

TELEFONICA S A
Form 6-K
February 26, 2016
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of February, 2016

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant's name into English)

Distrito Telefónica, Ronda de la Comunicación s/n,

28050 Madrid, Spain

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(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F X Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes No X

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Yes _____ No X

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes _____ No X

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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FINANCIAL HIGHLIGHTS

Fulfilment of 2015 operating guidance, upgraded in July 2015.

Commercial activity intensified, improving the competitive position in key markets and high-value services.

- g Strong year-on-year organic growth of fibre customers (+30%), Pay TV (+12%), Smartphones (+29%) and LTE (3.0x, reported).
- g Significant improvement in customer base value, with revenue per access growing (+1.9% vs. 2014) and a churn improvement across the board in high-value services.

Revenues increased by 4.0% organically (+8.7% reported) to 47,219 million euros in 2015.

- g Mobile data revenues improvement (+16.9% year-on-year organic in 2015; +18.7% in the quarter), underpinned by non-SMS data growth (+25.3% in 2015; +27.8% in the quarter).
- g Revenues in October-December totalled 11,881 million euros and grew 3.3% year-on-year organic

OIBDA growth improved in 2015 (+3.6% organic) to 11,414 million euros; 14,926 million euros underlying (-1.5%).

- g OIBDA in the fourth quarter (401 million euros) was affected by various non-recurrent factors:
 - g i) Provision for restructuring expenses (-3,122 million euros in total; -2,896 in T. España, -190 in Other Companies, -29 in T. Hispanoamérica and -7 in T. Deutschland); ii) provision for Telefónica Foundation to meet its financing needs for the following years (-325 million); iii) provision for the optimisation of the distribution network in Spain (-30 million); iv) valuation adjustments of companies (-23 million).
 - g And other factors that had a positive impact: i) final agreement related to the purchase price of E-plus (+102 million euros); ii) outcome of the spectrum swap in Mexico (+79 million); iii)

expiration of an account payable in Brazil (+98 million); iv) capital gains due to the sale of real estate assets in T. España (+22 million); v) tower sales in Latin America (+18 million).

- g OIBDA in the quarter grew by 3.8% organic year-on-year driven by T. Deutschland and T. Brasil.
- g Organic OIBDA margin in October-December stood at 32.2% (+0.2 percentage point year-on-year) thanks to revenue growth, efficiency gains and synergies. In January-December, margin remained stable at 31.6%.

Operating cash flow in the year returned to growth (OIBDA-CapEx, +1.9% organic).

- g CapEx increased by 5.0% year-on-year organic, focused on the growth and transformation of networks and systems.
- g Operating cash flow made significant progress in the quarter (+17.6% organic).

Underlying net income amounted to 5,787 million euros in 2015 (+29.7% year-on-year) and basic earnings per share stood at 1.12 euros (+23.9%) in underlying terms. Net income for the fourth quarter was impacted by extraordinary factors, mentioned previously.

Solid free cash flow generation before spectrum payments in the quarter (4,821 million euros; +1.6%), increasing to 0.98 euros per share. In the quarter, free cash flow reached 2,307 million euros, improving virtually in all lines.

Net financial debt totalled 49,921 million euros. The leverage ratio considering the sale of O2 UK stood at 2.38x.

Telefónica **España**, which consolidated DTS from 1 May 2015, increased its commercial activity in the quarter, achieving net additions of 145 thousand accesses in Fusión, 272 thousand in fibre, 56 thousand in broadband, 88 thousand in Pay TV, 90 thousand in contract mobile and reducing the net loss in fixed lines to 59 thousand.

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T. España revenues (excluding DTS) accelerated to 0.8% year-on-year in the quarter and OIBDA was affected by an extraordinary provision (2,926 million euros) mainly associated with a voluntary employment suspension plan which will be implemented in 2016 and 2017 and will improve efficiency in coming years.

In the fourth quarter, Telefónica **Brasil** strengthened its leadership in the mobile segment, after capturing 69% of new contract accesses, and reinforced its position in fibre and Pay TV. Revenues maintained solid growth of 3.4% year-on-year due to the accelerated adoption of mobile data and the positive performance of fibre and Pay TV. OIBDA increased by 7.3% year-on-year and reflected efficiency measures focused on cost containment and the initial capture of synergies.

In **Germany**, commercial activity in the quarter remained high and focused on retaining value customers. The level of profitability was notable, reflecting both the growing contribution of integration synergies and the optimisation of commercial spend. Thus, organic year-on-year OIBDA growth in the quarter accelerated significantly to 35.5% and organic OIBDA margin expanded by 5.9 percentage points to 23.9%.

T. **Hispanoamérica** registered an improvement in its commercial activity in the quarter, particularly in higher value services (record net additions in mobile contract, migration to higher speeds in broadband and boost in Pay TV). In organic terms, revenues increased by 8.1% year-on-year and OIBDA by 4.0%, despite the higher commercial activity and an environment marked by the depreciation of most currencies in the region against the US dollar.

Telefónica announces guidance¹ and confirms shareholder remuneration for 2016:

- g Revenue growth: expected to be >4% year-on-year.
- g OIBDA margin: stabilizing vs. 2015.
- g CapEx/Sales excluding spectrum: at around 17%.
- g Net Financial Debt/OIBDA ratio: <2.35x, adjusted for the closing of the sale of O2 UK.
- g Dividend for 2016 of 0.75 euros per share in cash, subject to the closing of the sale of O2 UK. Additionally, the amortisation of Treasury stock for a total of 1.5% share capital will be proposed at

the 2016 AGM (subject to the closing of the sale of O2 UK).

¹ **Operational guidance 2016:**

2015 adjusted base: Revenues (46,757 million euros), Margin OIBDA (31.5%) and CapEx (ex-spectrum) to sales ratio (16.8%)

ü **Excludes:**

- i T. Venezuela results from January-December 2015.
- i OIBDA excludes additionally tower sales, the provision for restructuring costs, the provision to optimise the distribution network in Spain, the provision for Telefónica Foundation, write-downs and the final settlement agreement related to the acquisition of E-Plus.
- i CapEx excludes additionally spectrum acquisition and the Real Estate efficiency plan.

ü **Includes:**

- i Since May 2015, GVT results consolidated in T. Brasil results and DTS results in T. España results.

2016E guidance:

- ü Assumes **constant exchange rates as of 2015** (average FX in 2015) **and maintaining current Company perimeter.**

ü **Excludes:**

- i T. Venezuela results.
- i OIBDA excludes additionally: write-downs, capital gains/losses from the disposal of companies, tower sales, material non-recurring impacts and restructuring costs.
- i CapEx excludes additionally spectrum acquisition and the Real Estate efficiency plan.

Financial guidance 2016:

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

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Comments from César Alierta, Executive Chairman:

The Digitalisation of the economy is now a reality which is already bringing about significant changes in society; changes that will accelerate in the next years. The growth of connections, data traffic and innovation is going to be exponential and is going to translate into real improvements in terms of productivity, employment and economic growth and, ultimately, into important social progress. The telecom sector is at the centre of that revolution, however new skills are required to capture its full potential.

We must adapt the commercial offering in order to satisfy the growing needs of our customers, characterised by increasingly higher data consumption (data traffic increased by 40% in 2015 and mobile data traffic by 48%, boosted by video usage). In this respect, in 2015, our Fibre customers increased by 30%, LTE customers tripled, smartphones advanced by 29% and Pay TV by 12%. This translated into higher value customers, both in terms of higher average revenue per access and increasing loyalty, and, therefore, into revenue growth acceleration to 4.0% organic in 2015.

The growing demand for data also requires adapting the networks, a trend which Telefónica began earlier than others. In 2015, we once again invested 17% of our revenues, which, together with spectrum acquisitions, positioned our investment level at 9,578 million euros. This effort enabled us to have in Spain the most extensive fibre-to-the-home network (14.3 million premises passed) and with more customers connected in Europe, to reach more than 17 million premises passed with fibre in Brazil, or achieve an LTE penetration in Europe of 75% and 43% in Latin America.

Meanwhile, the digital economy also requires more agile, more efficient and more responsible companies. As a consequence, in 2015 we launched efficiency plans, which shall be reflected in profitability improvements, and we have allocated financial resources to Telefónica Foundation in order to continue driving digital education, democratising access to quality knowledge for millions of students. Telefónica is currently ranked the third Company in the world in terms of education investment.

As such, 2015 has been a very positive year, in which we have met our objectives. In 2016 growth and data monetisation will accelerate, while we maximise the efficiencies from integration and simplification, and we boost our innovation and Big Data capabilities. We expect that all of this will be reflected in improvements in the key financial figures: revenue growth higher than 4%, margins stabilising while we maintain strong levels of investment, recover full-cash dividend payment (75 cents per share) and strengthen financial flexibility.

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SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - December	% Chg		October - December	% Chg	
	2015	Reported	Organic	2015	Reported	Organic
Revenues	47,219	8.7	4.0	11,881	(0.0)	3.3
Telefónica España (1)	12,402	3.2	(2.1)	3,220	6.0	(2.0)
Telefónica Deutschland (2)	7,888	42.9	1.2	2,059	2.0	2.0
Telefónica Brasil (3)	11,060	(1.5)	4.5	2,587	(9.2)	3.4
Telefónica Hispanoamérica	14,387	9.4	10.1	3,622	0.1	8.1
Other companies & eliminations (1)	1,482	(3.0)		393	10.3	
Telefónica Ireland (4)	-	n.m.		-	n.m.	
OIBDA	11,414	(17.2)	3.6	401	(88.1)	3.8
Telefónica España (1)	2,336	(58.8)	(4.3)	(1,631)	c.s.	(7.5)
Telefónica Deutschland (2)	1,858	153.7	20.9	586	c.s.	35.5
Telefónica Brasil (3)	3,573	0.9	2.9	983	5.8	7.3
Telefónica Hispanoamérica	4,356	7.1	7.2	1,124	1.2	4.0
Other companies & eliminations (1)	(710)	n.m.		(662)	n.m.	
Telefónica Ireland (4)	-	n.m.		-	n.m.	
OIBDA margin	24.2%	(7.5 p.p.)	(0.1 p.p.)	3.4%	(24.9 p.p.)	0.2 p.p.
Telefónica España (1)	18.8%	(28.3 p.p.)	(1.0 p.p.)	n.m.	c.s.	(2.4 p.p.)

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Telefónica						
Deutschland (2)	23.6%	10.3 p.p.	3.8 p.p.	28.5%	30.4 p.p.	5.9 p.p.
Telefónica Brasil (3)	32.3%	0.8 p.p.	(0.5 p.p.)	38.0%	5.4 p.p.	1.3 p.p.
Telefónica						
Hispanoamérica	30.3%	(0.6 p.p.)	(0.8 p.p.)	31.0%	0.3 p.p.	(1.3 p.p.)
Operating Income (OI)	2,897	(54.4)	3.7	(1,760)	c.s.	6.5
Net income	2,745	(8.5)		(1,832)	c.s.	
Basic earnings per share (euros)	0.51	(15.2)		(0.38)	c.s.	
Basic earnings per share from continuing operations (euros)	(0.02)	c.s.		(0.46)	c.s.	
CapEx	9,578	10.3	5.0	2,477	(34.2)	(2.0)
Telefónica España (1)	1,827	5.5	4.5	505	(7.4)	(7.6)
Telefónica						
Deutschland (2)	2,230	162.8	(11.1)	330	(24.6)	(25.0)
Telefónica Brasil (3)	2,105	(28.2)	(1.1)	604	(61.9)	(11.3)
Telefónica						
Hispanoamérica	3,060	7.7	17.2	857	(19.8)	18.2
Other companies & eliminations (1)	356	9.6		180	42.8	
Telefónica Ireland (4)	-	n.m.		-	n.m.	
Spectrum	1,585	22.5	20.5	(2)	c.s.	(99.4)
Telefónica España (1)	49	n.m.	n.m.	-	n.m.	n.m.
Telefónica						
Deutschland (2)	1,198	n.m.	n.m.	2	n.m.	n.m.
Telefónica Brasil (3)	-	n.m.	n.m.	-	n.m.	n.m.
Telefónica						
Hispanoamérica	338	(16.7)	(23.5)	(4)	c.s.	(97.8)
OpCF (OIBDA-CapEx)	1,835	(64.0)	1.9	(2,076)	n.m.	17.6

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Telefónica España (1)	509	(87.1)	(8.3)	(2,136)	c.s.	(7.5)
Telefónica						
Deutschland (2)	(372)	n.m.	126.2	256	c.s.	c.s.
Telefónica Brasil (3)	1,468	140.8	9.3	379	c.s.	61.1
Telefónica						
Hispanoamérica	1,296	5.7	(7.0)	267	n.m.	(30.7)
Other companies & eliminations (1)	(1,066)	90.9		(842)	168.4	
Telefónica Ireland (4)	-	n.m.		-	n.m.	

- Reconciliation included in the excel spreadsheets.

Notes:

- 2014 and 2015 reported figures include hyperinflationary adjustments in Venezuela in both years.

- The comparative figures for October-December 2014 have been modified with respect to those presented at the close of December 2014, solely for comparative purposes, due to the conversion to SICAD II 50 VEF/USD of those operations referenced to the Venezuelan bolivar in the first, second and third quarters of 2014. In the January-December 2015 period the consolidated financial statements use the exchange rate of the Venezuelan bolivar set at the denominated SIMADI (as of 31 December this rate was set at 199 Venezuelan bolivars fuertes per dollar).

- From the first quarter of 2015 Telefónica UK's operations are reported as discontinued operations within the Telefónica Group and their assets and liabilities are classified as held for sale, in compliance with the IFRS, as a result of the signing of the definitive sale agreement of the company in March 2015. For comparative purposes, 2014 results are reported using these same criteria.

- Organic criteria: Assumes constant exchange rates as of 2014 (average FX in 2014). Excludes the impact of hyperinflationary adjustments in Venezuela in both years and O2 UK results for both years after being classified as discontinued operations, and considers constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, tower sales, material non-recurring impacts and restructuring costs mainly related to the voluntary employment suspension plan in Spain and to integration processes in Germany and Brazil and the simplification programme. CapEx also excludes investment in spectrum and the Real Estate efficiency plan.

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

- OIBDA margin calculated as OIBDA over revenues.

(1) The reported figures have been adjusted including DTS in Telefónica España's perimeter of consolidation since 1 May 2015. The reported figures up to September included DTS in Other Companies and Eliminations (Telefónica Group).

(2) E-Plus has been consolidated since 1 October 2014.

(3) GVT has been consolidated since 1 May 2015.

(4) T. Ireland has been removed from the consolidation perimeter since 1 July 2014.

