6,300	(1.3)
Current liabilities	27,999	29,144	(3.9)
Current interest-bearing debt	9,156	9,527	(3.9)
Current trade and other payables	15,273	15,221	0.3
Current tax payables	2,306	2,203	4.7
Current provisions	1,264	1,271	(0.6)
Liabilities associated with non-current assets held for sale		922	
Financial Data			
Net Financial debt (1)	41,200	45,381	(9.2)

Note:

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

- (1) Figures in million euros. Net financial debt in September 2014 includes: Non current interest-bearing debt + Non-current trade and other payables (1,094) + Current interest-bearing debt + current trade and other payables (114) - non-current financial assets (5,395) - current financial assets - cash and cash equivalents.*

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FREE CASH FLOW AND CHANGE IN DEBT

Unaudited figures (Euros in millions)

		January - September		
		2014	2013	% Chg
I	Cash flow from operations	11,814	13,477	(12.3)
II	Net interest payment (1)	(2,117)	(1,978)	
III	Payment for income tax	(875)	(1,152)	
A=I+II+III	Net cash provided by operating activities	8,821	10,347	(14.8)
B	Net payment for investment in fixed and intangible assets	(6,311)	(7,186)	
	Spectrum (2)	(179)	(1,305)	
C=A+B	Net free cash flow after CapEx	2,510	3,161	(20.6)
D	Net Cash received from sale of Real Estate	6	14	
E	Net payment for financial investment (3)	3,173	10	
F	Net payment for operations with minority shareholders and treasury stock (4)	(122)	1,889	
G=C+D+E+F	Free cash flow after dividends	5,567	5,074	9.7
H	Effects of exchange rate changes on net financial debt	1,711	335	
I	Effects on net financial debt of changes in consolid. and others	(325)	(419)	
J	Net financial debt at beginning of period	45,381	51,259	
K=J-G+H+I	Net financial debt at end of period	41,200	46,101	(10.6)

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: 81 million euros in Colombia, 80 million euros in Panama, 14 million euros in Brazil and 4 million euros in United Kingdom. 2013 includes the following spectrum payments: 668 million euros in United Kingdom, 526 million euros in Brazil, 69 million euros in Spain, 24 million euros in Uruguay, 8 million euros in Ireland, 6 million euros in Colombia, 4 million euros in Mexico and 1 million euros in Nicaragua.*
 - (3) In 2014 the following proceeds are included: 2,004 million euros from the disposal of T. Czech Republic; and 780 million euros from the disposal of T.Ireland. The payment of 325 million euros to DTS for the acquisition of a 22% in Mediaset is also included. In the third quarter of 2013 it includes proceeds amounting to 377 million euros from the Central American deal.*
 - (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 - September		
	2014	2013	% Chg
OIBDA	12,325	14,100	(12.6)
- CapEx accrued during the period	(5,738)	(6,019)	
- Payments related to cancellation of commitments	(600)	(547)	
- Net interest payment	(2,117)	(1,978)	
- Payment for tax	(875)	(1,152)	
- Gain (loss) on sale of fixed assets and impairment of goodwill and other assets	(108)	(94)	
- Investment In working capital and other deferred income and expenses	(376)	(1,149)	
= Net Free Cash Flow after CapEx	2,510	3,161	(20.6)
+ Net Cash received from sale of Real Estate	6	14	
- Net payment for financial investment	3,173	10	
- Net payment for operations with minority shareholders and treasury stock	(122)	1,889	
= Free Cash Flow after dividends	5,567	5,074	9.7

<i>Unaudited figures (Euros in millions)</i>	January - September		
	2014	2013	% Chg
Net Free Cash Flow after CapEx	2,510	3,161	(20.6)
+ Payments related to cancellation of commitments	600	547	
- Operations with minority shareholders	(271)	(307)	
= Free Cash Flow	2,839	3,401	(16.5)
Weighted average number of ordinary shares outstanding during the period (millions)	4,477	4,515	
= Free Cash Flow per share (euros)	0.63	0.75	(15.8)

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

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NET FINANCIAL DEBT PLUS COMMITMENTS

Unaudited figures (Euros in millions)

	September 2014
Long-term debt (1)	51,734
Short term debt including current maturities (2)	9,270
Cash and cash equivalents	(11,246)
Short and Long-term financial investments (3)	(8,558)
A Net Financial Debt	41,200
Gross commitments related to workforce reduction (4)	3,964
Value of associated Long-term assets (5)	(787)
Taxes receivable (6)	(1,267)
B Net commitments related to workforce reduction	1,910
A + B Total Debt + Commitments	43,109
Net Financial Debt / OIBDA (7)	2.39x

- Nota:

2014 reported figures include the hyperinflationary adjustments in Venezuela.

- (1) Includes Non current interest-bearing debt and 1,094 million euros of Non-current trade and other payables .*
- (2) Includes Current interest-bearing debt and 114 million euros of Other current payables .*
- (3) Includes Current financial assets and 5,395 million euros of Non-current financial assets .*
- (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 - Sep	Jan - Sep	September	December
	2014	2013	2014	2013
USA (US Dollar/Euro)	1.355	1.316	1.258	1.379
United Kingdom (Sterling/Euro)	0.812	0.852	0.777	0.834
Argentina (Argentinean Peso/Euro)	10.792	6.936	10.607	8.993
Brazil (Brazilian Real/Euro)	3.097	2.777	3.084	3.231
Chile (Chilean Peso/Euro)	759.994	641.968	754.000	723.490
Colombia (Colombian Peso/Euro)	2,629.282	2,438.959	2,544.283	2,657.292
Costa Rica (Colon/Euro)	738.007	665.336	686.342	700.280
Guatemala (Quetzal/Euro)	10.527	10.322	9.653	10.814
Mexico (Mexican Peso/Euro)	17.770	16.677	16.903	18.045
Nicaragua (Cordoba/Euro)	34.958	32.341	33.060	34.935
Peru (Peruvian Nuevo Sol/Euro)	3.804	3.517	3.635	3.857
Uruguay (Uruguayan Peso/Euro)	31.013	26.410	31.036	29.498
Venezuela (Bolívar Fuerte/Euro) (3)	15.100	8.508	15.100	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 Bolívar Fuerte/Euro. In the January-September 2014 period the exchange rate is based on the SICAD-I USD auction system.*

