

TELEFONICA S A
Form 6-K
October 27, 2016
Table of Contents

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 October, 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
3491-482 87 00

(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 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

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes No

Edgar Filing: TELEFONICA S A - Form 6-K

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

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

Table of Contents

Telefónica, S.A.

TABLE OF CONTENTS

Item		Sequential Page Number
1.	<u>Telefónica 2016 Third quarter financial results</u>	3

Table of Contents

INTERIM MANAGEMENT STATEMENT

JANUARY SEPTEMBER 2016

Table of Contents

TABLE OF CONTENTS

TELEFÓNICA**Consolidated Results** **3**Digital Services 7Telefónica Recursos Globales 8**RESULTS BY BUSINESS UNITS****Telefónica España** **19****Telefónica Deutschland** **24****Telefónica UK** **28****Telefónica Brasil** **31****Telefónica Hispanoamérica** **35**Telefónica Argentina 38Telefónica Chile 41Telefónica Perú 44Telefónica Colombia 47Telefónica México 50Other Hispam countries 52**ADDENDA****Key Holdings of the Telefónica Group** **56****Changes to the Perimeter** **57**

The financial information related to January-September 2016 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).

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,

Edgar Filing: TELEFONICA S A - Form 6-K

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.

Table of Contents

01

CONSOLIDATED RESULTS

Total accesses reached 349.4 million, and decreased by 1% vs. September 2015 affected mainly by fewer mobile prepay customers in Brazil. Nevertheless, the sustained quality of the customer base is reflected in the strong growth of: i) **LTE** customers, 1.9 times more than in September 2015, with net additions of 7.3 million in the quarter and with a penetration of 22%, +11 percentage points higher year-on-year; ii) **mobile contract** accesses (+6% year-on-year) grew across all segments increasing their weight over the total by 2 percentage points to 40%, after recording net additions of 2.0 million in the quarter (+15% year-on-year); iii) **smartphones** (+20% year-on-year) recorded quarterly net additions of 14.5 million and a penetration of 56% (+10 percentage points year-on-year); iv) **pay TV** customers grew by 3% year-on-year and represented 49% of total fixed broadband accesses in those countries where this service is offered (stable vs. the previous year); and v) **fibre and VDSL** accesses (+26% year-on-year) increased their weight over total fixed broadband by 8 percentage points to 41%.

This better quality base translated in an improved performance of customer metrics. Thus, the average revenue per customer grew by 2.6% vs. the first nine months of 2015 and churn levels continued to improve (-0.3 percentage points vs. July-September 2015).

In the third quarter, a lower impact of the exchange rates evolution on the main metrics was particularly noteworthy; year-on-year comparisons improved significantly due to the comparison of more homogeneous values as the strong depreciation of Latin American currencies took place in the third quarter of 2015. At the same time, some currencies such as the Brazilian real appreciated recently against the euro, although this impact, if maintained, shall be more noticeable in the following quarters.

Thus, the negative impact of exchange rates in July-September was reduced, deducting 5.5 percentage points from the year-on-year change in revenues and 4.4 percentage points from that of OIBDA (-9.6 percentage points and -8.6 percentage points, respectively in January-September) mainly due to the depreciation of the Argentine peso and the pound sterling vs. the euro. At the same time, currency depreciations reduced payments in euros related to investments, taxes and minorities, offsetting, in terms of cash generation, the negative impact of exchange rates on OIBDA for the first nine months.

Meanwhile, the year-on-year evolution of results did not reflect from this quarter significant changes in the perimeter of consolidation, since GVT and DTS were incorporated in May 2015 (+2.1 percentage points contribution to the year-on-year revenues variation and +1.5 percentage points to that OIBDA in January-September).

Revenues for the third quarter totalled 13,080 million euros, broadly stable in organic terms vs. the same period of the previous year (-0.2%; -5.9% reported), affected by lower handset revenues. Service revenues maintained their year-on-year growth at 1.4% in the quarter (+2.2% in the first nine months), meanwhile handset sales continued to be affected by the widespread extension of handset lifecycles (-16.6% in the quarter; -14.6% in the first nine months).

In January-September, revenues increased to 38,315 million euros, 0.8% higher in organic terms than in the same period of the previous year (-6.7% reported). Excluding the negative impact from regulation, July-September revenues grew by 0.8% (+1.7% in the first nine months).