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The financial information related to January-December 2015 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). For comparative purposes only, the comparative figures for January-December 2014 have been modified with respect to those presented as of end of December 2014 following the consideration of T. UK as a discontinued operation in compliance with IFRS rules. Also for comparative purposes only, the comparative figures for October-December 2014 have been modified with respect to those presented as of end of December 2014, due to the conversion to SICAD

II (50 VEF/USD) of those operations referenced to the Venezuelan bolivar in the first, second and third quarter of 2014. The financial information for October-December 2014 presented as of end of December 2014 and prepared under IFRS as adopted by the European Union, can be found in the tables Selected Financial Data , available in www.telefonica.com/investors. This 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

In 2015, Telefónica made firm progress towards long-term profitable and sustainable growth, at the same time as improving its competitive position in key markets. Thus, commercial activity, focused on growth and quality services (fibre, smartphones, LTE, Pay TV), intensified, underpinning revenue growth acceleration (+4.0% organic year-on-year).

At the same time, the savings obtained from integration synergies in Germany and Brazil and the efficiencies generated by the simplification programme contributed to OIBDA improvement (+3.6% organic year-on-year) and the return to growth of operating cash flow (+1.9% organic year-on-year). On the other hand, basic earnings per share in underlying terms reached 1.12 euros in 2015, increasing 23.9% year-on-year.

In the fourth quarter, year-on-year performance reflected the consolidation of GVT's results in Telefónica Brasil and DTS in T. España (both since 1 May 2015). Likewise, Telefónica UK has been reported as a discontinued operation within Telefónica Group and its assets and liabilities are classified as held for sale in compliance with International Financial Reporting Standards (IFRS), as a result of the signing of the definitive sale agreement in March 2015.

Total **accesses** at December, grew by 2% year-on-year (-1% organic) to 322.3 million, underpinned by T. Hispanoamérica (+2%) which represented 42% of the total, despite the fact that the performance of accesses in the fourth quarter was impacted by the application of more restrictive criteria when calculating prepay accesses in T. Brasil (net loss of 6.8 million customers). High-value customers' organic growth remained strong: fibre (+30% year-on-year), Pay TV (+12%), smartphones (+29%) and LTE (3.0x, reported). Churn evolution was also noteworthy, posting improvement in high-value segments.

g Mobile accesses stood at 247.1 million (-1% year-on-year) and were affected by the more restrictive calculation of the prepay base in T. Brasil. In the contract segment (+6% year-on-year), all regions posted year-on-year growth: T. Brasil +10% after capturing 69% of new accesses in the quarter, T. Hispanoamérica (+6%) obtained quarterly net additions of 732 thousand customers (3.3x year-on-year), T. España (+2%) net additions accelerated to 90 thousand customers in the quarter (1.6x year-on-year) and T. Deutschland (+2%) achieved net additions of 198 thousand customers in October-December. Thus, contract customer quarterly net additions reached 1.7 million for the Group, the highest level in six quarters.

g Smartphones reached 112.9 million after growing by 1.4 times vs. 2014, with penetration increasing 15 percentage points to 48%. Contract smartphone penetration stood at 71% (+12 percentage points year-on-year) and, in prepay, penetration stood at 38% (+15 percentage points year-on-year). LTE customers (29.7 million; 3.0x year-on-year) accounted for 12% of total mobile accesses (+8 percentage points year-on-year) after capturing record net additions of 6.1 million (+42% year-on-year), underpinned by T. Brasil (+2.7 million; 3.1x) and T. Hispanoamérica (+2.3 million; 2.6x).

- g **Retail broadband** accesses totalled 21.0 million and grew 19% vs. December of last year (+2% in organic terms), underpinned by T. Brasil (1.8x; +4% organic). A key highlight is the quarterly net gain of T. España (+56 thousand accesses), the highest recorded since the launch of Fusión .

- g **Fibre** accesses stood at 6.1 million and increased 30% year-on-year in organic terms, mainly due to T. España (+69% year-on-year; 2.2 million customers). It is important to highlight the positive trend of fibre customers weight in T. Brasil, already reaching 53% of the retail broadband base (+5 percentage points year-on-year).

- g The total **Pay TV** base reached 8.3 million, 12% more in organic terms than at December 2014 driven by Hispanoamérica (+16%), T. España (+10%) and T. Brasil (+10%), and reached net additions of 117 thousand customers in the quarter.

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Fourth quarter results were affected by the depreciation of Latin American currencies against the euro, particularly the Brazilian real, the Venezuelan bolivar, the Colombian peso and the Argentine peso. Thus, the evolution of exchange rates deducted 9.1 percentage points from revenue performance and 11.8 percentage points from OIBDA growth (-4.4 percentage points and -5.0 percentage points respectively, in 2015).

These depreciations also reduced payments in euros related to CapEx, taxes, interest and minorities, offsetting the negative effect of exchange rate evolution on OIBDA and mitigating its impact on cash flow generation.

On the other hand, the incorporation of GVT and DTS in the perimeter of consolidation contributed 5.7 percentage points to reported year-on-year revenue growth in the quarter and 4.6 percentage points to OIBDA performance (+8.8 percentage points and +5.4 percentage points, respectively in 2015).

Revenues increased by 3.3% year-on-year organic in the quarter (stable in reported terms) to 11,881 million euros, driven by T. Hispanoamérica and T. Brasil and mobile data revenues.

Thus, mobile data revenues grew in organic terms by 18.7% year-on-year in the quarter (+16.9% in January-December) and represented 42% of mobile service revenues (+5 percentage points year-on-year), due to higher smartphone penetration (+15 percentage points year-on-year) and the growing weight of LTE customers (+8 percentage points). In turn, non-SMS data revenue growth improved sequentially by 1 percentage point to 27.8% organic year-on-year (+25.3% in 2015) and represented 82% of data revenues (+5 percentage points year-on-year). Another key highlight was the higher unitary usage of data traffic by LTE customers (63% higher vs. 3G customers), which translated into double-digit ARPU growth and also resulted in more efficient network usage.

In January-December revenues totalled 47,219 million euros and maintained a solid growth rate of 4.0% in organic terms compared to the same period of the previous year (+8.7% reported). Particularly noteworthy were T. Hispanoamérica, with double digit growth, and T. Brasil, whose year-on-year growth rate accelerated to c.a. 5%.

On the other hand, excluding the impact of regulation, revenues grew by 4.1% year-on-year in organic terms in the fourth quarter and by 5.0% in 2015.

The diversification of the Company's assets was evident in the revenue structure. Thus, T. España, T. Deutschland and T. Brasil accounted for 66% of revenues in 2015, while T. Hispanoamérica represented 30%, both percentages stable vs. the previous year.

The annual results and particularly those of the quarter were affected by various non-recurring impacts:

- g Restructuring costs: in the fourth quarter, with the aim of enhancing future efficiency and representing a step further in the transformation and simplification processes which the Group is implementing, a provision of 3,122 million euros was booked. Per segment, it is important to highlight the Voluntary Employment Suspension Plan in T. España (2,896 million euros) and the restructuring expenses in T. Hispanoamérica (29 million euros), T. Deutschland (7 million euros) and Other Companies and Eliminations (190 million euros). This provision affected personnel expenses (3,119 million euros) and other net income/expense (3 million euros).

- g Other non-recurring items in the fourth quarter included: i) a provision to provide Telefónica Foundation with the adequate financial structure for future years (325 million euros), ii) a provision in Spain to optimise the distribution network (30 million euros) and iii) valuation adjustments in Other Companies and Eliminations (23 million euros).

- g Meanwhile, in the fourth quarter other positive impacts were recorded, such as the final agreement related to the purchase price of E-Plus in Germany (102 million euros), the outcome of the spectrum swap in Mexico (79 million euros), the expiration of an account payable in Brazil (98 million euros), the sale of real estate assets in T. España (impact of 22 million euros on OIBDA) and tower sales in Latin America (18 million euros on OIBDA).

- g In January-December 2015, total restructuring costs amounted to 3,212 million euros: T. España (2,896 million euros), T. Deutschland (74 million euros), T. Hispanoamérica (38 million euros), T. Brasil (7 million euros) and Other Companies and Eliminations (198 million euros). This provision affected personnel expenses (3,143 million euros) and other net income/expense (69 million euros).

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Operating expenses stood at 12,089 million euros in October-December 2015, 5.0% more vs. the same period of the previous year in organic terms (+35.7% reported) due to higher expenses in T. Hispanoamérica and T. Brasil, associated with increased commercial intensity and the depreciation of the majority of Latin American currencies against the US dollar, although this was partially offset by savings in T. Deutschland derived from integration synergies. Compared to the previous quarter, the organic evolution of operating expenses remained virtually stable (+0.2 percentage points year-on-year) due to greater efficiencies in commercial spend and lower network and systems costs.

In 2015, expenses totalled 37,132 million euros and grew 4.6% year-on-year organic (+20.6% reported).

Breakdown by component:

- g **Supplies** for the quarter, 3,371 million euros (+1.0% year-on-year organic), reflected higher handset consumption (higher weight of high-end handsets) and the increase in content costs, partially offset by the positive impact of lower interconnection costs. The organic year-on-year growth rate decelerated 0.4 percentage points vs. the third quarter, mainly due to a lower volume of handset sales in the prepay segment of T. Hispanoamérica.
- g **Personnel expenses** amounted to 4,811 million euros in October-December with the provision for non-recurrent restructuring costs mentioned before (3,119 million euros in the fourth quarter; 3,143 million euros in January-December) impacting the year-on-year evolution. In organic terms, these expenses grew by 5.4% vs. the same period in 2014, affected mainly by inflationary pressures in certain Latin American countries.

The average headcount in 2015, excluding O2 UK, stood at 125,892 employees and increased 11.5% year-on-year (-2.8% year-on-year including in 2014 the equivalent average headcount of E-Plus, GVT and DTS).

- g **Other operating expenses** totalled 3,907 million euros in the fourth quarter and increased 8.8% year-on-year organic, due to the impact of inflation in certain Latin American countries, the depreciation vs. the dollar of most currencies in the region, higher network and system costs related to the transformation of the Company and increased commercial intensity, which more than offset the savings associated with the simplification measures undertaken. This item included a non-recurrent provision of 325 million euros, reflecting the Group's firm commitment to Fundación Telefónica, to provide the Foundation with the adequate financial structure for future years to serve several social projects, central to them being the digital education for children and young people.

Other net income increased to 232 million euros in the quarter, and mainly included an adjustment in T. Deutschland for the final agreement related to the acquisition of E-Plus (an impact of 102 million euros on OIBDA), the positive impact in T. Brasil of the expiration of an account payable (98 million euros on OIBDA) and a provision in Spain to optimise the distribution network (30 million euros).

Gains on sale of fixed assets totalled 158 million euros in the fourth quarter, and mainly included the outcome of the spectrum swap with AT&T in Mexico (impact of 79 million euros on OIBDA), the sale of real estate assets in T. España (impact of 22 million euros on OIBDA) and tower sales (18 million euros impact on OIBDA, mainly in Chile and Brazil).

In 2015, this item increased to 275 million euros and was mainly comprised of the outcome of the spectrum swap with AT&T in Mexico (79 million euros impact on OIBDA), the sale of real estate assets in T. España (impact of 73 million euros on OIBDA), tower sales (impact of 65 million euros on OIBDA) and the sale of yourfone GmbH in Germany (15 million euros of OIBDA impact).

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Operating Income Before Depreciation and Amortization (OIBDA) for the fourth quarter reached 401 million euros, affected by non-recurrent factors mentioned, and would have reached 3,781 million euros underlying.

In organic terms, OIBDA increased 3.8% vs. the same period of 2014, underpinned by the strong growth of T. Deutschland (+35.5%), reflecting significant integration synergies, T. Brasil (+7.3%), associated with solid revenue performance and efficiency measures focused on cost control, and T. Hispanoamérica (+4.0%; +1.0 percentage point vs. the previous quarter).

In January-December 2015, OIBDA (11,414 million euros) improved its pace of growth in organic terms (+3.6%) vs. 2014. OIBDA would have reached 14,926 million euros in underlying terms.

Thus, **OIBDA margin** in the fourth quarter stood at 32.2% in organic terms and expanded 0.2 percentage points vs. the same period of the previous year. This year-on-year growth enabled the full year 2015 margin to remain stable vs. 2014, thanks to revenue growth acceleration, higher cost containment and the tangible benefits of synergies generated from the integration of the acquired companies.

Depreciation and amortisation, 2,161 million euros in October-December, increased 1.6% in organic terms vs. the same quarter of 2014 mainly due to the amortisation of the new spectrum acquired in Brazil and Spain and the higher investments. In January-December 2015, depreciation and amortization increased to 8,517 million (+3.5% year-on-year organic). Total depreciation and amortisation charges arising from purchase price allocation processes totalled 191 million euros in the quarter (745 million euros in 2015).

Operating income (OI) reached -1,760 million euros in October-December, affected by the aforementioned non-recurrent impacts, and increased 6.5% year-on-year in organic terms (+3.7% year-on-year organic in January-December).

Net financial expenses in 2015 increased to 2,581 million euros, 7.1% lower than the previous year. The negative exchange rate differences increased to 620 million euros, mainly due to the impact of the adoption of the Venezuelan bolivar exchange rate set at SIMADI. Excluding exchange rate differences, these expenses stood at 1,961 million euros and improved 21.2% (528 million euros), primarily due to the lower cost of debt in euros (146 million euros), leveraged by the reduction of fixed-rate debt and the capture of the lower euro short-term rates, and the divestment of the Group's entire stake in Telecom Italia, S.p.A. (404 million euros). This was partially offset by other effects that had a negative impact of 22 million euros, including the monetary correction for the inflation in Venezuela net of higher expenses in Latin American currencies, revision of contingencies and mark to market of other equity items.

The effective cost of debt in the last twelve months, excluding exchange rate differences and the positive impact of the divestment in Telecom Italia, S.p.A., stood at 4.69%, 57 basis points lower year-on-year.

In the fourth quarter of 2015 there was a tax income of 313 million euros, mainly due to the recognition of the tax credit derived from the aforementioned provision for restructuring expenses. In January-December 2015, **corporate income tax** reached 13 million euros and also included activation of tax credits in Spain in the second quarter of 2015.

Profit from discontinued operations for October-December totalled 394 million euros (104 million euros in the same period of 2014), impacted by the cessation of depreciation and amortisation since the signing of the final sale agreement of Telefónica's operations in the United Kingdom. In 2015 this item reached 2,582 million euros, with

1,412 million euros corresponding to the impact of deferred tax assets resulting from the estimation of the difference in Telefónica, S.A. between the fiscal value and the agreed value for the sale of Telefónica's UK operations (which are expected to materialise in the foreseeable future when they are made definitively deductible in the sale), reduced by the amount corresponding to the tax amortisation of goodwill.