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NET DEBT STRUCTURE BY CURRENCY

Unaudited figures

	September 2014			
	EUR	LATAM	GBP	USD
Net debt structure by currency	76%	15%	6%	3%

TOTAL FINANCIAL LIABILITIES BREAKDOWN

Unaudited figures

	September 2014		
	Bonds and commercial paper	Debt with financial institutions	Other financial debt (including governments) and net derivatives
Total financial liabilities	79%	18%	3%

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	8/6/2012

(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
RES AND						

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	10-Feb-14	500	EUR	Telefonica Deutschland	2.375%	10-Feb-21	XS102
	26-Mar-14	200	EUR	Telefónica Emisiones SAU	Euribor 3M + 0.650%	26-Mar-16	XS104
	27-Mar-14	47,000	CLP	Telefónica Chile S.A.	5.750%	14-Mar-19	B
	10-Apr-14	200	EUR	Telefónica Emisiones SAU	Euribor 3M + 0.750%	10-Apr-17	XS105
	27-May-14	1,250	EUR	Telefónica Emisiones SAU	2.242%	27-May-22	XS106
	4-Jun-14	100	EUR	Telefónica Emisiones SAU	Euribor 3M + 0.750%	10-Apr-17	XS105
	23-Jun-14	500	USD	Telefónica Emisiones SAU	Libor 3M + 0.650%	23-Jun-17	US8793
able bond (Italia) atorily into new ing shares ca, S.A	24-Jul-14	750	EUR	Telefónica S.A.	6.000%	24-Jul-17	XS109
	24-Sep-14	1,500	EUR	Telefónica Participaciones, S.A.U.	4.900%	25-Sep-17	XS111
	17-Oct-14	800	EUR	Telefónica Emisiones, S.A.U.	2.932%	17-Oct-29	XS112
	Issue date	Amount (m)	Currency	Issuer	Coupon	First Call date	ISIN
NO DEEPLY NATED TE ES							
d	31-Mar-14	750	EUR	Telefonica Europe BV	5.000%	31-Mar-20	XS105
d	31-Mar-14	1,000	EUR	Telefonica Europe BV	5.875%	31-Mar-24	XS105
	Signing date	Amount	Currency	Borrower	Maturity date		
C-BEARING							
facility	18-Feb-14	3,000	EUR	Telefónica S.A.	18-Feb-19		
an	19-Mar-14	125	EUR	Telefónica S.A.	19-Mar-19		
an on	13-Jun-14	185	EUR	Telefónica S.A.	13-Jun-19		
an	25-Jun-14	50	EUR	Telefónica S.A.	25-Jun-18		
an	26-Jun-14	2,000	EUR	Telefónica S.A.	26-Jun-17		

* Reference number of Bolsa de Comercio de Santiago

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02

TELEFÓNICA ESPAÑA

Telefónica España's results showed a gradual revenue trend stabilisation in the third quarter (-6.6% year-on-year, +2.5 percentage points quarter-on-quarter) and a sequential improvement in profitability, with 1.2 percentage point OIBDA margin expansion, reflecting the positive impact of the higher commercial activity that begun in the second quarter and the lower customer churn.

Commercial intensity increased in the quarter despite summer seasonality and was especially remarkable in value services, key growth levers. Net additions stood at 208 thousand fibre accesses (160 thousand in the second quarter), 370 thousand Pay TV accesses (348 thousand in the previous quarter) and 95 thousand mobile contract customers (28 thousand in the second quarter). This clear commercial acceleration is based on a differential offer in terms of quality and value, which continues to lead the market despite the high intensity of the competition.

As a result, at the end of September 2014 the higher-value customer base showed stability or growth year-on-year. As such, the pay TV customer base was 2.6 times larger than last year, fixed broadband accesses grew 1% underpinned by an increase of 2.2 times year-on-year in fibre customers, and mobile contract base remained virtually stable (-1% year-on-year), excluding the disconnection of inactive M2M accesses in the first quarter.

In this context and targeting to increase the value premium and continuing to lead the market, Movistar refreshed its service portfolio, multiplying mobile data allowance and introducing new value-added services.

The Movistar Fusión TV convergent portfolio was modified on 18 September, with no increase in prices, and the main mobile line now including: i) 500 MB of 4G data in the Movistar Fusión TV Contigo packages, ii) 2 GB of 4G data in the superior Movistar Fusión TV packages. Additional mobile lines also increased 4G mobile data allowance to 2 GB for 25 euros/month, VAT included.

Mobile contract tariffs were renewed on 1 October with the launch of the Vive portfolio, aimed at increasing the appeal of the offer and better responding to the needs of mobile-only customers, thus strengthening the Company's competitive position in this segment.

All the tariffs include 4G service and have no permanence commitment; i) Vive 11 : calls at zero cents per minute (18.15 cents call connection fee) and 800 MB of data for 11 euros/month; ii) Vive 22 : 200 minutes of calls and 1.1 GB for 22 euros/month; iii) Vive 30 : unlimited voice calls and SMS and 2 GB for 30 euros/month; iv) Vive 43 : unlimited voice calls and SMS, 4 GB and up to 3 additional MultiSIM cards for different mobile devices and 12 months free access to Nubico Premium (virtual library) for 43 euros/month. The monthly prices include VAT.

Telefónica España had 41.2 million **accesses** at the end of September 2014, down 2% year-on-year (a slight improvement on the 3% decline at the end of June). Furthermore, over half of the year-on-year decline in accesses is associated with the disconnection of 569 thousand inactive M2M mobile contract accesses in the first quarter of 2014.

Movistar Fusión with a customer base of 3.6 million and 1.4 million additional mobile lines, maintained solid year-on-year growth, representing 70% of fixed broadband base and 55% of mobile contract in the consumer segment, while the percentage of gross additions in the quarter who added new services reached a new high of 78% (77% in the previous quarter). It is worth noting that the additional value of the new convergent portfolio (including IPTV services in packages from 60 euros/month) continued to attract customers to the higher value offers. As a result, the percentage of quarterly gross additions of **Movistar Fusión TV** opting for packages of 60 euros/month or higher continued to grow, reaching 67% in the quarter (+6 percentage points compared with prior quarter).