Edgar Filing: TELEFONICA S A - Form 6-K

By region, and in the first nine month of the year, T. España accounted for 24.8% of consolidated revenues, followed by T. Hispanoamérica (23.9%), T. Brasil (21.0%), T. Deutschland (14.5%) and T. UK (13.4%), reflecting the high diversification of the Company s asset portfolio.

Table of Contents

By service, broadband connectivity revenues increased in the quarter by 13.9% year-on-year organic to represent 35.2% (+4.0 percentage points year-on-year). Meanwhile, voice and access revenues decreased to 42.6% of the total (47.1% in the third quarter of 2015). Mobile data revenue growth sequentially accelerated in the quarter to 12.0% year-on-year organic (+9.4% in April-June) to represent 51% of mobile service revenues in January-September (+5.0 percentage points year-on-year organic) thanks to increased smartphone and LTE penetration. At the same time, non-SMS data revenue organic growth accelerated sequentially year-on-year (+20.0% in the third quarter; +16.0% in the second quarter) and represented 81% of data revenues in the first nine months (+5.2 percentage points year-on-year organic; +1.0 percentage points vs. second quarter).

Sustained mobile data traffic growth trend continued, and increased 65% vs. the third quarter of 2015, on the back of strong LTE traffic growth, which represented 36% of total traffic (+16 percentage points year-on-year), with higher average usage (+63%) and ARPU around 10% higher.

Operating expenses for the quarter (9,181 million euros) showed good performance and presented a 1.6% organic year-on-year decline (-7.6% reported), an improvement of 0.7 percentage points vs. the second quarter of the year due to better commercial expense evolution, capture of synergies and lower transformation expenses, among others. In January-September they totalled 27,191 million euros and decreased by 0.2% organic year-on-year (-7.4% reported).

Supplies increased to 3,685 million euros in the third quarter and decreased by 5.6% organic year-on-year (an improvement of 2.0 percentage points v.s. the second quarter variation), mainly due to lower handset consumption and lower interconnection costs.

Personnel expenses (1,704 million euros in July-September) increased by 1.5% organic year-on-year due to inflationary pressure in some Latin American countries and internalisation of services in T. Brasil, partially offset by the savings generated from restructuring plans in Spain, Germany and Brazil. In the quarter, a provision was recorded for restructuring expenses of 40 million euros, of which 22 million euros were recorded in T. Deutschland and 16 million euros in Other Companies (in the first nine months restructuring expenses increased to 108 million euros).

The average workforce in the first nine months of 2016 stood at 133,328 employees (+0.9% year-on-year; -6.1% year-on-year including the equivalent average workforce of GVT and DTS in the same period of 2015).

Other operating expenses stood at 3,791 million euros in the quarter and increased by 1.3% organic vs. the previous year, mainly due to the negative effect of inflation in some Latin America countries and higher network expenses. This increase decelerated vs. the previous quarter due to the better performance in T. Deutschland and T. UK.

Operating income before depreciation and amortisation (OIBDA) increased 3.1% year-on-year in organic terms to 4,175 million euros in the quarter (-1.0% reported), with all operating units growing (T. Brasil +9.5%; T. Hispanoamérica +6.3%; T. Deutschland +4.2%; T. UK +1.6%; T. España +1.8% excluding the sale of real estate and asset valuation adjustments of DTS).

OIBDA growth accelerated year-on-year (+2.4 percentage points organic vs. the previous quarter) due to the widespread businesses improvement, since Hispanoamerica, Brazil, Germany and the UK improved their contribution in the quarter.

In the first nine months, OIBDA totalled 11,931 million euros (+3.1% year-on-year organic; -4.6% reported). Excluding the regulatory impact, OIBDA grew 4.2% organic year-on-year in the third quarter (+4.5% in January-September).

OIBDA margin for the quarter stood at 31.9%, and continued to expand vs. the previous year, +1.0 percentage points organic (+1.6 percentage points reported). In the first nine months, OIBDA margin (31.1%) increased by 0.7 percentage points in organic terms (+0.7 percentage points reported), reflecting the positive evolution of service revenues, the continued effort to contain costs (implementation of the simplification programme) and the generation of synergies by acquired companies.