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Profit attributable to minority interests reduced net income for the quarter by 95 million euros, 122 million more than in the same period of the previous year mainly due to higher results attributed to minority interests in T. Deutschland. In January-December, minorities reduced net income by 135 million euros, 116 million euros less than in 2014, mainly due to lower results attributed to minority interests in T. Brasil and T. Colombia.

As a consequence of the previous items, **consolidated net income** for the fourth quarter of 2015 stood at -1,832 million euros (769 million in underlying terms), affected by the non-recurring impacts mentioned above. In 2015, net income reached 2,745 million euros, or 5,787 million euros in underlying terms (+29.7% vs. 2014).

Basic earnings per share in underlying terms increased to 1.12 euros in January-December 2015 (+23.9% year-on-year) and 0.14 euros in the fourth quarter (-43.8% year-on-year).

In 2015, the Company took yet another step forward in its ongoing investment plan focused on growth and transformation of networks and systems, having dedicated 75% of the total, excluding spectrum acquisition, to these projects. Thus, **CapEx** grew in 2015 by 5.0% organic year-on-year to 9,578 million euros (+10.3% in reported terms), including 1,585 million euros of spectrum acquisition (76% of the total in Germany in the second quarter).

Operating cash flow (OIBDA-CapEx) sequentially accelerated its year-on-year organic growth in the fourth quarter by 11.1 percentage points to 17.6%. In 2015, operating cash flow returned to growth, after increasing by 1.9% year-on-year in organic terms.

Operating cash flow excluding spectrum in underlying terms, reached 1,302 million euros in October-December and 6,872 million euros in 2015.

Interest payments in 2015 totalled 2,410 million euros, a 3.8% year-on-year reduction despite the increase in average debt (+6.5%). Net financial payments accounted for 4.8% of the net average debt in the year.

Payment for taxes amounted to 664 million euros in 2015, 443 million euros less than the previous year, primarily due to tax recoveries on definitive tax filings of previous years. Excluding the impact on income before taxes of the provision for the aforementioned restructuring costs, the effective cash tax rate stood at 18.8%.

Working capital in the fourth quarter of 2015 generated a cash flow of 2,500 million euros, driven by the various management measures, including: (i) extended payment terms with suppliers or with the factoring firm where those had been discounted, for 838 million euros, (ii) factoring of accounts receivable, (iii) lower CapEx payments vs. accruals in the period and (iv) expenses derived from the provision made to Telefónica Foundation, to be paid in the coming years.

In January-December 2015, working capital contributed positively to a cash flow generation of 1,855 million euros (2,390 million 2014) due to management measures implemented throughout the year.

Operations with minority shareholders totalled 537 million euros in 2015, 211 million euros more than the previous year, mainly due to higher dividend payments in Germany and Brazil in 2015.

Cash flow from discontinued operations totalled 675 million euros in the year (531 million in 2014).

Free cash flow excluding spectrum payments grew by 1.6% in 2015 to 4,821 million euros. In the fourth quarter, free cash flow generation amounted to 2,307 million euros (2.6x year-on-year).

Net financial debt stood at 49,921 million euros at December 2015, increasing 4,834 million euros year-on-year. Factors explaining the debt increase included: i) 6,934 million euros in net financial investments including changes in the perimeter of consolidation; ii) shareholder remuneration (dividends, treasury stock and hybrid coupons) totalling 4,188 million euros; iii) spectrum payments of 1,307 million euros; iv) the payment of labour-related commitments (721 million euros) mainly related to early retirement and v) other factors affecting the valuation of liabilities amounting to 1,185 million euros (mainly due to the refinancing of commercial liabilities). Conversely, noteworthy factors reducing

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the debt included: i) free cash flow generation before spectrum payment of 4,821 million euros; ii) capital increase of Telefónica S.A. of 3,003 million euros; iii) the contribution of minority shareholders in Telefónica Brasil's capital increase, totalling 1,258 million euros; and iv) the issuance of capital instruments for a total of 419 million euros.

In the fourth quarter, net debt increased by 231 million euros mainly due to: i) shareholder remuneration (including payment of dividends, purchase of treasury stock and payment of capital instrument coupons) of 799 million euros; ii) net financial investments of 241 million euros; iii) payment of labour-related commitments (150 million euros) and iv) other factors affecting the valuation of liabilities amounting to 1,350 million euros (mainly due to the refinancing of commercial liabilities). Contrarily, free cash flow generation before spectrum payments reduced debt by 2,310 million euros.

The leverage ratio (net debt over OIBDA¹) in the last 12 months at the end of December 2015 stood at 2.91 times. Considering the closing of the sale of O2 UK, the ratio stood at 2.38 times.

In 2015, **Telefónica's financing activity** reached around 18 billion equivalent euros, without considering the re-financing of commercial paper and short-term bank loans, 26% of which was obtained as capital (equity and hybrids) and the rest as financial debt. Activity was mainly focused on financing the GVT acquisition as well as on strengthening the liquidity position, refinancing maturing debt and actively managing the cost of debt, through the extension of the maturity of the credit lines and the reduction of credit margins. The capital increases of Telefónica, S.A., for a total of 3.0 billion euros, and Telefónica Brasil, S.A. for 16.1 billion Brazilian reais, were completed during the second quarter, in connection with the financing of the acquisition of GVT. The capital increase at Telefónica Brasil, S.A. was subscribed in a 25.2% by minority shareholders (approximately 1.2 billion euros).

In February 2015, a syndicated credit line was signed with 33 financial entities for the sum of 2.5 billion euros and maturing in February 2020. In parallel, the economic terms of the syndicated credit facility signed in February 2014, for an amount of 3.0 billion euros, were modified. The maturities of both syndicated facilities have been recently extended one year to February 2021 and February 2020, respectively. Likewise, in September 2015, a key highlight was the first issuance of the year in the bond market in euros, totalling 1.0 billion euros and maturing in 6 years, with a historic record-low coupon paid by Telefónica for a euro issuance. In November 2015, Telefónica signed a credit line for the sum of 3.0 billion euros and maturing in February 2018 with seven financial entities, allowing Telefónica to address part of the debt maturing in the first quarter of 2016 with this transaction and to use the already existing liquidity position to cover the maturities of subsequent years.

In Hispanoamerica, Telefónica subsidiaries tapped financing markets in January-December 2015 for a total approximate amount of 1,722 million equivalent euros. It is worth highlighting the hybrid issuance from Colombia Telecomunicaciones, S.A. ESP in the first quarter for a total of 500 million US dollars.

In the first quarter, T. Deutschland closed financing agreements for an amount of 300 million euros through the issuance of debt instruments in the local market (schuldscheindarlehen and namensschuldverschreibung), with different maturity terms until 2032.

Throughout the year, Telefónica Group obtained funding for a total 927 million equivalent euros, by means of extending payment terms with suppliers or with the factoring firm where those had been discounted.

¹ 12 month rolling, not considering O2 UK discontinuation, incorporating DTS and GVT OIBDA corresponding to January - April 2015 and excluding the non-recurring impact from restructuring costs in the 12 months rolling and the firm commitments relating to the Telefónica Foundation's social activities

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Meanwhile, Telefónica, S.A. and its holding companies continued with their issuance activity under the various Commercial Paper Programmes (Domestic and European), increasing the outstanding amount to approximately 1,497 million euros at the end of December.

Telefónica maintained undrawn committed credit lines with different credit institutions for an approximate amount of 13,684 million euros, with around 12,497 million euros maturing in more than 12 months, which, along with the adjusted cash position, placed liquidity at 19.1 billion euros.

Definitions

Organic Growth: Assumes constant average exchange rates from 2014. Excludes the impact of hyperinflationary adjustments in Venezuela in both years and O2 UK results for both years after being classified as discontinued operations, 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, material non-recurring impacts and restructuring costs mainly related to the Voluntary Employment Suspension Plan in Spain and to the integration processes in Germany and Brazil and the simplification programme. CapEx also excludes investment in spectrum and the Real Estate efficiency plan.

Underlying Growth: Reported figures excluding the impact of write-downs, capital gains/losses from the sale of companies, tower sales, material non-recurring impacts and restructuring costs mainly related to the Voluntary Employment Suspension Plan in Spain and to the integration processes in Germany and Brazil and the simplification programme, as well as depreciation and amortization charges from purchase price allocation processes.

Digital Services

(year-on-year changes in organic terms)

In the fourth quarter of 2015, Digital Services revenues stood at 1,068 million euros, 15.1% higher than in the same period of 2014 (3,758 million in January-December; +23.6% year-on-year).

Per area, highlights include:

- g **Video** revenues reached 628 million euros, 14.0% higher than in October-December 2014 (2,142 million euros in 2015; +27.3% year-on-year), decelerating the rate of growth mainly due to DTS revenue trend.

Revenues continue to be supported by the solid growth of pay TV accesses, with quarterly net additions of 117 thousand, resulting in a total base of 8.3 million in December (4.6 million of which are satellite TV), 12% higher than in 2014, driven by Brazil (+10% year-on-year), Hispanoamerica (+16%) and Spain (+10%, including DTS).

Main highlights for the quarter include: i) in Spain, the agreements to include in Movistar+ TV the UEFA Champions League and UEFA Europa League 2016-2018, and La Liga and the Copa de S.M. el Rey until 2019, ii) Hispanoamerica, the announcement of the launch of VoD and linear TV channels in seven new countries in 2016 (Ecuador, Uruguay, Panama, Costa Rica, El Salvador, Guatemala and Nicaragua).

- g In the area of **Security**, revenues in October-December (74 million euros) grew by 22.8% year-on-year (282 million in January-December; +34.7% year-on-year).

In the **Consumer** segment, following the new technical assistance launches in Brazil, accesses with security products reached 10.8 million in December (+46% year-on-year). Additionally, 5 million customers safely store their digital data with the Personal Cloud service. In the **Corporate** segment, new agreements were signed with several sector-leading Partners, such as Alien Vault, BlueCoat, Intel Security, Palo Alto Networks, RSA and Vaultive for the joint development of cybersecurity products.

- g **M2M** revenues reached 47 million euros in the quarter and increased by 35.9% year-on-year (169 million in 2015; +16.5%), driven by new energy efficiency projects in Spain launched in the third quarter that enable companies to save up to 30% in energy expenditure. The launch of the global connectivity service IoT 4G-LTE over the Telefónica's leading Smart M2M platform should also be noted.

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- g **Cloud** revenues in the quarter increased by 25.5% year-on-year to 112 million euros (402 million euros in 2015, +28.7% year-on-year). One of the main highlights was the global collaboration agreement reached with Huawei to drive the migration of companies' traditional IT services to the cloud in a scalable, reliable manner and at a competitive price and 600 thousand Office 365 licenses commercialised to SMEs.

- g **In Financial Services**, revenues reached 73 million euros in the last three months (+14.4% year-on-year) and 284 million over the twelve months (+13.0% year-on-year).

- g **In Big Data**, highlights include the purchase of Synergic Partners, a consultancy firm specialised in advanced data analytics and pioneer in the development of strategic Big Data solutions. Likewise, in December a joint venture was created together with China Unicom to develop Big Data services in China, using Smart Steps technology developed by Telefónica.

- g **Telefónica Open Future** with the aim of observing, detecting and capturing external innovation in order to make it available to the Company's customers, closed 2015 as one of the most relevant corporate investors in innovation across Europe and Latin America. Thus, in 2015 more than 350 startups entered the programme. The positive performance of the portfolio in 2015 is a key highlight, with outstanding rounds of financing (such as Job&Talent, CartoDB or Tado) and a good turnover rate of investee companies, with significant exits of startups such as Trustev and Marfeel. Similarly, Telefónica Open Future contributed to the incorporation of innovation both in the business offer, as demonstrated by the recent agreement with the Job&Talent job search platform for Telefonica's customers access to exclusive services, as well as in the greater efficiencies achieved through improved internal processes.

- g Meanwhile, in the area of **Global Device Management**, smartphones accounted for 83% of devices purchased in the fourth quarter (+11 percentage points year-on-year), of which 56% were LTE handsets (+28 percentage points year-on-year). Likewise, in the fourth quarter, the Company was the first in Europe to launch a device with the Cyanogen operating system (enhancing user experience with a more customisable interface and greater levels of privacy and security).

Telefónica Global Resources

Throughout 2015, TGR, has consolidated as the technological reference for the Group, supporting growth in the operating businesses, enabling end-to-end digitalisation and accelerating transformation. Additionally, it has focused on creating value and generating efficiencies through the simplification and development of infrastructures, enabling improved service quality.

The **Global Network and Operations area** advanced on the deployment of ultra broadband (UBB), both in terms of coverage and quality, as well as in the All-IP transformation, the creation of global centres and the commitment to innovation.

The investment in UBB has been focused on offering excellent connectivity, increasing speed, reliability and improving the quality and security of the network. As such, the network is prepared to cope with the strong growth in data traffic (+38% year-on-year in the fourth quarter), driven by both mobile broadband (+40% year-on-year), and by fixed broadband (+38%; video traffic: +48%). At the end of 2015:

- g Premises passed with fibre to the home totalled 19 million, 14 million in Spain and 5 million in Brazil. Additionally, GVT contributed with 12 million premises passed with fibre to the cabinet, taking the total number of homes covered with fibre in Brazil to 17 million.

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- g In LTE, coverage in Europe and Latin America reached 75% and 43% of the population, respectively; base stations in service increased to more than 33 thousand and 98% of 3G and LTE base stations are connected via IP and fibre to the transmission network. As a result, LTE customers tripled year-on-year, reaching already 29.7 million customers.
- g In terms of the development of All-IP technology, the main highlights include: 1) the launch of VoLTE in Germany, 2) the commencement of the switch-off of the legacy networks in Spain and the of legacy transport networks and, 3) the reduction of IP layers, with the deployment of new IP architecture in the core and in transport, starting with access centres in Spain.

Furthermore, 2015 saw the creation of Global Device Centres (equipment design such as HGU *Home Gateway Unit* in Spain or HomeBox2 in Germany), progress in the transformation of OSS *Operating Support Systems* (for example, the Integrated Field Force Management project increased labour productivity by 5% year-on-year in 2015 and significantly reduced the back office) and Video synergies generation, thanks to taking best practices to all operating businesses in the Group (high availability of global platforms DTH, Cable, IPTV and the deployment of the OTT Video Service).