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Also noteworthy were the sequential improvement in both *Fusión* churn (-0.1 percentage points to 1.0%) and ARPU (69.7 euros in the third quarter compared with 68.8 euros in the second), explained by the higher value generated by repositionings in the new offer (476 thousand customers in the quarter) and the renewal of their 12 month commitment.

Retail fixed telephony accesses (-6% year-on-year compared with September 2013) posted a net loss of 120 thousand accesses in the quarter (-168 thousand in the second quarter), the lowest since the launch of *Movistar Fusión* (in the last quarter of 2012) thanks to the lower level of churn.

Retail broadband accesses (5.9 million at the end of September) grew by 1% year-on-year, with net additions of 11 thousand accesses in the third quarter, higher than in April-June, as a result of the increase in fibre and the reduction in churn (1.4%, -0.1 percentage points quarter-on-quarter and year-on-year).

Fibre customer growth accelerated in the quarter, despite summer seasonality, with net additions of 208 thousand accesses (+30% compared with the second quarter, 3.3 times higher than the figure in the third quarter of 2013) and accesses connected more than doubling year-on-year to reach 1.1 million (including 183 thousand 10 Mb fibre customers).

Customers with 100 Mb fibre speed, who have higher ARPU (currently a 10 euros price premium, 12 euros with VAT) and lower churn (0.5 times) compared with ADSL customers, totalled 886 thousand accesses and posted a higher growth with 95 thousand net additions in the quarter (89 thousand in the previous quarter).

The intense pace of fibre deployment continued to accelerate, reaching 1.4 million premises passed in the last three months (1.3 million in April-June) to total 8.8 million premises passed at the end of September. The target for 2014 is maintained at 10 million premises passed.

Pay TV accesses reached 1.6 million (2.6 times higher compared with September 2013), reflecting the strong adoption of *Movistar TV*, key differentiation lever of the refreshed convergent offer. In the third quarter, net additions totalled 370 thousand accesses, exceeding the number in the second quarter (348 thousand). Also noteworthy is the significant reduction in churn (1.0%; -2.2 percentage points year-on-year and -1.3 percentage points quarter-on-quarter), which is at an historic low.

Total **mobile accesses** stood at 17.7 million, down 9% compared with September 2013, impacted by the disconnection in the first quarter of inactive M2M mobile contract accesses mentioned above.

It should be highlighted the improved contract base performance, with 95 thousand net additions (28 thousand in the previous quarter), the largest figure since the second quarter of 2011, mainly driven by churn reduction and the positive performance of gross additions (+13.1% year-on-year). Consequently, the net additions of the first nine months of the year reverted the negative trend turning positive again (+20 thousand accesses), and the total contract base remained virtually stable year-on-year (-1%), excluding the impact of inactive M2M disconnections.

The better performance of contract accesses is mainly due to the ongoing improvement in churn (1.5% in the quarter, excluding M2M, -0.2 percentage points quarter-on-quarter; -0.4 year-on-year) and the reduction in the net portability balance since the launch of the new convergent offer (-106 thousand accesses in the quarter, improving 16% on the previous quarter and 50% year-on-year).

75% of mobile voice customers in the consumer segment have already migrated to *Fusión* or the new mobile tariffs launched in 2013 (71% in the previous quarter).

In addition, the more attractive contract portfolio launched in October will contribute to improve the positive trend of the mobile-only customer segment.

Smartphone penetration stood at 57% (+9 percentage points than in September 2013), and significantly boosted **data traffic** growth to 25% year-on-year in the quarter (+13% in the previous quarter). LTE network rollout continued to progress well and coverage reached 50% of the population at the end of September 2014.

Mobile ARPU is becoming less representative of the business performance as *Movistar Fusión* penetration increases, owing to the allocation of revenue between the fixed and mobile businesses and the changes in the offer. In July-September 2014 mobile ARPU declined by 7.6% year-on-year (-11.5% in the first nine months of 2014). The lower decline compared with the previous quarter (-13.4% year-on-year) is due to the positive impact of the now like-for-like comparison of the termination rate cut in July 2013 (-60%) and the improved performance of contract customers.

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Revenues totalled 8,985 million euros in January-September 2014, and 2,993 million euros in the third quarter, remaining stable in absolute terms compared with the two prior quarters at around 3,000 million euros.

Revenues fell by 6.6% year-on-year in the third quarter (-8.0% in January-September), with the year-on-year change improving by 2.5 percentage points compared with the second quarter. This performance is due to the improved commercial activity, the lower impact of customer repositioning, the like-for-like comparison of the mobile termination rate cut since 1 July, and the higher growth in revenues from handset sales.

Revenue breakdown, as with ARPU, is becoming increasingly less relevant given the high penetration level of the convergent offer. However:

Fixed business revenues (6,318 million euros) in the first nine months of 2014 fell 4.5% year-on-year, with the pace of year-on-year decline easing in the quarter (-2.5%) mainly due to the improved performance of broadband and new services revenues (fibre, pay TV, data and IT).

Mobile business revenues (3,418 million euros) declined 12.3% compared with January-September 2013 and also improve its pace of decline in the quarter (-11.4%) driven by the performance of the customer base and the like-for-like comparison of the mobile termination rate cut.

Operating expenses amounted to 5,183 million euros in the first nine months of the year, down 1.4% year-on-year, reflecting the savings generated by the various efficiency initiatives implemented and ongoing cost control, and despite the more intense commercial effort focused on high value customers. In the third quarter, expenses increased by 3.2% year-on-year and changed their trend compared with the previous quarter primarily due to the lower decline in interconnection costs, the higher content and handset costs, and the ending of personnel efficiencies. Breakdown by component:

Supplies (1,880 million euros) increased 2.8% compared with January-September 2013, mainly reflecting higher spending on handsets and TV content. These costs grew 16.9% year-on-year in the quarter, owing to a higher TV content cost and the negative impact of the comparison of the mobile termination rate cut (-60% on 1 July 2013 and zero in July 2014).

Personnel expenses (1,601 million euros) declined 0.2% year-on-year in the first nine months of 2014, mainly on the back of the savings related to the redundancy programme ended in 2013 (83 million euros) and the temporary removal of the Company's contribution to the pension plan that began in April 2013 and ended on 1 July 2014 (28 million euros).