Table of Contents

Depreciation and amortisation from July-September reached 2,458 million euros and increased by 6.1% organic year-on-year (+2.4% reported) mainly due to the higher level of investment in T. Brasil and T. Deutschland. In the first nine months, this line increased to 7,131 million euros (+3.4% organic year-on-year; -1.4% reported). Total depreciation and amortisation charges arising from purchase price allocation processes amounted to 192 million euros in the quarter (631 million euros in January-September 2016).

Operating income (OI) increased to 1,718 million euros and decreased by 0.4% year-on-year in organic terms (-5.5% reported). In the first nine months of 2016, it amounted to 4,800 million euros (+2.8% year-on-year organic; -9.0% reported).

Net financial expenses totalled 1,850 million euros in the first nine months of the year and decreased by 3.7% year-on-year mainly due to the savings from debt management (hedging in pounds linked to T. UK and lower cost of debt in European currencies), partially offset by non-recurring factors, mainly including, in 2016 the capital loss due to the sale of 1.5% China Unicom stake (-155 million euros) and in 2015 the positive impact of the divestment in Telecom Italia, S.p.A (380 million euros). In the third quarter, net financial expenses reached 531 million euros (including the aforementioned China Unicom capital loss) and are lower than those of the same period in 2015, affected by non-recurring factors.

Income tax in the first nine months of the year totalled 741 million euros, which over an income before taxes of 2,947 million euros, resulted in an effective rate of 25.2%. In the third quarter, income tax stood at 193 million euros and decreased year-on-year impacted by non-recurring factors.

Profit attributable to minority shareholders reduced July-September net income by 11 million euros (-29 million euros in the third quarter of 2015) mainly due to the profit attributed to minority stakeholders in T. Brasil, partially offset by that of T. Deutschland. In January-September, this item contributed 19 million euros to net income (-41 million in the same period of 2015).

As a result of the previous items, **consolidated net income** increased to 983 million euros in the quarter (+38.5% year-on-year) and **basic earnings per share** stood at 0.19 euros (+44.8% year-on-year). In January-September they totalled 2,225 million euros and 0.41 euros per share, respectively.

CapEx for the first nine months of the year totalled 6,016 million euros, including 341 million euros for spectrum acquisitions (331 million euros in the third quarter, of which 282 million euros were in Peru and 47 million euros in Brasil), and was mainly focused on UBB deployment, with the investment in growth and transformation representing 78.8% of the total. In organic terms, it increased by 0.5% vs. the same period of the previous year (-22.4% reported).

Operating cash flow (OIBDA-CapEx) accelerated its year-on-year growth to +10.8% organic in the quarter (+9.3 percentage points vs. the previous quarter) and reached 1,814 million euros. In the first nine months, it totalled 5,915 million euros (+5.7% year-on-year organic; +24.4% reported).

In the first nine months of 2016, **interest payments** reached 1,746 million euros and decreased by 6.3% year-on-year mainly due to the reduction of debt in euros at fixed rates, partially offset by non-recurring effects.

The effective cost of interest payments in the last twelve months stood at 4.31%, 32 basis points lower year-on-year.

Tax payments amounted to 365 million euros in January-September, 8.2% lower than in the same period of 2015 mainly due to lower payments in advance. In the third quarter they totalled 137 million euros and decreased by 43.0% vs. the third quarter of 2015 due to lower payments in advance and greater refunds from previous years.

Working capital consumption for the nine months (-1,111 million euros) continued to be affected by seasonal factors, partially offset by the implementation of management measures which contributed to cash generation (factoring of accounts receivable and extended payment terms with suppliers or with the factoring firm where those have been discounted). This consumption was 354 million euros higher than that of the same period of the previous year mainly

Table of Contents

due to (i) regularisation of payments in foreign currency in Argentina, (ii) the positive impact in 2015 of partial financing of spectrum licences in Germany and Ecuador and (iii) deferred revenues from advanced collections in Germany in 2015. It should be noted that in the third quarter, working capital contributed to cash flow generation by 302 million euros due to the intensification in management measures.

Operations with minority shareholders for January-September amounted to 354 million euros and decreased by 14.1% year-on-year mainly due to lower dividend payments in T. Brasil. In the quarter, they totalled 91 million euros, 78 million euros more than in the third quarter of 2015 mainly due to the different dividend payment schedule in T. Brasil.