Finally, in innovation, highlights include: 1) the deployment of LTE-Advanced with various carriers; 2) the progress in virtualisation (automation of the deployment of VNFs *Virtualised Network Functions*, validation and certification of VNFs in the reference laboratory, NFV *Network Function Virtualisation* and the first multivendor concept trial in the industry of SDN *Software Defined Networks* in wireless transport) and 3) progress in 5G (Research and Innovation laboratory 5TONIC, in partnership with IMDEA Networks, for the development and deployment of 5G technologies).

The **Global IT area** reached a new record in IT Service Delivery, reducing the number of critical incidents by 40% vs. last year, and delivered significant transformation, with almost all operating business included in the *Full Stack* processes and applications programmes, with benefits starting to materialise (13% of customers have migrated to the new *Full Stacks*). Thus, in 2015 Argentina migrated the mobile business and Mexico completed the migration of the prepay segment, while all countries from Telefónica Hispanoamérica have deployed global B2B presales capabilities.

In parallel, the foundations have been laid for digital capabilities in Business Intelligence and *Big Data* in practically all of the operating businesses.

Finally, throughout the year, the transformation has been reinforced by the continuous effort and execution of simplification measures, with the closing of 3 Data Centres, the reduction of 321 applications and 8% of servers, while virtualisation increased by 5.7 percentage points.

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FÓNICA

SSES

Adjusted figures (thousands)

	2014				2015				%
	March	June	September	December	March	June	September	December	
Clients									
es	283,012.7	285,331.4	285,237.0	309,800.5	312,635.8	323,021.6	320,924.3	316,188.7	
ony									
es (1)	37,382.1	37,326.1	37,103.9	36,602.0	36,219.8	40,164.5	39,976.9	39,487.7	
et and									
es	18,105.5	18,151.4	18,150.3	18,132.5	18,195.7	21,229.3	21,410.4	21,344.3	
band	17,569.1	17,625.9	17,640.2	17,649.3	17,704.7	20,754.8	20,946.3	20,950.3	
	975.9	1,181.6	1,447.1	1,755.0	2,062.6	5,444.4	5,829.7	6,100.3	
e									
es	223,958.0	225,662.0	225,332.8	249,978.9	252,753.8	253,597.5	251,382.7	247,085.1	
y	150,854.2	150,750.4	149,877.0	164,959.2	166,813.7	166,636.1	162,876.8	157,283.7	
ct	73,103.9	74,911.6	75,455.7	85,019.6	85,940.1	86,961.4	88,506.0	89,801.4	
	6,269.0	6,665.1	6,841.4	7,595.5	8,029.0	8,447.4	8,760.1	9,142.4	
V	3,567.1	4,191.9	4,650.0	5,087.2	5,466.5	8,030.3	8,154.3	8,271.6	
sale									
es	6,327.7	6,438.6	6,585.6	6,521.6	6,475.7	6,401.0	6,271.7	6,062.8	
es	289,340.3	291,770.0	291,822.5	316,322.1	319,111.5	329,422.6	327,196.0	322,251.5	

Ireland accesses are excluded from the third quarter of 2014. E-Plus accesses are consolidated from the fourth quarter of 2014 and GV accesses are consolidated from 1 May 2015.

UK accesses are excluded from the first quarter of 2014 as a result of the discontinuation of the operation.

cludes fixed wireless and VoIP accesses.

FÓNICA

LE ACCESSES

edited figures (thousands)

	2014				2015				
	March	June	September	December	March	June	September	December	
verage	67.4%	66.8%	66.5%	66.0%	66.0%	65.7%	64.8%	63.7%	(2.3
ct verage	32.6%	33.2%	33.5%	34.0%	34.0%	34.3%	35.2%	36.3%	2.3
phones	58,340.2	63,670.7	71,447.1	79,027.7	91,431.1	99,184.0	108,801.2	112,904.5	
y	25,660.8	29,208.1	35,349.2	36,539.6	46,368.5	51,139.4	56,510.6	58,547.6	
ct	32,679.4	34,462.6	36,097.9	42,488.1	45,062.5	48,044.6	52,290.6	54,356.9	
phone ation	27.7%	30.0%	33.7%	33.6%	38.3%	41.4%	45.9%	48.5%	14.9
y	17.2%	19.6%	23.8%	22.4%	28.0%	30.9%	35.0%	37.5%	15.1
ct	53.2%	54.8%	56.8%	59.2%	61.4%	64.8%	69.3%	71.0%	11.9
000)	2,758.5	3,982.1	5,505.8	9,830.7	14,059.4	18,571.7	23,577.9	29,708.2	
ation	1.3%	1.8%	2.5%	4.1%	5.7%	7.6%	9.7%	12.5%	8.9

eland accesses are excluded from the third quarter of 2014. E-Plus accesses are consolidated from the fourth quarter of 2014 and GV
accesses are consolidated from 1 May 2015.

K accesses are excluded from the first quarter of 2014 as a result of the discontinuation of the operation.

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TELEFÓNICA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December		% Chg		October - December		% Chg	
	2015	2014	Reported	Organic	2015	2014	Reported	Organic
Revenues	47,219	43,458	8.7	4.0	11,881	11,881	(0.0)	3.3
Internal exp. capitalized in fixed assets	784	651	20.4	10.3	234	199	17.9	7.0
Operating expenses	(37,132)	(30,783)	20.6	4.6	(12,089)	(8,912)	35.7	5.0
Supplies	(12,910)	(11,750)	9.9	1.6	(3,371)	(3,306)	2.0	1.0
Personnel expenses	(9,800)	(6,621)	48.0	4.1	(4,811)	(2,161)	122.6	5.4
Other operating expenses	(14,422)	(12,412)	16.2	7.6	(3,907)	(3,445)	13.4	8.8
Other net income (expense)	284	189	50.3	(5.4)	232	(9)	c.s.	114.3
Gain (loss) on sale of fixed assets	275	269	2.5	n.m.	158	208	(24.0)	130.8
Impairment of goodwill and other assets	(16)	(3)	n.m.	n.m.	(15)	(2)	n.m.	n.m.
Operating income before D&A (OIBDA)	11,414	13,781	(17.2)	3.6	401	3,365	(88.1)	3.8
<i>OIBDA Margin</i>	<i>24.2%</i>	<i>31.7%</i>	<i>(7.5 p.p.)</i>	<i>(0.1 p.p.)</i>	<i>3.4%</i>	<i>28.3%</i>	<i>(24.9 p.p.)</i>	<i>0.2 p.p.</i>
Depreciation and amortization	(8,517)	(7,430)	14.6	3.5	(2,161)	(2,168)	(0.3)	1.6
Operating income (OI)	2,897	6,350	(54.4)	3.7	(1,760)	1,197	c.s.	6.5
Share of profit (loss) of investments	(5)	(498)	(99.0)		(1)	(437)	(99.8)	

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accounted for by the equity method						
Net financial income (expense)	(2,581)	(2,779)	(7.1)	(684)	(849)	(19.5)
Profit before taxes from continuing operations	311	3,074	(89.9)	(2,445)	(89)	n.m.
Corporate income tax	(13)	(260)	c.s.	313	260	20.5
Profit for the period from continuing operations	298	2,814	(89.4)	(2,132)	171	c.s.
Profit for the period from discontinued operations	2,582	439	n.m.	394	104	n.m.
Profit for the period	2,880	3,252	(11.4)	(1,738)	275	c.s.
Non-controlling interests	(135)	(251)	(46.2)	(95)	28	c.s.
Net Income	2,745	3,001	(8.5)	(1,832)	303	c.s.
Weighted average number of ordinary shares outstanding during the period (millions)	4,928	4,714	4.5	4,974	4,667	6.6
Continuing operations earnings per share (euros)	(0.02)	0.50	c.s.	(0.46)	0.03	c.s.
Discontinued operations earnings per share (euros)	0.52	0.09	n.m.	0.08	0.02	n.m.
Basic earnings per share (euros)	0.51	0.60	(15.2)	(0.38)	0.05	c.s.

Notes:

- The comparative figures for October-December 2014 have been modified with respect to those presented at the close of December 2014, solely for comparative purposes, due to the conversion to SICAD II 50 VEF/USD of those operations referenced to the Venezuelan bolivar in the first, second and third quarters of 2014. In the

January-December 2015 period the consolidated financial statements use the exchange rate of the Venezuelan bolivar set at the denominated SIMADI (as of 31 December this rate was set at 199 Venezuelan bolivars fuertes per dollar).

- From the first quarter of 2015 Telefónica UK's operations are reported as discontinued operations within the Telefónica Group and their assets and liabilities are classified as held for sale, in compliance with the IFRS, as a result of the signing of the definitive sale agreement of the company in March 2015. For comparative purposes, 2014 results are reported using these same criteria.

- The weighted average number of ordinary shares outstanding during the period has been obtained applying the IAS rule 33 Earnings per share. Thereby, the weighted average of shares held as treasury stock have not been taken into account as outstanding shares. On the other hand, the denominator is retrospectively adjusted for transactions that have changed the number of shares outstanding without a corresponding change in equity (as if such transactions had occurred at the beginning of the earliest period presented). For instance, the bonus share issue carried out to meet the scrip dividends paid in 2014 and in 2015, has been taken into account. Also, the ordinary shares that would be issued upon the conversion of the mandatorily convertible notes issued on 24 September 2014 are included in the calculation of earnings per share from that date.

- Continuing operations earnings per share is calculated dividing profit for the period from continuing operations including non-controlling interests, adjusted for the net coupon corresponding to Other equity instruments, by the weighted average number of ordinary shares outstanding during the period.

- Discontinued operations per share is calculated dividing profit for the period from discontinued operations by the weighted average number of ordinary shares outstanding during the period.

- Basic earnings per share ratio is 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.

- 2014 and 2015 reported figures include hyperinflationary adjustments in Venezuela in both years.

- Group consolidated results consolidate GVT and DTS results since 1 May 2015, consolidate E-Plus results since the fourth quarter 2014 and deconsolidate Telefónica Ireland's results since the third quarter 2014.

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TELEFÓNICA

GUIDANCE 2015

2014 Bases		Upgraded Operative Guidance 2015 (Jul-2015)		2015 Jan-Dec
42,794	Revenues (% Chg YoY)	Growth > 9.5%		12.3%
32.7%	OIBDA margin (Chg YoY)	Limited erosion of around 1.2 p.p. y-o-y (to allow for commercial flexibility if needed)		(1.1 p.p.)
16.7%	CapEx / Sales	Around 17%		16.9%
		Financial Guidance 2015 (unchanged)		
	Net financial debt / OIBDA	Net financial debt / OIBDA < 2.35x		2.38x

- Upgraded guidance criteria 2015: Assumes constant exchange rates as of 2014 (average FX in 2014). Excludes O2 UK and T. Venezuela. In addition OIBDA excludes write-offs, capital gains/losses from companies disposals, towers sales, material non-recurring impacts and restructuring charges mainly related to the voluntary employment suspension plan in Spain and to integration processes in Germany and

Brazil and the simplification programme. CapEx also excludes investment in spectrum and the Real Estate efficiency plan.

2014 adjusted bases exclude:

- OIBDA excludes additionally tower sales and the provision for restructuring charges.*
- CapEx excludes additionally investment in spectrum, the real estate efficiency plan and the investment in Telefónica's Headquarters in Barcelona.*

2014 adjusted bases include:

- E-Plus consolidated in T. Deutschland since the fourth quarter of 2014.*
- Ireland in January-June 2014.*

Financial guidance criteria 2015:

- Net financial debt / OIBDA adjusted for the O2 UK sale.*

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TELEFÓNICA

REPORTED VS. ORGANIC

Unaudited figures (Euros in millions)

	January - December			%	
	2015 Reported	2015 Organic	2014 Organic	Organic Change y-o-y	Reported Change y-o-y
Revenues	47,219	48,941	47,076	4.0	8.7
OIBDA	11,414	15,452	14,917	3.6	(17.2)
OIBDA margin	24.2%	31.6%	31.7%	(0.1 p.p.)	(7.5 p.p.)
Operating Income (OI)	2,897	6,754	6,515	3.7	(54.4)
CapEx	9,578	8,428	8,026	5.0	10.3
OpCF (OIBDA-CapEx)	1,835	7,024	6,892	1.9	(64.0)
		2015	2014		
Reported revenues		47,219	43,458		
Forex impact		1,842			
Hyperinflation in Venezuela		(119)	(187)		
Changes in the consolidation perimeter			3,804		

Organic revenues	48,941	47,076
Reported OIBDA	11,414	13,781
Forex impact	609	
Hyperinflation in Venezuela	8	(72)
Tower sales	(66)	(196)
Restructuring charges provision	3,212	658
Distribution channel reorganisation plan	30	
Impairments	23	
Commitments relating to the Telefónica Foundation	325	
Final settlement agreement related to the acquisition of E-Plus	(102)	
Changes in the consolidation perimeter		747
Organic OIBDA	15,452	14,917
Reported CapEx	9,578	8,681
Forex impact	412	
Hyperinflation in Venezuela	(8)	(35)
Spectrum acquisition	(1,554)	(1,290)
Real estate efficiency plan		(78)
Changes in the consolidation perimeter		748
Organic CapEx	8,428	8,026

Notes:

- *The breakdown of the effects for the reconciliation of reported vs. organic 2015 excludes the impacts of the forex and therefore it assumes average constant exchange rates as of December 2014. Forex impact on those effects is totally included under *Forex impact* epigraph.*

- **Organic criteria:** *Assumes constant exchange rates as of 2014 (average FX in 2014). Excludes the impact of hyperinflationary adjustments in Venezuela in both years and O2 UK results for both years after being classified as discontinued operations , and considers constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, tower sales, material non-recurring impacts and restructuring costs mainly related to the voluntary employment suspension plan in Spain and to integration processes in Germany and Brazil and the simplification programme. CapEx also excludes investment in spectrum and the Real Estate efficiency plan.*

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TELEFÓNICA

REPORTED VS. ORGANIC

Unaudited figures (Euros in millions)

	Octobre - December			%	
	2015 Reported	2015 Organic	2014 Organic	Organic Change y-o-y	Reported Change y-o-y
Revenues	11,881	12,878	12,470	3.3	(0.0)
OIBDA	401	4,147	3,996	3.8	(88.1)
OIBDA margin	3.4%	32.2%	32.0%	0.2 p.p.	(24.9 p.p.)
Operating Income (OI)	(1,760)	1,871	1,756	6.5	c.s.
CapEx	2,477	2,763	2,819	(2.0)	(34.2)
OpCF (OIBDA-CapEx)	(2,076)	1,384	1,177	17.6	n.m.