In the third quarter these expenses rose by 4.5% year-on-year, due to the resumption of the Company's contribution to the pension plan (19 million euros in the quarter), which was temporarily suspended in previous quarters, and the lower year-on-year savings from the redundancy programme (19 million euros). At the end of September, Telefónica España's headcount totalled 29,818 employees (-1.3% year-on-year).

Other operating expenses (1,702 million euros) increased the pace of decline in the quarter to 10.9% year-on-year (-6.8% year-on-year in the first nine months), 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 4,121 million euros in January-September 2014 (-13.0% year-on-year; -14.4% in the quarter), impacted by the higher Company's commercial effort to capture the growth and value opportunity in the market.

In organic terms (excluding the sale of non-strategic towers for 54 million euros in the first half of 2014), OIBDA fell 14.2% year-on-year in the first nine months, though the pace of decline eased sequentially in the third quarter (-14.4% year-on-year; -16.5% in the second quarter) as a result of the improved revenue performance.

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Thus, **OIBDA margin** stood at 46.0% in the third quarter (-4.2 percentage points year-on-year), with an expansion of 1.2 percentage points quarter-on-quarter. In January-September the margin stood at 45.9% (-3.3 percentage points year-on-year in organic terms).

CapEx amounted to 1,186 million euros in the first nine months of 2014, up 30.5% year-on-year, affected in 2013 by the booking of 69 million euros for the extension of the spectrum license for the 900 MHz (65 million euros in the second quarter and 4 million euros in the third), and by 43 million euros in the third quarter of 2014 related to changes in the urban qualification of real estate properties. Excluding these impacts, in organic terms, CapEx increased by 36.0% year-on-year in the first nine months of 2014, reflecting 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 enhance its leadership in quality.

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TELEFÓNICA ESPAÑA

ACCESSES

Unaudited figures (Thousands)

	2013				2014			% Chg
	March	June	September	December	March	June	September	
Final Clients								
Accesses	38,196.6	37,695.5	37,171.2	36,663.6	35,588.4	35,702.4	35,845.3	(3.6)
Fixed telephony								
accesses (1)	11,587.2	11,420.3	11,261.3	11,089.8	10,883.9	10,715.4	10,595.2	(5.9)
Naked ADSL	22.9	22.5	22.4	22.8	22.1	21.9	21.9	(2.3)
Internet and data								
accesses	5,830.2	5,860.5	5,872.6	5,899.0	5,909.5	5,913.8	5,920.9	0.8
Narrowband	53.2	50.2	46.1	38.5	35.9	39.0	35.9	(22.2)
Broadband (2)	5,761.7	5,795.6	5,812.3	5,846.8	5,860.3	5,862.0	5,872.7	1.0
Fibre	372.0	430.9	494.0	593.7	701.3	861.0	1,068.9	116.4
Other (3)	15.3	14.7	14.3	13.7	13.3	12.8	12.3	(13.7)
Mobile accesses	20,119.3	19,782.3	19,428.0	19,002.1	18,064.7	17,863.6	17,749.7	(8.6)
Prepay	4,966.5	4,769.5	4,560.0	4,262.7	3,996.7	3,767.8	3,559.2	(21.9)
Contract	15,152.7	15,012.8	14,867.9	14,739.3	14,068.0	14,095.8	14,190.5	(4.6)
M2M (4)	1,927.2	1,961.3	1,979.4	1,991.3	1,446.6	1,491.9	1,566.9	(20.8)
Pay TV (5)	659.9	632.5	609.3	672.7	730.3	1,209.5	1,579.4	159.2
Wholesale								
Accesses	4,502.0	4,626.5	4,792.2	4,990.1	5,150.3	5,238.0	5,309.0	10.8
WLR (6)	485.9	488.6	506.6	525.8	541.7	556.0	564.0	11.3
Unbundled loops	3,358.1	3,475.3	3,619.0	3,787.1	3,910.8	3,979.1	4,034.1	11.5
Shared ULL	169.5	157.6	147.3	130.6	116.1	105.5	96.6	(34.4)
Full ULL (7)	3,188.6	3,317.6	3,471.7	3,656.5	3,794.7	3,873.7	3,937.5	13.4
Wholesale ADSL	657.6	662.2	666.2	676.8	697.5	702.5	710.6	6.7
Other (8)	0.4	0.4	0.4	0.4	0.4	0.3	0.3	(25.2)
Total Accesses	42,698.6	42,322.0	41,963.3	41,653.6	40,738.7	40,940.4	41,154.3	(1.9)

TELEFÓNICA ESPAÑA

MOBILE ACCESSES

Unaudited figures (thousands)

	2013				2014			% Chg
	March	June	September	December	March	June	September	
Prepay percentage (%)	24.7%	24.1%	23.5%	22.4%	22.1%	21.1%	20.1%	(3.4 p.p.)
Contract percentage (%)	75.3%	75.9%	76.5%	77.6%	77.9%	78.9%	79.9%	3.4 p.p.
MBB accesses (000)	7,888.8	8,375.8	8,486.8	8,761.5	9,055.8	9,271.7	9,259.0	9.1%
MBB penetration (%)	39%	42%	44%	46%	50%	52%	52%	8.5 p.p.
Smartphones (000)	7,230.7	7,841.8	8,027.3	8,382.6	8,738.2	8,989.7	9,008.8	12.2%
Smartphone penetration (%)	41%	45%	47%	50%	54%	56%	57%	9.3 p.p.