Thus, **free cash flow** amounted to 2,315 million euros in the first nine months and increased by 91.9% vs. the same period of 2015 (+5.8% year-on-year excluding spectrum payments). In July-September it amounted to 1,500 million euros, including 330 million euros for spectrum payments mainly in Peru and Brazil, and increased by 7.1% vs. the third quarter of 2015 (+30.8% year-on-year excluding spectrum payments). It is particularly noteworthy the sequential evolution vs. the second quarter (+754 million euros), due to widespread improvements across all captions.

Net financial debt stood at 49,984 million euros at September 2016 and decreased by 2,584 million euros vs. June 2016 due to: i) generation of free cash flow of 1,500 million euros in the quarter, ii) shareholder remuneration (852 million euros, mainly due to the issuance of capital instruments net of coupon payments), iii) net financial divestments (360 million euros mainly associated with the sale of China Unicom stake) and iv) the lower value in euros of net debt in foreign currency (188 million euros). On the other hand, the debt increased in the quarter due to the payment of labour-related commitments (266 million euros), mainly early retirements, and due to other factors affecting the valuation of the liabilities (50 million euros, mainly the refinancing of commercial liabilities). Compared with December 2015, the net financial debt grew by 144 million euros. Factors causing the debt to decrease included: i) generation of free cash flow of 2,315 million euros; ii) lower value in euros of the net debt in foreign currencies (415 million euros) and iii) net financial divestments (212 million euros). On the other hand, debt increased due to: i) shareholder remuneration (dividends, treasury stock, issuance of capital instruments net of coupon payments) for the sum of 1,855 million euros; ii) other factors affecting the valuation of liabilities of 633 million euros (mainly the refinancing of commercial liabilities) and iii) payment of labour-related commitments (598 million euros).

The **leverage ratio (net debt over OIBDA)** stood at 3.05 times¹ at the end of September 2016.

In the first nine months of 2016, **Telefónica s financing activity** reached close to 6,800 million equivalent euros, without considering the re-financing of commercial paper and short-term bank loans. The activity focused mainly on strengthening the liquidity position and refinancing the debt maturities in an environment of very low interest rates.

In September, Telefónica Europe B.V., the Dutch subsidiary of Telefónica, S.A., concluded an issuance of perpetual debentures with the subordinated guarantee of Telefónica, S.A., for an aggregate nominal amount of 1,000 million euros, subject to a call option exercisable by the issuer from the fifth year and a half from the issuance date. It should be noted that the strong demand from institutional investors made it possible to fix interest at a rate of 3.750%, making it the lowest coupon ever fixed by Telefónica in a hybrid issuance in euros.

Subsequent to the end of the quarter, Telefónica issued a bond distributed in two tranches, 1,250 million at 4 years and 750 million at 15 years, with the lowest coupons paid by Telefónica historically in an issue in euros with these terms (0.318% and 1.930%, respectively), with the latter being the longest bond to date issued by a Spanish corporate issuer

in 2015-2016.

In the first nine months of 2016, Telefónica Group obtained funding by means of extending payment terms with suppliers, or with the factoring firm where those had been discounted, for a total 867 million equivalent euros.

- ¹ OIBDA twelve months rolling, excluding goodwill valuation adjustments, capital gains/losses on the sale of companies, the non-recurring impact from restructuring costs in the last 12 months, and firm commitments related to the Telefónica Foundation's social activities.

Table of Contents

Meanwhile, Telefónica, S.A. and its holding companies continued with their issuance activity under the Promissory Note and Commercial Paper Programmes (Domestic and European), increasing the outstanding amount to approximately 4,517 million euros at the end of September.

At the end of September, Telefónica maintained undrawn committed credit lines with different credit institutions for an approximate amount of 13,645 million euros (12,136 million euros maturing in more than twelve months) which combined with the equivalent cash position and current financial assets excluding Venezuela, placed liquidity at 19,843 million euros.

Definition:

Organic Growth: Assumes constant exchange rates from 2015, excludes the impact of hyperinflationary adjustments in Venezuela in both years and considers a constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, sale of towers, restructuring costs and material non-recurring impacts. CapEx also excludes investments in spectrum.

Digital Services
(year-on-year changes in organic terms)

Digital services revenues stood at 1,162 million euros in the third quarter (+10.7% year-on-year) and 3,511 million in the first nine months of the year (+15.2%).

Video revenues in the quarter (723 million euros) grew year-on-year by 9.9% (+13.3% in the first nine months of the year), driven by the growth of pay TV accesses to 8.4 million at September (4.4 million satellite TV accesses), 3% more than one year ago. The slower pace of growth in the quarter vs. the previous quarter (+5% year-on-year) reflected the seasonality of the period with lower commercial activity.