	2015	2014
Reported revenues	11,881	11,881
Forex impact	1,085	
Hyperinflation in Venezuela	(88)	(89)
Changes in the consolidation perimeter		678

Organic revenues	12,878	12,470
Reported OIBDA	401	3,365
Forex impact	381	
Hyperinflation in Venezuela	(13)	(30)
Tower sales	(20)	(138)
Restructuring charges provision	3,122	644
Distribution channel reorganisation plan	30	
Impairments	23	
Commitments relating to the Telefónica Foundation	325	
Final settlement agreement related to the acquisition of E-Plus	(102)	
Changes in the consolidation perimeter		155
Organic OIBDA	4,147	3,996
Reported CapEx	2,477	3,763
Forex impact	300	
Hyperinflation in Venezuela	(8)	(23)
Spectrum acquisition	(6)	(1,098)
Real estate efficiency plan		(6)
Changes in the consolidation perimeter		183
Organic CapEx	2,763	2,819

Notes:

- *The breakdown of the effects for the reconciliation of reported vs. organic 2015 excludes the impacts of the forex and therefore it assumes average constant exchange rates as of December 2014. Forex impact on those effects is totally included under *Forex impact* epigraph.*

- **Organic criteria:** *Assumes constant exchange rates as of 2014 (average FX in 2014). Excludes the impact of hyperinflationary adjustments in Venezuela in both years and O2 UK results for both years after being classified as discontinued operations, and considers constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, tower sales, material non-recurring impacts and restructuring costs mainly related to the voluntary employment suspension plan in Spain and to integration processes in Germany and Brazil and the simplification programme. CapEx also excludes investment in spectrum and the Real Estate efficiency plan.*

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TELEFÓNICA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited figures (Euros in millions)

	December 2015	December 2014	% Chg
Non-current assets	91,398	99,448	(8.1)
Intangible assets	18,562	22,227	(16.5)
Goodwill	21,745	25,437	(14.5)
Property, plant and equipment and Investment properties	30,549	33,155	(7.9)
Investments accounted for by the equity method	74	788	(90.6)
Non-current financial assets	10,008	10,973	(8.8)
Deferred tax assets	10,460	6,867	52.3
Current assets	31,576	22,900	37.9
Inventories	1,360	934	45.6
Trade and other receivables	8,301	10,637	(22.0)
Tax receivables	1,341	1,749	(23.3)
Current financial assets	2,971	2,932	1.3
Cash and cash equivalents	2,599	6,529	(60.2)
Non-current assets classified as held for sale	15,004	119	n.m.
Total Assets = Total Equity and Liabilities	122,974	122,348	0.5
Equity	27,556	30,321	(9.1)
Equity attributable to equity holders of the parent and other holders of equity instruments	17,891	21,135	(15.4)
Non-controlling interests	9,665	9,186	5.2
Non-current liabilities	60,549	62,318	(2.8)
Non-current interest-bearing debt	47,117	50,688	(7.0)
Non-current trade and other payables	2,381	2,384	(0.1)
Deferred tax liabilities	2,313	2,566	(9.9)
Non-current provisions	8,738	6,680	30.8
Current liabilities	34,869	29,709	17.4
Current interest-bearing debt	12,953	9,094	42.4
Current trade and other payables	14,235	16,951	(16.0)
Current tax payables	1,769	2,026	(12.7)
Current provisions	1,971	1,595	23.6
Liabilities associated with non-current assets held for sale	3,941	43	n.m.
Financial Data			

Net Financial debt (1)	49,921	45,087	10.7
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Note:

- From the first quarter of 2015 Telefónica's operations in the United Kingdom are reported as discontinued operations within the Telefónica Group and their assets and liabilities are classified as held for sale, in compliance with the IFRS, as a result of the signing of the definitive sale agreement of the company in March 2015.

- 2014 and 2015 reported figures include the hyperinflationary adjustments in Venezuela in both years.

- The consolidated statement of financial position for the year ended 31 December 2014 has been restated to reflect the final adjustment of the purchase accounting of E-Plus, which was finalized in the third quarter of 2015.

(1) Figures in million euros. Net Financial Debt in December 2015 includes: Non-current interest-bearing debt + Non-current trade and other payables (1,073) + Current interest-bearing debt + Current trade and other payables (462) - Non-current financial assets (5,793) - Current financial assets - Current trade and other receivables (321) - Cash and cash equivalents.

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TELEFÓNICA

FREE CASH FLOW AND CHANGE IN DEBT

Unaudited figures (Euros in millions)

		January - December		
		2015	2014	% Chg
I	Cash flow from operations	14,912	14,520	2.7
II	Net interest payment (1)	(2,410)	(2,505)	
III	Payment for income tax	(664)	(1,106)	
A=I+II+III	Net cash provided by operating activities	11,838	10,909	8.5
B	Net payment for investment in fixed and intangible assets	(9,183)	(8,000)	
	Spectrum (2)	(1,307)	(927)	
C=A+B	Net free cash flow after CapEx	2,655	2,909	(8.7)
D	Net Cash received from sale of Real Estate	36	5	
E	Net payment for financial investment (3)	(933)	(517)	
F	Net payment for operations with minority shareholders and treasury stock (4)	(1,303)	144	
G=C+D+E+F	Free cash flow after dividends from continuing operations	456	2,541	(82.1)
L	Free cash flow after dividends from discontinued operations	591	426	
H	Effects of exchange rate changes on net financial debt	(564)	2,405	
I	Effects on net financial debt of changes in consolid. and others	6,445	268	
J	Net financial debt at beginning of period	45,087	45,381	
K=J-G-L+H+I	Net financial debt at end of period	49,921	45,087	10.7

TELEFÓNICA

RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX FROM CONTINUING OPERATIONS

Unaudited figures (Euros in millions)

January - December

	2015	2014	% Chg
OIBDA	11,414	13,781	(17.2)
- CapEx accrued during the period	(9,578)	(8,681)	
- Payments related to cancellation of commitments	(721)	(704)	
- Net interest payment	(2,410)	(2,505)	
- Payment for tax	(664)	(1,106)	
- Gain (loss) on sale of fixed assets and impairment of goodwill and other assets	(259)	(265)	
- Investment In working capital and other deferred income and expenses (5)	4,874	2,390	
= Net Free Cash Flow after CapEx	2,655	2,909	(8.7)
+ Net Cash received from sale of Real Estate	36	5	
- Net payment for financial investment	(933)	(517)	
- Net payment for operations with minority shareholders and treasury stock	(1,303)	144	
= Free Cash Flow after dividends	456	2,541	(82.1)

Unaudited figures (Euros in millions)

January - December

	2015	2014	% Chg
Net Free Cash Flow after CapEx	2,655	2,909	(8.7)
+ Payments related to cancellation of commitments	721	704	
- Operations with minority shareholders	(537)	(327)	
= Free Cash Flow from continuing operations	2,839	3,286	(13.6)
+ Free Cash Flow from discontinued operations	675	531	27.1
= Free Cash Flow	3,514	3,817	(7.9)
Weighted average number of ordinary shares outstanding during the period (millions)	4,928	4,714	
= Free Cash Flow per share from continuing operations (euros)	0.58	0.70	(17.4)
= Free Cash Flow per share from discontinued operations (euros)	0.14	0.11	21.6
= Free Cash Flow per share (euros)	0.71	0.81	(11.9)

Notes:

- From the first quarter of 2015 Telefónica UK's operations are reported as discontinued operations within the Telefónica Group and their assets and liabilities are classified as held for sale, in compliance with the IFRS, as a result of the signing of the definitive sale agreement of the company in March 2015. For comparative purposes, 2014 results are reported using these same criteria.

- The comparative figures for October-December 2014 have been modified with respect to those presented at the close of December 2014, solely for comparative purposes, due to the conversion to SICAD II 50 VEF/USD of those operations referenced to the Venezuelan bolivar in the first, second and third quarters of 2014. In the January-December 2015 period the consolidated financial statements use the exchange rate of the Venezuelan bolivar set at the denominated SIMADI (as of 31 December this rate was set at 199 Venezuelan bolivars fuertes per dollar).

- 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.

- 2014 and 2015 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) Figures in million euros. 2015 includes: 978 in Germany, 196 in Argentina, 68 in Ecuador, 49 in Spain, 8 in Colombia, 6 in Chile and 2 in Nicaragua. 2014 includes: 545 in Brazil, 166 in Argentina, 93 in Colombia, 82 in Panama and 2 in Nicaragua.

(3) In 2015 includes the contribution of minorities in the share capital increase of Telefónica Brasil, the sale of Telecom Italia S.p.A., the sale of yourfone GmbH, the payment for the purchase of GVT and DTS and the purchase of a minority stake in Mediaset Premium. In 2014, includes the sale of T. Czech Republic, the sale of T. Ireland and the acquisition to Mediaset of its 22% stake in DTS, the acquisition of E-Plus, the capital increase of Telefónica Deutschland and the sale of 2% stake in China Unicom

(4) Dividends paid by Telefónica S.A., operations with treasury stock, issuance of shares, 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 consolidated through the equity method.

(5) In 2015 includes 3,019 million euros related to restructuring cost provision, mainly in Spain.

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TELEFÓNICA

NET FINANCIAL DEBT PLUS COMMITMENTS

Unaudited figures (Euros in millions)

December 2015

	Long-term debt (1)	48,190
	Short term debt including current maturities (2)	13,415
	Cash and cash equivalents	(2,599)
	Short and Long-term financial investments (3)	(9,085)
A	Net Financial Debt	49,921
	Gross commitments related to employee benefits (4)	6,070
	Value of associated Long-term assets (5)	(736)
	Taxes receivable (6)	(1,666)
B	Net commitments related to employee benefits	3,668
A + B	Total Debt + Commitments	53,589
	Net Financial Debt / OIBDA (7)	2.91x

- Notes:

- From the first quarter of 2015 Telefónica's operations in the United Kingdom are reported as discontinued operations within the Telefónica Group and their assets and liabilities are classified as held for sale, in compliance with the IFRS, as a result of the signing of the definitive sale agreement of the company in March 2015.

- 2015 reported figures include the hyperinflationary adjustments in Venezuela.

(1) Includes Non current interest-bearing debt and 1,073 million euros of Non-current trade and other payables.

(2) Includes Current interest-bearing debt and 462 million euros of Other current payables .

(3) Includes Current financial assets , 5,793 million euros of Non-current financial assets and 321 million euros of Trade and other current receivables .

(4) Mainly in Spain. This amount is detailed in the captions Long-term provisions and Short-term provisions and other liabilities of the Statement of Financial Position, and is the result of adding the following items: Provision for Pre-retirement, Social Security Expenses and Voluntary Severance , Group Insurance , Technical Reserves , Provisions for Pension Funds of Other Companies and Voluntary Employment Suspension Plan .

(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) OIBDA 12 month rolling, not considering O2 UK discontinuation, incorporating DTS and GVT OIBDA corresponding to January - April 2015 and excluding the non-recurring impact from restructuring costs in the 12 months rolling and the firm commitments relating to the Telefónica Foundation s social activities.

TELEFÓNICA

EXCHANGES RATES APPLIED

	P&L and CapEx (1)		Statement of Financial Position (2)	
	Jan - Dec 2015	Jan - Dec 2014	December 2015	December 2014
USA (US Dollar/Euro)	1.109	1.326	1.089	1.214
United Kingdom (Sterling/Euro)	0.726	0.806	0.734	0.779

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Argentina (Argentine Peso/Euro)	10.220	10.751	14.197	10.382
Brazil (Brazilian Real/Euro)	3.643	3.117	4.251	3.225
Chile (Chilean Peso/Euro)	723.914	756.710	773.150	736.654
Colombia (Colombian Peso/Euro)	3,016.491	2,650.032	3,428.826	2,904.688
Costa Rica (Colon/Euro)	599.520	722.022	593.120	662.252
Guatemala (Quetzal/Euro)	8.489	10.255	8.309	9.223
Mexico (Mexican Peso/Euro)	17.569	17.655	18.779	17.898
Nicaragua (Cordoba/Euro)	30.229	34.445	30.405	32.293
Peru (Peruvian Nuevo Sol/Euro)	3.530	3.767	3.713	3.614
Uruguay (Uruguayan Peso/Euro)	30.181	30.779	32.604	29.543
Venezuela (Bolivar Fuerte/Euro) (3)	216.310	60.691	216.310	60.691

(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 31/12/15 and 31/12/14.

(3) After considering Venezuela as a hyperinflationary country, the P&L and CapEx for Telefónica's operations in Venezuela are converted to the Bolivar Fuerte/Euro exchange rate at close. In 2014 they are reported adjusting the exchange rate of Venezuela from SICAD I to SICAD II 50 VEF/USD, following the adoption of SICAD II 50 VEF/USD. In the January-December 2015 period the consolidated financial statements use the exchange rate of the Venezuelan bolivar set at the denominated SIMADI (as of 31 December this rate was set at 199 Venezuelan bolivars fuertes per dollar).

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NET FINANCIAL DEBT STRUCTURE BY CURRENCY

Unaudited figures

	December 2015			
	EUR	LATAM	GBP	USD
Net financial debt structure by currency	70%	13%	14%	3%

TOTAL FINANCIAL LIABILITIES BREAKDOWN

Unaudited figures

	December 2015		
	Bonds and commercial paper	Debt with financial (including institutions)	Other financial debt (including governments) and net derivatives
Total financial liabilities	84%	16%	0%

CREDIT RATINGS

	Long-Term	Short-Term	Perspective	Date of last rating char
Moody's	Baa2	P-2	Stable	3/25/2015

S&P¹ BBB A-2 Positive 5/28/2015

Fitch¹ BBB+ F-2 Stable 6/26/2015

(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

Closing date	Amount (m)	Currency	Issuer
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lease	17-Apr-15	3,048	EUR	Telefónica, S.A.
lease	5-May-15	4,044	BRL	Telefônica Brasil, S.A.