TELEFÓNICA ESPAÑA

FUSIÓN ACCESSES

Unaudited figures (thousands)

	2013				2014			% Chg
	March	June	September	December	March	June	September	
Fusión Customers	1,733.7	2,190.7	2,566.2	2,916.3	3,221.3	3,389.3	3,557.5	38.6
Mobile add-ons	704.2	864.6	1,012.2	1,139.9	1,245.0	1,303.6	1,352.9	33.7

(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 - September		% Chg		July - September		% Chg	
	2014	2013	Reported	Organic	2014	2013	Reported	Organic
Revenues	8,985	9,763	(8.0)	(8.0)	2,993	3,204	(6.6)	(6.6)
Revenues ex-handset revenues	8,523	9,402	(9.3)	(9.3)	2,848	3,104	(8.2)	(8.2)
Wireless Business	3,418	3,896	(12.3)	(12.3)	1,118	1,261	(11.4)	(11.4)
Mobile service revenues	2,956	3,534	(16.4)	(16.4)	974	1,161	(16.1)	(16.1)
Data revenues	1,129	1,212	(6.8)	(6.8)	379	405	(6.5)	(6.5)
Handset revenues	462	361	27.7	27.7	144	100	44.1	44.1
Wireline Business	6,318	6,618	(4.5)	(4.5)	2,134	2,190	(2.5)	(2.5)
FBB and new services (1)	3,227	3,198	0.9	0.9	1,115	1,060	5.2	5.2
Voice & access revenues	2,694	3,078	(12.5)	(12.5)	876	1,000	(12.4)	(12.4)
Other	397	341	16.3	16.3	144	130	10.9	10.9
Internal expenditure capitalized in fixed assets	224	199	12.4	12.4	73	56	29.3	29.3
Operating expenses	(5,183)	(5,257)	(1.4)	(1.4)	(1,714)	(1,662)	3.2	3.2
Supplies	(1,880)	(1,828)	2.8	2.8	(644)	(551)	16.9	16.9
Personnel expenses	(1,601)	(1,604)	(0.2)	(0.2)	(544)	(521)	4.5	4.5
Other operating expenses	(1,702)	(1,826)	(6.8)	(6.8)	(525)	(589)	(10.9)	(10.9)
Other net income (expense)	29	20	45.8	45.8	15	5	n.m.	n.m.
Gain (loss) on sale of fixed assets	67	16	n.m.	(21.1)	11	6	95.2	95.2
Impairment of goodwill and other assets	(1)	(4)	(73.8)	(73.8)	(1)	(2)	(43.8)	(43.8)
Operating income before D&A (OIBDA)	4,121	4,736	(13.0)	(14.2)	1,376	1,607	(14.4)	(14.4)
OIBDA Margin	45.9%	48.5%	(2.7 p.p.)	(3.3 p.p.)	46.0%	50.2%	(4.2 p.p.)	(4.2 p.p.)
CapEx (2)	1,186	909	30.5	36.0	484	282	71.3	58.4
Spectrum	0	69	n.m.	n.m.	0	4	n.m.	n.m.
OpCF (OIBDA-CapEx) (2)	2,934	3,827	(23.3)	(25.0)	892	1,325	(32.7)	(29.6)

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 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		Q3	% Chg Local Cur
	Q3	Q4	Q1	Q2		
Voice Traffic (Million minutes)	8,647	8,768	8,588	8,988	8,992	4.0
Data traffic (TB)	14,581	13,579	14,058	15,197	18,295	25.5
ARPU (EUR) (1)	17.4	16.4	16.1	16.0	16.0	(7.6)
Prepay	7.5	6.5	6.3	6.0	6.6	(11.0)
Contract (2)	23.4	22.3	21.0	20.8	20.6	(12.0)
Data ARPU (EUR) (1)	6.9	6.8	6.9	6.9	7.1	3.0
% non-SMS over data revenues	92.4%	93.8%	94.8%	95.4%	94.5%	2.2 p.p.
Churn (1)	2.1%	2.3%	3.5%	2.0%	1.8%	(0.3 p.p.)
Contract (2)	1.9%	2.0%	2.2%	1.7%	1.5%	(0.4 p.p.)

	2013		2014		Jan-Sep	% Chg Local Cur
	Jan-Sep	Jan-Dec	Jan-Mar	Jan-Jun		
Voice Traffic (Million minutes)	25,659	34,428	8,588	17,575	26,567	3.5
Data traffic (TB)	41,011	54,590	14,058	29,255	47,549	15.9
ARPU (EUR) (1)	18.1	17.7	16.1	16.0	16.0	(11.5)
Prepay	7.5	7.3	6.3	6.1	6.3	(15.9)
Contract (2)	24.5	24.0	21.0	20.9	20.8	(15.3)
Data ARPU (EUR) (1)	6.7	6.8	6.9	6.9	7.0	3.2
% non-SMS over data revenues	91.6%	92.1%	94.8%	95.1%	94.9%	3.3 p.p.
Churn (1)	2.2%	2.2%	3.5%	2.8%	2.5%	0.3 p.p.
Contract (2)	2.0%	2.0%	2.2%	1.9%	1.8%	(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 outbound and inbound (1TByte = 10¹² bytes). 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 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 the third quarter, Telefónica UK posted a consistent strong set of results on the back of the solid customer growth (both prepay and contract), which has been underpinned by the strength of the O2 brand, successful commercial propositions and customer loyalty. Together with signs of ARPU stabilisation vs. previous quarters, total revenue continued to grow year-on-year excluding the impact of O2 Refresh .

The Company continued expanding LTE coverage (49% outdoor coverage as of September) and upgrading its high value customers to improve network experience and customer satisfaction.

Total accesses totalled 24.3 million at the end of the third quarter, a growth of 3% year-on-year and it is worth highlighting:

The **mobile contract customer base** grew 6% year-on-year as of September (consistent with June) to account for 56% of the mobile base, a 2 percentage points increase year-on-year. **Total mobile accesses** reached 24.1 million (+3% year-on-year).

Contract net additions, excluding M2M, totalled 189 thousand in the third quarter (209 thousand including M2M), and grew 28% year-on-year and 34% quarter-on-quarter as a result of the launch of new devices in the quarter coupled with handset apathy in the market in the first half. Excluding the first quarter of 2014 (impacted by low level of trading in the market), this is the 11th quarter where Telefónica UK posted consistent contract base growth.

Prepay net additions in July to September period totalled 110 thousand due to the continued success of the new set of tariffs launched in May (Big Bundles). This contributed to a **total quarterly net additions** of 319 thousand (+5% year-on-year), the strongest figure over the past two years. In the nine months to September, total net additions reached 436 thousand (542 thousand in the contract segment).

Contract churn excluding M2M remained at record market leading levels of 1.0% in the third quarter and in the first nine months of the year, improving 0.1 percentage points year-on-year in both periods, demonstrating customers loyalty to the Company s unique propositions.

Smartphone penetration reached 50% (+2 percentage points year-on-year) with the base totalling 10.8 million accesses at the end of the September.

Data traffic increased 66% year-on-year vs. the first nine months of 2013 and accelerated its growth to 76% in the third quarter thanks to the increased smartphone penetration and higher usage per customer.