The focus on improving the value of the video offering is ongoing and thus, in the quarter, new services were launched in Spain, which improve customer experience: Home Zone (ability to watch TV on three devices simultaneously in HD quality) and Recommendations. In Latin America, an agreement was signed with Vivendi to offer exclusive premium content to mobile customers, incorporating two new services: WatchMusic, a music video platform, and STUDIO+, the first international app for short series.

In **Security**, July-September revenues (83 million euros) maintained the growth trend recorded throughout the year (+28.7% year-on-year; +26.1% in January-September). Telefónica continued to combine the development of innovative own technologies, as demonstrated by the launch of Path6, a platform for the detection and analysis of vulnerabilities in mobile apps on a global scale, with the best partnerships in the world of security.

In the consumer segment, accesses with security products reached 22.3 million (2.0x year-on-year), driven by T. Brasil.

M2M revenues reached 51 million euros in the quarter (+3.1% year-on-year; +21.9% in the first nine months), impacted by lower equipment sales. It is worth noting the recognition this quarter of the company as a Leader for the third year running in Gartner's Magic Quadrant Managed Machine-to-Machine Services, Worldwide. Telefónica

considers this recognition to be a result of its capacity to execute IoT solutions in a wide variety of industry sectors and to develop an innovative vision of the co-creation of solutions together with its customers, particularly in Europe and Latin America.

In the third quarter **Cloud** revenues reached 123 million euros (+14.6%; +22.3% in January-September) and decelerated their year-on-year growth rate as a result of the different classification of projects vs. the previous year. It is worth highlighting the evolution of the hybrid cloud solution for Corporates (Virtual Data Centre (VDC)) which strengthens the

Table of Contents

partnership with VMware, and the launch of the eighth VDC in Miami and of the Open Cloud service (Open Telefónica Cloud) in Mexico supported by OpenStack. Likewise, Microsoft Office licence sales exceeded 654 thousand globally (+14% vs. September 2015) and Fusión Pro in Spain reached more than 225 thousand customers (3.6x year-on-year).

Under the **Telefónica Open Future** initiative, Wayra UK signed an agreement with the British government to develop cybersecurity technology through the creation of two acceleration centres for startups focused on this field. Additionally, Telefónica Ventures participated in the round of financing for the company Ciber Inteligencia 4iQ led by Trident Capital Cybersecurity.

Telefónica Global Resources

During the third quarter, TGR continued building best connectivity as the differentiating pillar in the Telefónica commercial offering, expanding coverage and capacity of the mobile network and deploying fixed UBB access and capabilities.

The **Global Network and Operations area** focused on the deployment of an efficient and quality UBB network. This supported the total All-IP transformation. At the same time, the network core capacity is being redesigned and expanded, to support the constant growth of data usage, which in the July-September period grew by 46% year-on-year; 65% in mobile broadband and 45% in fixed broadband.

In this respect, Telefónica successfully demonstrated data speeds of up to 800 Mbps in mobile handsets with the implementation of several technical advances in 4G radio network.

The premises passed with fibre reached 33.7 million at the end of September, of which 16.9 million correspond to Brazil (4.7 million fibre to the home and 12.2 million FTTN) while Spain reached 16.4 million fibre to the home. As of September, 53,377 LTE locations were deployed, enabling LTE coverage to increase to 58% (+9 percentage points year-on-year). In Spain, LTE coverage reached 90%, in Germany 77%, in the United Kingdom 93%, in Brazil 49% and in Hispanoamerica 48%.

A highlight in this quarter was the selection of a new tool to monitor the quality of fixed and mobile networks in real time translating into an improved customer experience. In this sense, fixed access customer experience improvements continue progressing, with the introduction of mechanisms in the Base equipment to provide greater Wi-Fi efficiency and the possibility of managing connectivity in the home from a mobile application.

In terms of innovation, highlights include the inauguration of a 5G-focused laboratory to accelerate both radio and core solutions and the deployment of tools to optimise and automate the management of radio access via SON (Self-Organizing Networks). Finally, was underpinned the launch of the first version of OSM (Open Source MANO), which will contribute to the acceleration of the networks softwarisation.

Additionally, the next generation video services offering incorporate new wireless and cable decoders which provide higher flexibility for the launch of new services in the market.