Issue date	Amount (m)	Currency	Issuer	Coupon	Maturity date	IS
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LOANS AND BONDS

Standardleihen/ Kreditverschreibung (1)	13-Mar-15	300	EUR	Telefónica Germany, GmbH & Co	2.375% (1)	13-Mar-32 (1)	
	18-Jun-15	300	EUR	Telefónica Emisiones, S.A.U.	Euribor 3M + 0.330%	Interest Payment Date falling in June 17	XS1
	21-Jul-15	67	EUR	Telefónica Emisiones, S.A.U.	Euribor 6M + 0.830%	Interest Payment Date falling in July 2022	XS1
	24-Jul-15	2	UF	Telefónica Móviles Chile	2.200%	20-Jun-20	BTM
	20-Aug-15	2	UF	Telefónica Móviles Chile	1.950%	14-Aug-20	BTM
	14-Sep-15	1,000	EUR	Telefónica Emisiones, S.A.U.	1.477%	14-Sep-21	XS1
	11-Dec-15	100	EUR	Telefónica Emisiones, S.A.U.	Euribor 3M + 0.530%	Interest Payment Date	XS1

falling in
December
2017

Issue date	Amount (m)	Currency	Issuer	Coupon	First Call date	IS
DEEPLY SUBORDINATED RESET RATE SECURITIES						
30-Mar-15	500	USD	Colombia Telecomunicaciones, S.A. ESP	8.500%	30-Mar-20	USP2

Signing date	Amount	Currency	Borrower	Maturity date
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BEARING DEBT

facility	19-Feb-15	2,500	EUR	Telefónica, S.A.	19-Feb-21 (4)
facility (3)	19-Feb-15	3,000	EUR	Telefónica, S.A.	18-Feb-20 (4)
an	30-Jun-15	200	EUR	Telefónica, S.A.	30-Jun-20
an	16-Jul-15	175	EUR	Telefónica, S.A.	16-Jul-17
an	16-Jul-15	125	EUR	Telefónica, S.A.	19-Mar-19
	12-Oct-15	1,050	PEN	Telefónica del Perú, S.A.A	15-Aug-20
an	13-Nov-15	100	EUR	Telefónica, S.A.	13-Nov-20
facility	17-Nov-15	3,000	EUR	Telefónica, S.A.	17-Feb-18
plies	11-Dec-15	750	USD	Telefónica, S.A.	11-Mar-26 (5)
plies	11-Dec-15	500	EUR	Telefónica, S.A.	11-Mar-26 (5)
an	23-Feb-16	100	EUR	Telefónica, S.A.	23-Feb-21
an	23-Feb-16	100	EUR	Telefónica, S.A.	23-Feb-19

1. Maximum coupon and maturity date

2. Santiago exchange code

3. Amendment to the 3,000 million euros syndicated credit facility arranged on February 18, 2014

4. One year maturity extension option applied in February 2016

5 Maturity of final tranche

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TELEFÓNICA ESPAÑA

Telefónica España's financial and operating results consolidate DTS from 1 May 2015, the date upon which it was incorporated into the Telefónica Group perimeter. In order to facilitate year-on-year comparisons, the organic change also includes DTS from 1 May to 31 December 2014.

The commercial activity in the quarter was underpinned by the quality of the Company's assets and by the positive reception of the new convergent offer Movistar Fusión+ launched in July, as well as by the promotion that included all TV Premium Extra content for 9.90 euros/month, launched in August, to which almost 700 thousand customers were subscribed, highlighting the solid TV and ultrafast fibre proposal, in an economic environment in which private consumption continued to improve.

It is worth noting the reduction in churn in 2015, particularly noticeable following the elimination of permanent contracts in Fusión on 1 August, which, together with the improved performance in gross additions, translated into very positive commercial results. As such, annual net additions of broadband almost doubled vs. 2014, in fibre grew by 25%, growth returned in contract mobile (234 thousand accesses) and in fixed telephony the net loss decreased by 31%.

This was reflected in a significant improvement in T. España's revenues (excluding DTS), which accelerated their growth in the fourth quarter to +0.8% year-on-year (+0.6 percentage points vs. the third quarter).

Meanwhile, T. España's revenues, including the consolidation of DTS, increased 6.0% year-on-year in the fourth quarter (-2.0% organic), and the margin stood at 40.2% organic (42.1% in the year).

It must be noted that the aforementioned margins exclude the impact of tower sales and the extraordinary provision of 2,926 million euros booked in this quarter and associated mainly with a voluntary employment suspension plan which shall be implemented in 2016 and 2017. Thus, the results in the next financial years shall benefit from average annual savings in direct expenses in the region of 370 million euros from 2017, with a positive impact on cash flow generation from the first year.

Likewise, the continuous effort to improve the quality and coverage of the networks (14.3 million premises passed with fibre and 75% population coverage with LTE), the integration of the most complete content offer (including all football until 2019) and the launch of the exclusive Movistar#0 channel in February 2016 contributed to strengthening a solid starting position from which to approach 2016.

On the other hand, regarding the process of the commercial offering redefinition and subsequent to the close of the year, highlights included: i) increased mobile data allowance from 2GB to 3GB in all the main Fusión lines and additional mobile lines, with an update of the monthly charges for both services (+3 euros VAT included) in February; ii) update of tariffs in the fixed broadband non-convergent services portfolio (+3 euros VAT included) in January; iii) update of tariffs in the Vive contract mobile portfolio, except Vive 45, (+1 euro VAT included) also in January. Additionally, in December a new prepay mobile portfolio was launched including 4G mobile data which improved the positioning of the offering in this segment.

Telefónica España **accesses** stood at 42.0 million at the end of the year, following the incorporation of DTS satellite TV accesses (0.9 million in December) with retail accesses growing 3.1% year-on-year to 36.9 million (-2.3% in 2014). Excluding this impact, total accesses remained practically stable (-0.4% year-on-year).

- g **Movistar Fusión** improved its quarterly net additions to 145 thousand accesses (126 thousand in July-September), reaching 4.2 million customers and 1.5 million additional mobile lines, and maintained solid year-on-year growth (+13% and +8% respectively), representing in the consumer segment 81% of fixed broadband customers and 63% in contract mobile.

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The capture of high-value customers continued to prevail since, out of the Movistar Fusión quarterly additions, 90% incorporated new services, 50% corresponded to completely new Movistar customers, and 47% took out ultrafast fibre.

It is worth noting the strong growth in the penetration of high-value services in Movistar Fusión ; 32% of customers enjoy ultrafast fibre of 100 or 300 Mb (+11 percentage points year-on-year) and 62% Pay TV (+18 percentage points year-on-year).

The ARPU for the quarter increased by 7.3% year-on-year to 74.4 euros due to the impact of the repositioning of tariffs since May 2015 and the migration towards higher value bundles (fibre and TV).

However, in the quarter the ARPU growth year-on-year was partially offset by the impact of the TV Premium Extra promotion for 9.90 euros/month until 31 December, although it should be mentioned that following the end of the promotion the uptake of TV packages by customers has been very positive.

Compared to the previous quarter, the ARPU evolution reflected the higher seasonal consumption in certain services during the summer months.

On the other hand, churn stood at 1.2%, stable both year-on-year and quarter-on-quarter.

g **Retail fixed telephony** accesses (-4% compared to December 2014), presented once again their best quarterly performance since the launch of Movistar Fusión in 2012, with a net loss of 59 thousand accesses (-442 thousand in the year) underpinned by higher gross additions (+7% year-on-year) and reduced churn (1.3%, -0.2 percentage points year-on-year).

g **Retail broadband** accesses presented net additions of 56 thousand accesses in the quarter, the highest number since the launch of Movistar Fusión (and more than four times those of the fourth quarter of 2014), and 76 thousand in the year, adding up to 6.0 million (+1% year-on-year), thanks to the higher volume of gross additions of fibre (+22%) and improved churn performance (1.4% in the quarter and in the year, -0.1 percentage points year-on-year in both cases).

The quarterly ARPU reached 30.0 euros (+17.2% year-on-year), impacted by the greater weight of TV and ultra broadband customers and the allocation of Movistar Fusión revenues.

Fibre accesses increased from October to December by 272 thousand and recorded a new record in annual net additions (906 thousand) taking the base to 2.2 million (1.7x compared to 2014), accounting for 37% of total fixed broadband accesses (+15 percentage points year-on-year). Meanwhile, two thirds of fibre accesses benefitted from the new speeds (30 and 300 Mb) launched in May.

Ultrafast fibre accesses of 100 or 300 Mb (with additional ARPU of 12 euros, VAT included) increased to 1.5 million (69% of total fibre accesses), following a new record in net additions in the quarter (152 thousand; 499 thousand in the year) driven by the growth in additions (+24% year-on-year) and the containment of churn (1.0%, +0.1 percentage points year-on-year), and continued to reflect customers preference for higher speeds (63% of fibre gross additions).

Fibre to the home coverage continued to be a European benchmark and reached 14.3 million premises passed, 4.0 million more than in 2014 (+0.9 million in the quarter).

- g **Pay TV** accesses totalled 3.7 million, 10% more compared to December 2014 in organic terms, and included 926 thousand DTS satellite TV accesses. Net additions from October to December improved sequentially to 88 thousand accesses, as a result of 242 thousand net additions in T. España (without DTS) and the lower quarterly net loss of DTS accesses, affected by the migration of customers to Movistar .

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The quarterly churn excluding DTS (1.6%; +0.5 percentage points year-on-year; +0.2 percentage points vs. the third quarter) was slightly impacted by the elimination of permanent contracts in a market with intense commercial activity, ending the year at 1.3%, stable year-on-year.

g The total base of **mobile accesses** stood at 17.3 million, 2.0% lower than in 2014. The **contract** base accelerated its growth throughout the year, to 2% year-on-year in December, with net additions of 90 thousand accesses in October-December as a main highlight (1.6x higher than the same period of 2014). Stripping out M2M, quarterly mobile contract net additions would increase to 17 thousand accesses (+53% year-on-year) with a weaker portability performance vs. the previous quarter in an environment of higher competitive intensity during the Christmas campaign.

Nevertheless, the better performance in the portability balance in 2015 is worth highlighting (-162 thousand versus -508 thousand in 2014) which enabled mobile contract net additions, excluding M2M, to turn positive again throughout the year (+68 thousand vs. -113 thousand in 2014).

Contract churn excluding M2M remained at 1.3% in the fourth quarter (stable versus the previous quarter, -0.2 percentage points year-on-year).

ARPU reached 15.2 euros in the quarter (-2.2% year-on-year), although it was strongly conditioned by the different allocation of revenue of convergent bundles.

g **Smartphone** penetration at the end of the year increased to 66% of the base (+6 percentage points year-on-year) and continued to be the principal lever of data traffic increase (+67% year-on-year). LTE coverage reached 75% of the population, accelerating 9 percentage points vs. September (+17 percentage points vs. 2014) thanks to the boost from the implementation of the 800 MHz band once the interferences with the TDT were cleaned up. Thus, LTE customers totalled 3.3 million, almost doubling those of one year ago, and LTE penetration stood at 21% (+10 percentage points year-on-year).

Revenue included DTS contribution from 1 May 2015 and reached 3,220 million euros in the quarter (+6.0% year-on-year) and 12,402 in the year (+3.2% year-on-year). In organic terms, revenue decreased by 2.0% year-on-year in October-December (-2.1% in January-December).

Excluding the incorporation of DTS, revenue in the fourth quarter increased by 0.8% (+0.2% the previous quarter) and decreased by 1.0% in 2015, reflecting a significant recovery vs. the decline of 7.2% recorded in 2014.

The mobile-fixed revenue breakdown is becoming less and less relevant due to the allocation of revenue of a convergent offer with high penetration. However:

g

Fixed business revenue (2,483 million euros in October-December) increased 0.5% year-on-year organic due to the repositioning of tariffs, the higher revenues in retail broadband, wholesale TV and IT services, and despite the negative DTS contribution (-4.1 percentage points to the organic change). Customer repositioning after the end of the TV promotion is expected to generate incremental revenue of around 30 million euros in the first quarter of 2016 (vs. the fourth quarter).

- g **Mobile business revenue** (1,117 million euros in the fourth quarter) declined 1.9% year-on-year organic, reflecting renewed tariffs, higher mobile data revenue and the decline in MVNOs wholesale revenue. The year-on-year performance improved sequentially (-2.6% in the third quarter) due to higher handset sales (+6.6% year-on-year; +1.5% in the previous quarter).

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Operating expenses include DTS from 1 May 2015 and reached 4,952 million euros in October-December and 10,526 in the year. Nonetheless, they were impacted by the provision of 2,896 million euros accrued as personnel expenses in the quarter, associated with a Voluntary Employment Suspension Plan within the framework of a broad social agreement. In organic terms, operating expenses including DTS increased 0.4% year-on-year in October-December (-0.1% in 2015) due to higher personnel costs not offset by lower supplies.

It should be underlined that gross content costs in the quarter increased 2.6% year-on-year organic, with individual year-on-year performance in T.España (ex-DTS) and DTS not being representative due to the allocation criteria. Meanwhile, net content costs (of TV wholesale revenue) reduced 8.0% year-on-year organic in the quarter.

Breakdown by item:

- g **Supplies** (867 million euros in October-December) declined by 2.6% organic year-on-year (-2.7% in January-December) mainly due to the reduction in interconnection and network equipment expenses.

The worse year-on-year performance of these expenses in the quarter vs. the previous one (-8.3% in July-September) is primarily due to the positive impact of the assets valuation adjustment made in the third quarter in DTS (38 million euros) and to a lesser extent, to the higher growth of gross cost of TV contents and the increased purchase of mobile handsets.

- g **Personnel expenses** (582 million in the quarter before the abovementioned provision) increased 4.4% year-on-year organic affected by a higher expense in incentives in October-December, and 4.0% in the year, reflecting the resumption of the Company's contribution to the pension plan from the third quarter of 2014.

At the end of 2015, the total headcount of Telefónica España stood at 32,171 employees including DTS.

- g **Other operating expenses** (608 million euros in October-December) increased by 1.2% organically (-0.5% in January-December) due to higher real estate and network expenses, and due to the payment of the fee for the 800 MHz band from April 2015. Nevertheless, the year-on-year performance improved in the quarter (+3.2% in the third quarter).

Due to the allocation criteria of content costs already mentioned, the year-on-year evolution of OIBDA at T. España (ex-DTS) is not representative.

OIBDA including the consolidation of DTS since 1 May (with a contribution of 35 million euros) reached 2,336 million euros in 2015, strongly impacted by the extraordinary provisions in the quarter.

OIBDA in the fourth quarter would stand at 1,272 million excluding non-recurrent impacts, with a year-on-year decline of 6.4% without including those factors: i) provision for an amount of 2,926 million euros (2,896 million in personnel expenses and 30 million in other net income (expense) associated to a optimisation plan for the distribution channel); ii) capital gains from the sale of real estate (22 million in the fourth quarter of 2015 vs 41 million in the

fourth quarter of 2014); iii) capital gains from the sale of towers (136 million in the fourth quarter of 2014).

In 2015 the following should also be considered: i) capital gains from the sale of real estate in the first nine months of the year (51 million euros); ii) an assets valuation adjustment in DTS (38 million euros in the third quarter of 2015); iii) capital gains from the sale of towers (38 million in the first quarter of 2015 vs. 55 million in the first nine months of 2014).