ARPU¹ in the third quarter posted an improving trend year-on-year excluding O2 Refresh, declining 1.4% vs. -2.6% in the second and -5.3% in the first. In January-September, ARPU was 3.1% down vs. the same period of 2013 excluding O2 Refresh.

Revenue accelerated its growth to 2.3% year-on-year in the third quarter, excluding the impact of O2 Refresh (+0.9% in the second; -6.3% in the first), thanks to improving mobile service revenues, and growing handset revenues as trading increased in the quarter. In the nine months to September, the year-on-year decline was limited to 1.1% excluding O2 Refresh. Revenue reached 5,149 million euros (-0.8% year-on-year in the first nine months and -2.3% in the third quarter), with the impact of O2 Refresh unwinding year-on-year from the second quarter due to its anniversary on 16th April 2014.

Mobile service revenue continued to show improvement, and excluding the impact of Refresh, returned to growth year-on-year (+1.1%) in the July-September period (-0.1% in April-June and -2.7% in January-March) benefiting from the stabilisation of prices and the steady increase of the mobile base. Mobile service revenues totalled 4,036 million euros in the first nine months of 2014 (-6.7% year-on-year) and strengthened its performance in the third quarter to -5.5% year-on-year (-6.7% year-on-year in the second 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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Data revenue was up 2.4% year-on-year in the third quarter (+1.6% year-on-year in the first nine months), driven by the continued positive performance of non-SMS data revenue (+18.8% vs. the third quarter of 2013). As such, non-SMS data revenue increased its year-on-year weight over total data revenues by 8 percentage points to account for 58% of data revenue in the first nine months. As a result, data revenue represented 57% of mobile service revenues in January September period (+5 percentage points year-on-year).

Operating expenses reached 3,995 million euros in the first nine months of the year, 2.7% lower than in the same period of the last year, but remained broadly flat in the third quarter (+0.1% year-on-year).

Supplies (2,544 million euros) fell 1.3% year-on-year in the three months to September as higher handset volumes from the improved trading in the quarter were more than offset by lower termination costs. In the first nine months, supplies declined 3.6% year-on-year as there was a positive non-recurrent impact of 24 million euros in the first quarter of 2014 (true-up of past commissions).

Personnel expenses totalled 340 million euros and declined 5.7% year-on-year in the third quarter due to the benefits of outsourcing the customer service. The performance in the first nine months (-24.4% 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 9.4% year-on-year in the nine months to September to reach 1,111 million euros (+5.8% year-on-year in the third quarter) due to the outsourcing of customer service activities.

OIBDA reached 1,287 million euros in the first nine months of the year (+2.6% year-on-year). The third quarter performance (+2.7%) was positively impacted by a non-recurrent upside (34 million euros) primarily due to the final settlement relating to the disposal of fixed business assets in the second quarter of 2013. Excluding this impact, OIBDA in the third quarter declined 4.8% year-on-year. OIBDA was also affected by the unwinding of O2 Refresh (gradual annualisation of the impact from the acceleration in the accounting of handset sales).

This resulted in an **OIBDA margin** of 26.7% in the third quarter (-0.7 percentage points year-on-year excluding exceptional items mentioned above) as improving business performance continued to absorb the negative contribution of O2 Refresh to year-on-year growth (-4.0 percentage points impact in the third quarter; -1.0 percentage points in the second quarter). In the first nine months of 2014, OIBDA margin reached 25.0%.

CapEx amounted to 574 million euros in the first nine months, 4.8% more than in the same period of the prior year excluding spectrum mainly due to focus on network quality and LTE expansion.

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TELEFÓNICA UK

ACCESSES

Unaudited figures (Thousands)

	2013				2014			% Chg
	March	June	September	December	March	June	September	
Final Clients								
Accesses	23,814.0	23,326.8	23,639.5	23,872.0	23,803.9	24,001.3	24,324.5	2.9
Fixed telephony								
accesses (1)	384.5	192.7	198.7	208.2	211.4	217.9	221.5	11.5
Internet and data								
accesses	519.4	10.4	13.6	14.8	16.4	16.8	17.8	30.5
Broadband	519.4	10.4	13.6	14.8	16.4	16.8	17.8	30.5
Mobile accesses	22,910.1	23,123.7	23,427.2	23,649.0	23,576.1	23,766.6	24,085.2	2.8
Prepay	10,758.0	10,680.0	10,764.7	10,764.7	10,556.7	10,548.6	10,658.4	(1.0)
Contract	12,152.1	12,443.7	12,662.4	12,884.3	13,019.4	13,218.0	13,426.7	6.0
M2M	1,750.5	1,872.3	1,943.3	1,974.5	2,038.0	2,096.1	2,116.2	8.9
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	2.7

TELEFÓNICA UK

MOBILE ACCESSES

Unaudited figures (thousands)

	2013				2014			% Chg
	March	June	September	December	March	June	September	
Prepay								
percentage								
(%)	47.0%	46.2%	45.9%	45.5%	44.8%	44.4%	44.3%	(1.7 p.p.)
Contract								
percentage								
(%)	53.0%	53.8%	54.1%	54.5%	55.2%	55.6%	55.7%	1.7 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	6.5%

MBB penetration (%)	45%	45%	45%	46%	47%	46%	47%	1.6 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	6.7%
Smartphone penetration (%)	47%	48%	48%	49%	50%	50%	50%	2.1 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 - September		% Chg		July - September		% Chg	
	2014	2013	Reported	Organic	2014	2013	Reported	Organic
Revenues	5,149	4,950	4.0	(0.8)	1,805	1,717	5.1	(2.3)
Mobile service revenues	4,036	4,123	(2.1)	(6.7)	1,389	1,365	1.7	(5.5)
Data revenues	2,315	2,172	6.6	1.6	794	720	10.3	2.4
Handset revenues and other	1,113	827	34.6	28.3	416	352	18.3	10.3
Internal expenditure								
capitalized in fixed assets	83	81	2.4	(2.3)	33	27	19.9	11.8
Operating expenses	(3,995)	(3,913)	2.1	(2.7)	(1,405)	(1,305)	7.7	0.1
Supplies	(2,544)	(2,516)	1.1	(3.6)	(924)	(871)	6.1	(1.3)
Personnel expenses	(340)	(428)	(20.7)	(24.4)	(115)	(113)	1.7	(5.7)
Other operating expenses	(1,111)	(968)	14.7	9.4	(366)	(321)	14.0	5.8
Other net income (expense)	2	0	n.m.	n.m.	1	0	n.m.	n.m.
Gain (loss) on sale of fixed assets	58	76	(23.8)	(27.4)	49	(1)	n.m.	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)	1,287	1,195	7.7	2.6	482	438	10.2	2.7
OIBDA Margin	25.0%	24.1%	0.9 p.p.		26.7%	25.5%	1.2 p.p.	
CapEx	574	1,238	(53.7)	4.8	198	167	18.8	9.6
Spectrum	0	716	n.m.	n.m.	0	(1)	c.s.	c.s.
OpCF (OIBDA-CapEx)	713	(43)	c.s.	1.0	284	271	4.9	(1.6)