As such, **OIBDA margin** in organic terms (affected in part by the incorporation of DTS) stood at 40.2% in October-December and at 42.1% in January-December, with a year-on-year decline of 2.4 percentage points in the quarter and 1.0 percentage points in the year.

CapEx including DTS from 1 May 2015 reached 1,827 million euros, and increased by 4.5% year-on-year organic (+5.5% reported) due to the continuous investment in growth projects.

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TELEFÓNICA ESPAÑA

Including DTS from 1 May 2015

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December		% Chg		October - December		% Chg	
	2015	2014	Reported	Organic	2015	2014	Reported	Organic
Revenues	12,402	12,023	3.2	(2.1)	3,220	3,038	6.0	(2.0)
Revenues ex-handset revenues	11,742	11,355	3.4	(2.2)	3,000	2,832	5.9	(2.6)
Mobile Business	4,337	4,556	(4.8)	(4.8)	1,117	1,138	(1.9)	(1.9)
Mobile service revenues	3,677	3,888	(5.4)	(5.4)	897	932	(3.7)	(3.7)
Data revenues	1,619	1,508	7.4	7.4	418	379	10.5	10.5
Handset revenues	661	668	(1.2)	(1.2)	220	207	6.6	6.6
Fixed Business	9,359	8,543	9.6	1.9	2,483	2,225	11.6	0.5
FBB and new services (1)	5,436	4,368	24.5	8.4	1,478	1,141	29.6	6.5
Voice & access revenues	3,077	3,547	(13.3)	(13.3)	770	854	(9.8)	(9.8)
Other	846	627	34.9	34.9	234	230	1.9	1.9
Internal expenditure capitalized in fixed assets	350	316	10.8	10.8	100	92	8.7	8.7
Operating expenses	(10,526)	(6,965)	51.1	(0.1)	(4,952)	(1,783)	177.8	0.4
Supplies	(2,996)	(2,592)	15.6	(2.7)	(867)	(712)	21.7	(2.6)
Personnel expenses	(5,173)	(2,139)	141.8	4.0	(3,477)	(538)	n.m.	4.4
Other operating expenses	(2,356)	(2,234)	5.5	(0.5)	(608)	(533)	14.2	1.2
Other net income (expense)	(29)	32	c.s.	(96.8)	(29)	3	c.s.	(95.6)

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Gain (loss) on sale of fixed assets	136	268	(49.4)	30.7	27	202	(86.5)	(56.4)
Impairment of goodwill and other assets	2	(3)	c.s.	c.s.	4	(2)	c.s.	c.s.
Operating income before D&A (OIBDA)	2,336	5,671	(58.8)	(4.3)	(1,631)	1,551	c.s.	(0.0)
OIBDA Margin	18.8%	47.2%	(28.3 p.p.)	(1.0 p.p.)	n.m.	51.0%	c.s.	(2.4 p.p.)
CapEx	1,827	1,732	5.5	4.5	505	546	(7.4)	(7.6)
Spectrum	49	-	-	-	-	-	-	-
OpCF (OIBDA-CapEx)	509	3,939	(87.1)	(8.3)	(2,136)	1,005	c.s.	(7.5)

Note:

- The reported figures have been adjusted including DTS in Telefónica España's consolidation perimeter from 1 May 2015. The reported figures up to September included DTS in Other Companies and Eliminations (Telefónica Group).

- OIBDA and OI before management and brand fees.

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

TELEFÓNICA ESPAÑA

Without including DTS

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December		% Chg		October - December		% Chg	
	2015	2014	Reported	Organic	2015	2014	Reported	Organic
Revenues	11,905	12,023	(1.0)	(1.0)	3,063	3,038	0.8	0.8
Revenues ex-handset revenues	11,244	11,355	(1.0)	(1.0)	2,842	2,832	0.4	0.4
Mobile Business	4,337	4,556	(4.8)	(4.8)	1,117	1,138	(1.9)	(1.9)
	3,677	3,888	(5.4)	(5.4)	897	932	(3.7)	(3.7)

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Mobile service revenues									
Data revenues	1,619	1,508	7.4	7.4	418	379	10.5	10.5	
Handset revenues	661	668	(1.2)	(1.2)	220	207	6.6	6.6	
Fixed Business FBB and new services (1)	8,861	8,543	3.7	3.7	2,325	2,225	4.5	4.5	
Voice & access revenues	4,939	4,368	13.1	13.1	1,321	1,141	15.8	15.8	
Other	3,077	3,547	(13.3)	(13.3)	770	854	(9.8)	(9.8)	
Internal expenditure capitalized in fixed assets	846	627	34.9	34.9	234	230	1.9	1.9	
Operating expenses	350	316	10.7	10.7	100	92	8.6	8.6	
Supplies	(10,064)	(6,965)	44.5	2.9	(4,797)	(1,783)	n.m.	6.7	
Personnel expenses	(2,728)	(2,592)	5.2	5.2	(792)	(712)	11.2	11.2	
Other operating expenses	(5,120)	(2,139)	139.3	4.0	(3,456)	(538)	n.m.	4.2	
Other net income (expense)	(2,217)	(2,234)	(0.8)	(0.8)	(549)	(533)	3.1	3.1	
Gain (loss) on sale of fixed assets	(30)	32	c.s.	c.s.	(30)	3	n.m.	(94.5)	
Impairment of goodwill and other assets	138	268	(48.5)	33.8	28	202	(86.1)	(55.2)	
Operating income before D&A (OIBDA)	2	(3)	c.s.	c.s.	4	(2)	c.s.	c.s.	
OIBDA Margin	2,301	5,671	(59.4)	(5.3)	(1,633)	1,551	c.s.	(8.6)	
CapEx	19.3%	47.2%	(27.8 p.p.)	(2.0 p.p.)	n.m.	51.0%	c.s.	(4.3 p.p.)	
Spectrum	1,805	1,732	4.2	4.3	495	546	(9.3)	(8.2)	
OpCF (OIBDA-CapEx)	49	-	-	-	-	-	-	-	
	496	3,939	(87.4)	(9.6)	(2,128)	1,005	c.s.	(8.8)	

Note:

- The reported figures do not include DTS.

- 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.

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TELEFÓNICA ESPAÑA

ACCESSES

Unaudited figures (Thousands)

	2014				2015				% Chg
	March	June	September	December	March	June	September	December	
Final Clients									
Accesses	35,588.4	35,702.4	35,845.3	35,836.7	35,882.6	36,958.2	36,868.1	36,935.6	3.1
Fixed telephony accesses									
(1)	10,883.9	10,715.4	10,595.2	10,447.8	10,321.9	10,126.6	10,064.9	10,005.6	(4.2)
Internet and data accesses	5,909.5	5,913.8	5,920.9	5,928.7	5,972.7	5,905.1	5,947.8	6,000.0	1.2
Broadband	5,860.3	5,862.0	5,872.7	5,885.9	5,928.3	5,861.0	5,906.1	5,962.0	1.3
Fibre	701.3	861.0	1,068.9	1,316.8	1,560.3	1,720.7	1,950.5	2,223.0	68.8
Mobile accesses	18,064.7	17,863.6	17,749.7	17,575.4	17,448.6	17,330.7	17,272.0	17,258.5	(1.8)
Prepay	3,996.7	3,767.8	3,559.2	3,328.1	3,122.6	2,989.1	2,881.1	2,777.1	(16.6)
Contract	14,068.0	14,095.8	14,190.5	14,247.3	14,325.9	14,341.6	14,390.9	14,481.4	1.6
M2M	1,446.6	1,491.9	1,566.9	1,612.4	1,662.4	1,726.5	1,705.6	1,778.8	10.3
Pay TV									
(2)	730.3	1,209.5	1,579.4	1,884.7	2,139.5	3,595.7	3,583.4	3,671.5	94.8
Wholesale									
Accesses	5,150.3	5,238.0	5,309.0	5,366.0	5,333.6	5,286.7	5,200.4	5,037.7	(6.1)
Unbundled loops	3,910.8	3,979.1	4,034.1	4,087.3	4,007.1	3,908.6	3,811.9	3,647.3	(10.8)
Wholesale circuits and line rentals	1,239.5	1,258.9	1,274.9	1,278.7	1,326.5	1,378.1	1,388.5	1,390.4	8.7
Total									
Accesses	40,738.7	40,940.4	41,154.3	41,202.7	41,216.2	42,244.9	42,068.4	41,973.3	1.9

(1) Includes fixed wireless and VoIP accesses.

(2) From the second quarter of 2015, Pay TV accesses include DTS.

MOBILE ACCESSES

Unaudited figures (thousands)

	2014				2015				% Chg
	March	June	September	December	March	June	September	December	
Pay TV percentage	22.1%	21.1%	20.1%	18.9%	17.9%	17.2%	16.7%	16.1%	(2.8 p.p.)
Contract pay percentage	77.9%	78.9%	79.9%	81.1%	82.1%	82.8%	83.3%	83.9%	2.8 p.p.
Smartphones (000)	8,738.2	8,989.7	9,008.8	9,535.9	9,801.4	9,877.2	10,052.6	10,169.0	6.6
Contract pay	567.2	590.4	442.5	404.2	365.7	351.4	348.8	383.5	(5.1)
Contract pay	8,171.0	8,399.3	8,566.3	9,131.7	9,435.7	9,525.8	9,703.8	9,785.5	7.2
Smartphone penetration	53.6%	55.9%	56.5%	60.6%	62.8%	64.0%	65.2%	66.3%	5.7 p.p.
Contract pay	14.2%	15.7%	12.4%	12.2%	11.7%	11.8%	12.1%	13.8%	1.7 p.p.
Contract pay	66.4%	68.1%	69.2%	73.5%	75.6%	76.5%	77.4%	77.9%	4.4 p.p.
Revenue (000)	959.2	1,205.7	1,409.6	1,792.6	2,159.0	2,554.0	2,996.0	3,293.0	83.7
Smartphone penetration	5.8%	7.4%	8.7%	11.2%	13.7%	16.4%	19.2%	21.3%	10.0 p.p.

FUSIÓN ACCESSES

Unaudited figures (thousands)

	2014				2015				% Chg
	March	June	September	December	March	June	September	December	
Fusión Customers	3,221.3	3,389.3	3,557.5	3,716.9	3,905.9	3,921.8	4,048.2	4,193.2	12.8
Fibre 100 / 300	505.3	577.1	649.2	774.8	910.3	976.3	1,137.8	1,333.2	72.1
IPTV / Satellite	538.7	922.0	1,320.7	1,660.2	1,935.9	2,046.5	2,331.0	2,617.0	57.6
Mobile add-ons	1,245.0	1,303.6	1,352.9	1,394.9	1,436.2	1,453.9	1,476.5	1,500.6	7.6

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	2014				2015				% Chg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Fusión ARPU (EUR)	70.2	68.8	69.7	69.3	69.6	71.8	75.5	74.4	7.3
Fusión churn	1.3%	1.1%	1.0%	1.1%	0.9%	1.4%	1.1%	1.2%	0.1 p.p.
	Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec	% Chg
Fusión ARPU (EUR)	70.2	69.4	69.5	69.5	6,962.4	70.7	72.4	72.9	4.9
Fusión churn	1.3%	1.2%	1.1%	1.1%	0.9%	1.2%	1.2%	1.2%	0.1 p.p.

SELECTED OPERATIONAL MOBILE BUSINESS DATA

Selected figures	2014				2015				% Chg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Traffic (minutes)	8,588	8,988	8,992	9,033	8,869	9,180	9,080	9,239	2.3
Data traffic (TB)	14,058	15,197	18,295	22,278	24,874	29,826	38,582	37,129	66.7
ARPU (EUR)	16.1	16.0	16.0	15.5	15.0	15.3	15.7	15.2	(2.2)
Churn (1)	6.3	6.0	6.6	5.9	5.5	5.6	6.2	5.5	(6.8)
Revenue (EUR)	21.0	20.8	20.6	20.0	19.2	19.6	19.9	19.3	(3.4)
Operating margin (EUR)	6.9	6.9	7.1	7.1	7.2	7.6	8.3	8.1	12.9
Operating margin over expenses	94.8%	95.4%	94.5%	95.3%	95.5%	95.5%	95.1%	95.8%	0.5 p.p.
Operating margin over expenses (1)	3.5%	2.0%	1.8%	1.9%	1.8%	1.6%	1.6%	1.5%	(0.3 p.p.)
Operating margin over expenses (1)	2.2%	1.7%	1.5%	1.5%	1.5%	1.4%	1.3%	1.3%	(0.2 p.p.)
	Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec	% Chg
Traffic (minutes)	8,588	17,575	26,567	35,600	8,869	18,049	27,129	36,368	2.2
Data traffic (TB)	14,058	29,255	47,549	69,827	24,874	54,700	93,282	130,411	86.8
ARPU (EUR)	16.1	16.0	16.0	15.9	15.0	15.2	15.3	15.3	(3.6)
Churn (1)	6.3	6.1	6.3	6.2	5.5	5.6	5.8	5.7	(8.2)
Revenue (EUR)	21.0	20.9	20.8	20.6	19.2	19.4	19.6	19.5	(5.3)
Operating margin (EUR)	6.9	6.9	7.0	7.0	7.2	7.4	7.7	7.8	11.0
Operating margin over expenses	94.8%	95.1%	94.9%	95.0%	95.5%	95.5%	95.4%	95.5%	0.5 p.p.
Operating margin over expenses (1)	3.5%	2.8%	2.5%	2.3%	1.8%	1.7%	1.7%	1.6%	(0.7 p.p.)
Operating margin over expenses (1)	2.2%	1.9%	1.8%	1.7%	1.5%	1.4%	1.4%	1.4%	(0.3 p.p.)

Notes:

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

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

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

(1) Excludes M2M.

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03

TELEFÓNICA DEUTSCHLAND

(year-on-year changes in organic terms)

In 2015, Telefónica Deutschland maintained market momentum, increasing slightly mobile service revenue market share while at the same time successfully delivering its improved integration targets (280 million euros in 2015). Mobile service revenue came in broadly stable as guided for the full year, with continued strength in the partner business. As a result of the accelerated execution of synergies and the optimisation of commercial costs, Telefónica Deutschland also achieved its upgraded OIBDA guidance. In 2016, the Company will be moving from integration to transformation and will push ahead with core projects such as network integration, IT transformation and brand migration.

Commercially, Telefónica Deutschland launched a new VDSL campaign at the end of December 2015, supporting its positioning with regards to convergence. In addition, in early February 2016 the company launched Blue One , bringing together various fixed/mobile product combination under a single brand name. Additionally, it continued to follow a focused approach based on retaining its value customers after the re-launch of Blau and the enhanced O2 Blue All-in .

The **total access base** grew 1% year-on-year and stood at 48.4 million at the end of December, mainly explained by a 2% increase of the mobile base (43.1 million). Operating highlights:

- g The **contract mobile customer base** grew 2% year-on-year and reached 19.1 million, with a broadly stable 44% share over the total mobile base. The **prepay access base** increased 3% year-on-year to 24.0 million.
- g **Smartphone** penetration reached 54%, up 1 percentage points quarter-on-quarter driven by the continued growth of LTE customers to almost 8 million at the end of December 2015 (+13% quarter-on-quarter). Thus, LTE penetration improved by 2 percentage points quarter-on-quarter to 19%.
- g **Contract net additions** improved to 198 thousand in October-December (+17% quarter-on-quarter) and reached 709 thousand in January-December (excluding a base adjustment of 400 thousand inactive customers mainly in the business segment in the fourth quarter of 2015 and 428 thousand in the same period of 2014, with no impact on revenues), driven by the continued strong performance of the partner segment.

Prepay registered net disconnections of 24 thousand in the quarter, after the strong performance from ethnic brands during the summer. For the full year, delivered 629 thousand net additions, 33% more than in 2014 due to the strong contribution from partner brands.

- g **Contract churn** (excluding M2M) improved by 0.2 percentage points year-on-year in the fourth quarter to 1.7% and was stable quarter-on-quarter (excluding the customer base adjustment) as a result of the continued focus on retention.

- g **Mobile ARPU** was 10.5 euros in October-December period (-3.2% year-on-year) while contract ARPU stood at 16.9 euros (-4.3% year-on-year) as a result of the higher share of wholesale customers in the base. **Data ARPU** was at 5.5 euros in the quarter (-3.7% year-on-year), explained by the continued decline of SMS volumes while non-SMS data ARPU improved and grew 1.3% year-on-year (flat in the third quarter).

- g The **retail broadband access** trend continued to improve. Net disconnections declined to 5 thousand in the fourth quarter (-13 thousand in the third quarter) and -46 thousand for January to December 2015, more than halving those of the previous year. VDSL was once again the main growth engine, with 73 thousand net additions in October-December (+12% year-on-year) and 260 thousand in 2015 (+55% year-on-year).

- g **Data traffic** increased 36% in the fourth quarter (+45% year-on-year in 2015) as a result of a growing LTE customer base and higher usage of music and video streaming.

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Revenues improved their year-on-year growth trend to +2.0% in the fourth quarter (-1.1% in the third quarter) to 2,059 million euros, as a result of increased rate of variation of handset sales leveraged on regular Christmas promotions. For the full year, revenues increased 1.2% year-on-year and totalled 7,888 million euros (+42.9% year-on-year reported).

Mobile service revenues were broadly stable year-on-year (+0.1%) at 5,532 million euros for the period January-December, while in October-December declined by 1.0% year-on-year to 1,378 million euros as a result of the increasing share of the partner segment within the customer base, which had a dilutive effect due to the revenue shift from retail to wholesale.

Mobile data revenues reached 712 million euros in the fourth quarter (-1.5% year-on-year) driven by declining SMS-usage while full year performance was mainly flat at 2,840 million euros (+0.2% year-on-year). Mobile data revenues over total mobile service revenue was 51%, stable vs 2014. **Non-SMS data revenue** amounted to 517 million euros in the last three months (+3.7% year-on-year) and 2,034 million euros in the full year (+4.9% year-on-year), thanks to the increasing demand of LTE devices. As such, non-SMS data represents 72% of mobile data revenues, 4 percentage points higher than in 2014.

The Company's data monetisation strategy continues to deliver, driven by upselling mechanisms and the successful data automation tool. The rate of automatic extensions of the monthly data allowance increased to 77% of the opted-in customer base in the fourth quarter (54% in the previous one). Also, the adoption of tariff mix in the O2 contract premium business further improved, with the share of new customers opting for a tariff with more than 1GB increasing to 40%.

Handset sales saw an improved performance in October-December (+17.9% year-on-year vs +2.7% in July-September), delivering revenues of 413 million euros and 1,300 million euros in January-December (+16.3% year-on-year).

Fixed revenues year-on-year posted a better performance in the last quarter (-3.2% vs -9.5% in the third quarter) to 266 million euros mainly reflecting the better performance of retail FBB. In 2015, fixed revenues reached 1,043 million euros (-8.3% year-on-year).

Operating expenses were 1,631 million euros in October-December and declined 4.0% year-on-year in organic terms (excluding restructuring costs of 7 million euros in 2015 and 401 million euros in 2014) associated principally with the early capture of integration synergies, in particular in personnel expenses. For January to December, OpEx totalled 6,226 million euros (-3.3% year-on-year). Breakdown by component:

- g **Supplies** declined 2.0% to 747 million euros in the quarter, mainly as a result of lower year-on-year interconnection costs. For the full year, supplies amounted to 2,712 million euros of which 53% were hardware costs of sales and 41% interconnection costs.
- g **Personnel expenses** in the last three months dropped 18.2% year-on-year organic to 155 million euros, mainly resulting from the benefits derived from the execution of the first wave of the restructuring

programme (completed the execution of the 2015 leaver programme, thereby restructuring 800 full time equivalents out of a total target of 1,600). In 2015, these expenses reached 655 million euros, of which 76% were fixed base salaries.

- g **Other operating expenses** totalled 729 million euros in the last quarter of the year, 2.5% lower year-on-year, partly as a result of lower commercial costs. In 2015 were 2,859 million euros, with commercial costs representing 64% of the total.

OIBDA (586 million euros) growth continued to accelerate in the quarter and grew by 35.5% year-on-year (+28.5% in the third quarter) in organic terms (excluding restructuring costs of 7 million euros and the final settlement agreement related to the acquisition of E-Plus of 102 million euros, as well as restructuring costs of 401 million euros in the same period of 2014).

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The strong growth in OIBDA reflected the Company's more efficient commercial strategy to focus on retention over acquisition as well as the early capture of integration synergies, with the latter representing more than 50% of the year-on-year OIBDA growth in the fourth quarter.

As a result, OIBDA for the full year totalled 1,858 million euros (+2.5x year-on-year in reported terms). In organic terms (excluding restructuring costs in 2015: 73 million euros; 2014: 414 million euros and the above mentioned positive settlement of 102 million euros in the fourth quarter 2015) and the disposal of yourfone (15 million euros) OIBDA increased by 19.9% year-on-year.

As a result, the **OIBDA margin** excluding the previously mentioned non-recurrent impacts stood at 23.9% in the fourth quarter (+5.9 percentage points year-on-year) and at 23.0% for 2015 (+3.6 percentage points year-on-year).

CapEx amounted to 2,230 million euros (1.2 billion euros related to spectrum) and declined 11.1% year-on-year excluding spectrum. The strong year-on-year decline reflects the realisation of synergies which outweighed network integration costs and investments in the accelerated LTE rollout, with outdoor coverage reaching the targeted 75% at year-end.

Operating Cash Flow (OIBDA-CapEx) excluding spectrum reached 826 million euros, more than double vs 2014 (in organic terms and excluding the impact from the disposal of yourfone previously mentioned).

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CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - December		% Chg		October - December		% Chg	
	2015	2014	Reported	Organic	2015	2014	Reported	Organic
Revenues	7,888	5,522	42.9	1.2	2,059	2,019	2.0	2.0
Mobile Business	6,832	4,375	56.2	2.8	1,791	1,742	2.8	2.8
Mobile service revenues	5,532	3,580	54.5	0.1	1,378	1,391	(1.0)	(1.0)
Data revenues	2,840	1,793	58.4	0.2	712	723	(1.5)	(1.5)
Handset revenues	1,300	795	63.6	16.3	413	350	17.9	17.9
Fixed Business	1,043	1,138	(8.3)	(8.3)	266	274	(3.2)	(3.2)
FBB and new services (1)	799	815	(1.9)	(1.9)	198	197	0.7	0.7
Voice & access revenues	240	306	(21.6)	(21.6)	66	72	(8.3)	(8.3)
Other	4	18	(76.5)	(76.5)	1	5	(77.8)	(77.8)
Internal expenditure capitalized in fixed assets	113	92	22.5	22.5	30	34	(10.3)	(10.3)
Operating expenses	(6,226)	(4,817)	29.2	(3.3)	(1,631)	(2,006)	(18.7)	(4.0)
Supplies	(2,712)	(2,144)	26.5	(3.4)	(747)	(762)	(2.0)	(2.0)
Personnel expenses	(655)	(828)	(20.9)	(10.1)	(155)	(498)	(68.9)	(18.2)
Other operating expenses	(2,859)	(1,846)	54.9	(1.4)	(729)	(745)	(2.1)	(2.5)
Other net income (expense)	70	(64)	c.s.	(39.4)	128	(85)	c.s.	n.s.
Gain (loss) on sale of fixed assets	14	-	-	-	(1)	-	-	-

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Impairment of goodwill and other assets	-	-	-	-	-	-	-	-
Operating income before D&A (OIBDA)	1,858	733	153.7	20.9	586	(38)	c.s.	35.5
OIBDA Margin	23.6%	13.3%	10.3 p.p.	3.8 p.p.	28.5%	(1.9%)	c.s.	5.9 p.p.
CapEx	2,230	849	162.8	(11.1)	330	438	(24.6)	(25.0)
Spectrum OpCF	1,198	-	n.m.		2	-	n.m.	
(OIBDA-CapEx)	(372)	(116)	n.m.	126.2	256	(476)	c.s.	c.s.

Note:

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

- OIBDA and OI before management and brand fees.

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

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TELEFÓNICA DEUTSCHLAND

ACCESSES

Unaudited figures (Thousands)

	2014				2015				% Chg
	March	June	September	December	March	June	September	December	
Final Clients									
Accesses	23,875.7	23,964.3	24,113.2	46,548.3	46,572.8	46,981.4	47,627.2	47,391.2	1.8
Fixed telephony accesses									
(1)	2,109.1	2,078.2	2,050.9	2,036.4	2,022.0	2,009.7	1,999.9	1,997.8	(1.9)
Internet and data accesses	2,491.7	2,450.2	2,413.4	2,387.0	2,371.6	2,354.7	2,338.7	2,330.6	(2.4)
Broadband	2,225.9	2,191.4	2,160.8	2,143.8	2,128.3	2,115.2	2,102.7	2,098.0	(2.1)
Mobile accesses	19,274.9	19,435.9	19,648.9	42,124.9	42,179.2	42,617.0	43,288.6	43,062.8	2.2
Prepay	8,910.9	8,919.7	8,989.3	23,350.7	23,264.2	23,500.9	24,003.7	23,979.4	2.7
Contract									
(2)	10,364.0	10,516.1	10,659.6	18,774.1	18,915.0	19,116.1	19,284.9	19,083.4	1.6
M2M	94.6	97.5	106.0	414.0	443.4	506.2	570.7	632.0	52.7
Wholesale									
Accesses	1,128.0	1,151.8	1,137.6	1,113.3	1,085.3	1,059.3	1,017.5	972.0	(12.7)
Total									
Accesses	25,003.7	25,116.1	25,250.8	47,661.5	47,658.1	48,040.7	48,644.7	48,363.2	1.5

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

(1) Includes fixed wireless and VoIP accesses.

(2) In the fourth quarter of 2015, 400 thousand inactive customer accesses were excluded. In the fourth quarter of 2014, 428 thousand accesses were excluded from customer base on adjustments in the former E-Plus driven by the harmonization of criteria and the disconnection of a partner.

MOBILE ACCESSES

Unaudited figures (thousands)

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	2014				2015				% Chg
	March	June	September	December	March	June	September	December	
Usage	46.2%	45.9%	45.7%	55.4%	55.2%	55.1%	55.5%	55.7%	0.3 p.p.
Smartphone usage	53.8%	54.1%	54.3%	44.6%	44.8%	44.9%	44.5%	44.3%	(0.3 p.p.)
Smartphones (1)	5,957.2	6,057.2	6,230.7	11,422.2	20,364.1	21,153.4	22,145.5	22,594.3	97.8
Smartphone activation	792.1	773.1	791.0	1,450.6	9,086.7	9,538.8	10,097.5	10,279.7	n.m.
Smartphone activation	5,165.1	5,284.1	5,439.6	9,971.6	11,277.4	11,614.6	12,048.0	12,314.6	23.5
Smartphone activation	32.8%	33.1%	33.8%	29.0%	49.8%	51.3%	52.9%	54.2%	25.3 p.p.
Smartphone activation	9.4%	9.1%	9.3%	6.4%	39.6%	41.1%	42.6%	43.3%	36.9 p.p.
Smartphone activation	53.2%	53.9%	55.0%	59.2%	63.0%	64.4%	66.4%	68.7%	9.5 p.p.
Smartphone activation	464.0	667.2	963.3	3,098.0	5,146.0	6,093.0	7,002.2	7,883.5	154.5
Smartphone activation	2.4%	3.5%	4.9%	7.4%	12.3%	14.5%	16.4%	18.6%	11.2 p.p.

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

(1) Smartphones from partners are included from January 2015.

SELECTED OPERATIONAL MOBILE BUSINESS DATA

Unaudited figures	2014				2015				% Chg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Voice Traffic									
(Million minutes)	7,572	7,775	7,398	18,441	15,837	15,492	15,487	15,879	(13.9)
Data traffic (TB)	10,569	11,247	12,898	37,159	40,172	42,255	45,898	50,501	35.9
ARPU (EUR)	12.1	12.5	12.7	10.9	10.6	10.8	10.9	10.5	(3.2)
Prepay	5.0	5.2	5.3	5.6	5.6	5.9	6.0	5.8	2.7
Contract (1)	18.5	18.8	19.1	17.7	17.2	17.2	17.4	16.9	(4.3)
Data ARPU (EUR)	6.0	6.1	6.2	5.7	5.5	5.6	5.6	5.5	(3.7)
Non-SMS over									
Data revenues	72.0%	72.5%	73.8%	68.9%	70.5%	71.5%	71.9%	72.5%	3.6 p.p.
Churn	2.4%	1.9%	1.9%	2.9%	2.4%	2.1%	2.1%	2.8%	(0.1 p.p.)
Contract (1)	1.6%	1.3%	1.5%	2.7%	1.7%	1.7%	1.7%	2.4%	(0.3 p.p.)
	Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sep	Jan-Dec	% Chg

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oice Traffic									
Million minutes)	7,572	15,347	22,745	41,186	15,837	31,329	46,816	62,696	52.2
ata traffic (TB)	10,569	21,815	34,714	71,873					