*Note:**OIBDA and OI before management and brand fees.*

TELEFÓNICA UK

SELECTED OPERATING MOBILE BUSINESS DATA

Unaudited figures

2013

2014

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	Q3	Q4	Q1	Q2	Q3	% Chg Local Cur
Voice Traffic (Million minutes)	12,196	12,238	11,973	12,361	12,252	0.5
Data traffic (TB)	13,767	14,684	15,978	20,550	24,199	75.8
ARPU (EUR)	19.4	19.0	18.5	18.9	19.3	(7.9)
Prepay	7.5	7.4	7.0	7.3	7.6	(6.2)
Contract (1)	34.7	33.6	32.8	33.3	33.7	(9.8)
Data ARPU (EUR)	10.3	10.3	10.6	10.9	11.1	(0.3)
% non-SMS over data revenues	50.5%	50.1%	56.5%	58.0%	58.5%	8.0 p.p.
Churn	2.3%	2.2%	2.1%	1.8%	1.9%	(0.4 p.p.)
Contract (1)	1.1%	1.1%	1.1%	1.0%	1.0%	(0.1 p.p.)

	2013			2014		% Chg Local Cur
	Jan-Sep	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sep	
Voice Traffic (Million minutes)	36,241	48,479	11,973	24,334	36,587	1.0
Data traffic (TB)	36,635	51,319	15,978	36,528	60,727	65.8
ARPU (EUR)	19.8	19.6	18.5	18.7	18.9	(9.1)
Prepay	7.7	7.7	7.0	7.2	7.3	(10.1)
Contract (1)	35.4	35.0	32.8	33.0	33.3	(10.5)
Data ARPU (EUR)	10.5	10.4	10.6	10.7	10.8	(1.3)
% non-SMS over data revenues	49.9%	50.0%	56.5%	57.3%	57.7%	7.7 p.p.
Churn	2.3%	2.3%	2.1%	2.0%	1.9%	(0.4 p.p.)
Contract (1)	1.1%	1.1%	1.1%	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 outbound and inbound (1TByte = 10¹² bytes). 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 also included. Traffic volume non rounded.

(1) Excludes M2M.

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TELEFÓNICA DEUTSCHLAND

In the third quarter of 2014, Telefónica Deutschland kept positive momentum, mainly in the mobile contract segment as a result of its focused strategy on data monetisation. This was achieved in a more competitive environment driven by increasing demand for LTE and handset offers. Operating revenues largely stabilised year-on-year, with mobile service revenues showing a further improvement of year-on-year trend.

On August 29, 2014, the Company received the final clearance of the European Commission for the acquisition of the E-Plus Group and the final closing of the transaction was October 1, 2014, from where E-Plus is to be incorporated into Telefonica Deutschland. The new Company aims to become the leading Digital Telco in Germany and expects to deliver a net present value of more than 5 billion euros in synergies, primarily from the network, customer service, overheads and additional revenue-generating opportunities.

Telefónica Deutschland's **total access base** stood at 25.3 million at the end of September, virtually flat year-on-year (-0.7%). Operating highlights were:

Contract mobile customer base accelerated its growth to 3% year-on-year (+2% in June) driven by the good performance in both consumer and business segments. Total mobile accesses reached 19.6 million (+0.4% year-on-year), of which contract represented 54% (+2 p.p. year-on-year).

Smartphone penetration reached 34% at the end of the quarter, 4 percentage points higher than in prior year. As a result of the increasing focus from new and existing customers on LTE, the demand for LTE-enabled handsets further accelerated to 88% of total quarterly smartphone shipments in the third quarter.

Contract net additions in the third quarter showed a continuation of trends seen in previous quarters and totalled 143 thousand, almost tripling the number seen in the same period of 2013 and explained by the good traction of the new commercial propositions launched in the second quarter. **Total mobile net additions** reached 213 thousand in the third quarter (+29% year-on-year) with the prepay segment recording 70 thousand net additions, reflecting usual seasonal behavior from customers in summer. For the nine months period, net additions reached 248 thousand, a significant year-on-year improvement in contract (374 thousand, +80% year-on-year), while 126 thousand net disconnections were registered in the prepay segment.

Contract churn excluding M2M was broadly stable year-on-year in 1.5% both in the third quarter of 2014 and in the period from January to September, owing to a more dynamic competitive environment.

Mobile ARPU continued with an improved year-on-year trend in the third quarter (-1.4% vs. -2.1% in the second and -3.3% in the first quarter), limiting the decline for the nine months period to 2.2%. Favorable customer mix

both in acquisition and renewals plus a stabilisation of the declining SMS usage evolution explained this performance. The adoption of LTE enabled smartphones and related tariffs from new and existing customers continued to be an important driver, while not yet completely offsetting the ongoing headwinds from the lower usage of SMS and the repositioning of the customer base within the new mobile tariff portfolio.

Data ARPU was stable in the July-September period (+0.1% year-on-year) while declining 0.9% year-on-year from January to September. Non-SMS data ARPU continued to grow (+10.1% year-on-year for the nine months period; +9.2% in the third quarter).

Data traffic grew 42% year-on-year both in the third quarter and 32% in the nine months period, mainly driven by the increasing number of LTE-enabled handsets, which show 3 times higher traffic usage vs. non-LTE smartphones.

Retail broadband fixed internet accesses (2.2 million; -5% year-on-year) registered a quarterly net loss of 31 thousand (-83 thousand in January-September), as new high speed additions (with an increasing share of VDSL lines) are not yet compensating DSL disconnections in an intense competitive market.

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Revenue for the first nine months of 2014 reached 3,503 million euros (-4.6% year-on-year), consolidating its improving year-on-year performance in the third quarter (-0.5% year-on-year; -4.4% in the second; -8.8% in the first quarter).

Mobile service revenues in the quarter confirmed the better trend already seen in the previous quarters (-1.5% vs. -2.7% in the second and -3.6% in the first quarter). Mobile service revenues reached 2,189 million euros in the first nine months, 2.6% lower year-on-year.

Mobile data revenue totalled 1,070 million euros in the January-September period (-0.9% year-on-year) with the July-September period showing a stable year-on-year variation (+0.2%) after the decline seen in prior quarters (-1.5% in the second quarter; -1.3% in the first quarter). Mobile data revenue maintained their share of 49% of mobile service revenues (+1 percentage points year-on-year), while the declining trend for SMS revenues further stabilising over prior quarters (-18.8% year-on-year in the third quarter compared to -21.6% in the second quarter and -24.6% in the first quarter). **Non-SMS data revenue** grew 10.1% compared with the first nine months of 2013 (+9.3% in July-September), increasing its share of total data revenue to 73% (+7 percentage points year-on-year).

Handset revenues in the nine months to September 2014 declined 7.9% year-on-year. This trend was reverted in the third quarter with 22.1% growth year-on-year following the launch of new devices and the good acceptance of bundles.

Fixed revenue reached 864 million euros in the first nine months of the year, 7.9% lower than in the same period of 2013 (-9.0% year-on-year in the third quarter), mainly resulting from a lower retail fixed broadband customer base.

Operating expenses slightly decreased by 1.0% organic year-on-year to reach 2,812 million euros in the nine months to September, while increased 5.7% organic year-on-year in the third quarter associated with higher supplies and personnel expenses. Breakdown by component:

Supplies (1,382 million euros) fell by 4.8% year-on-year vs. January-September 2013 (+4.7% year-on-year in the third quarter). The overall evolution throughout the year is the result of lower termination costs for outgoing SMS, while the performance in the third quarter is mainly driven by increased costs in handsets acquisition due to higher commercial activity.

Personnel expenses grew 5.5% compared to the first nine months of 2013, totalling 329 million euros (+11.0% year-on-year in the third quarter) driven by the general increase of salaries effective from July 2014 and initial restructuring costs related with the acquisition of the E-Plus Group (8 million euros). Excluding this impact, organic personnel expenses grew 3.0% (+3.5% in the third quarter).

Other operating expenses totalled 1,101 million euros in January-September and grew 3.1% year-on-year (+7.8% in the third quarter) due to the continued commercial spend to capture opportunities in the market and additional costs related with the acquisition of the E-Plus group (approximately 13 million euros in the January-September period and 6 million euros in the third quarter, including advisory fees).

OIBDA totalled 770 million euros up to September, decreasing 16.1% year-on-year (-19.0% in the third quarter). Organic OIBDA in the quarter (excluding restructuring costs previously mentioned), would have declined -16.5% year-on-year (-15.2% in the nine months to September).

OIBDA margin stood at 20.9% in July-September and 22.0% in January-September and increased to 21.6% and 22.2% respectively in organic terms, declining 4.1 and 2.8 percentage points year-on-year.

CapEx amounted to 411 million euros, 12.1% lower than in the first nine months of 2013, reflecting a different year-on-year phasing of investments ahead of the E-Plus Group transaction. In parallel, the Company remained focused on expanding its LTE network (59% outdoor coverage at the end of September, almost doubling from prior year).

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TELEFÓNICA DEUTSCHLAND

ACCESSES

Unaudited figures (Thousands)

	2013				2014			% Chg
	March	June	September	December	March	June	September	
Final Clients								
Accesses	24,218.9	24,216.2	24,306.2	24,042.0	23,875.7	23,964.3	24,113.2	(0.8)
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	(4.4)
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	(5.1)
Narrowband	294.6	287.9	277.2	271.7	265.8	258.8	252.5	(8.9)
Broadband	2,335.6	2,295.1	2,266.2	2,244.3	2,225.9	2,191.4	2,160.8	(4.7)
Mobile accesses	19,324.5	19,411.1	19,576.4	19,401.0	19,274.9	19,435.9	19,648.9	0.4
Prepay	9,123.6	9,150.6	9,260.7	9,114.9	8,910.9	8,919.7	8,989.3	(2.9)
Contract	10,200.9	10,260.5	10,315.7	10,286.1	10,364.0	10,516.1	10,659.6	3.3
M2M	82.9	84.7	89.9	90.5	94.6	97.5	106.0	18.0
Pay TV (2)	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	0.6
Total Accesses	25,331.8	25,343.3	25,436.6	25,166.9	25,003.7	25,116.1	25,250.8	(0.7)

TELEFÓNICA DEUTSCHLAND

MOBILE ACCESSES

Unaudited figures (thousands)

	2013				2014			% Chg
	March	June	September	December	March	June	September	
Prepay								
percentage (%)	47.2%	47.1%	47.3%	47.0%	46.2%	45.9%	45.7%	(1.6 p.p.)
Contract								
percentage (%)	52.8%	52.9%	52.7%	53.0%	53.8%	54.1%	54.3%	1.6 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	11.9%
	32%	33%	34%	35%	36%	37%	37%	3.9 p.p.

MBB

penetration (%)

Smartphones

(000)	5,059.8	5,260.5	5,491.4	5,738.0	5,957.2	6,057.2	6,230.7	13.5%
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Smartphone

penetration (%)	28%	29%	30%	31%	33%	33%	34%	4.0 p.p.
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(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 2013, all TV accesses were disconnected.*

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TELEFÓNICA DEUTSCHLAND

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - September		% Chg		July - September		% Chg	
	2014	2013	Reported	Organic	2014	2013	Reported	Organic
Revenues	3,503	3,671	(4.6)	(4.6)	1,219	1,225	(0.5)	(0.5)
Wireless Business	2,633	2,729	(3.5)	(3.5)	934	912	2.3	2.3
Mobile service revenues	2,189	2,246	(2.6)	(2.6)	754	765	(1.5)	(1.5)
Data revenues	1,070	1,079						