The **Global IT area** continued progressing in the E2E digitalisation, with results beginning to show in the operating businesses structural transformation, especially in the Full Stack programmes, with production on the mobile side in

Peru being noteworthy, with Brazil migrating fixed clients to its Full Stack and Germany consolidating the old E-Plus systems into Telefónica Deutschland.

Meanwhile, Spain continues to add functionalities to its online channel and video service (e.g. MiTV, Recommendation).

Regarding the remaining dimensions of digitalisation, progress continues to be made in i) New Big Data platforms construction and scaling of the already existing platforms, tripling their capacity this year and ii) Deployment of global applications, expanding their implementation to the main Group operating businesses (e.g. deployment of new modules of the global Human Resources application in Germany and Colombia).

Table of Contents

Finally, simplification projects in the traditional systems continue to be implemented, reducing servers (-4.9% year-on-year), Data Centres (-7 in the year) and applications (-175 year-on-year) and increasing virtualisation (+1.7 percentage points year-on-year).

All this has been achieved improving service levels, with an average of 35% fewer critical incidents year-on-year.

Table of Contents

TELEFÓNICA

ACCESSES

Unaudited figures (thousands)

	2015				2016			
	March	June	September	December	March	June	September	% Chg
Final Clients								
Accesses	337,505.0	348,093.8	346,226.8	341,475.6	341,262.7	341,922.3	343,932.9	(0.7)
Fixed telephony accesses								
(1)	36,451.9	40,400.0	40,218.1	39,734.9	39,606.5	39,262.1	38,914.0	(3.2)
Internet and data accesses	18,215.6	21,249.6	21,430.9	21,365.3	21,507.7	21,641.4	21,738.4	1.4
Broadband	17,724.6	20,775.2	20,966.8	20,971.3	21,097.2	21,195.9	21,266.5	1.4
Fibre and VDSL	2,878.7	6,386.4	6,935.1	7,393.1	7,915.1	8,362.0	8,705.1	25.5
Mobile accesses	277,371.0	278,414.0	276,423.5	272,103.9	271,783.2	272,596.8	274,883.7	(0.6)
Prepay	177,579.8	177,429.1	173,699.9	167,845.1	166,005.2	165,619.6	165,912.1	(4.5)
Contract	99,791.2	100,984.8	102,723.5	104,258.8	105,778.0	106,977.2	108,971.6	6.1
M2M	10,230.1	10,681.6	11,050.1	11,526.3	12,583.9	12,988.2	13,591.7	23.0
Pay TV	5,466.5	8,030.3	8,154.3	8,271.6	8,365.4	8,422.0	8,396.7	3.0
Wholesale								
Accesses	6,475.7	6,401.0	6,271.7	6,062.8	5,826.7	5,591.7	5,480.7	(12.6)
Total								
Accesses	343,980.7	354,494.8	352,498.5	347,538.4	347,089.4	347,514.0	349,413.5	(0.9)

*Notes:**GVT and DTS accesses are consolidated from 1 May 2015.**Telefónica UK accesses are included since the first quarter of 2015 as it has been reclassified back into full consolidation.*

(1) Includes fixed wireless and VoIP accesses.

TELEFÓNICA

MOBILE ACCESSES

Unaudited figures (thousands)

	March	2015 June	September	December	March	2016 June	September	% Chg
Prepay percentage (%)	64.0%	63.7%	62.8%	61.7%	61.1%	60.8%	60.4%	(2.5 p.p.)
Contract percentage (%)	36.0%	36.3%	37.2%	38.3%	38.9%	39.2%	39.6%	2.5 p.p.
Smartphones (000)	102,215.8	110,156.4	120,003.6	126,178.9	128,326.0	130,058.4	144,588.9	20.5
Prepay	49,712.4	54,510.2	59,961.6	62,823.1	64,140.1	64,957.4	73,339.7	22.3
Contract	52,503.4	55,646.2	60,041.9	63,355.8	64,185.9	65,101.0	71,249.2	18.7
Smartphone penetration (%)	39.2%	42.1%	46.3%	49.5%	50.6%	51.1%	56.4%	10.1 p.p.
Prepay	28.2%	31.0%	34.8%	37.7%	38.9%	39.5%	44.5%	9.7 p.p.
Contract	62.1%	65.2%	69.1%	71.9%	72.2%	72.3%	77.7%	8.6 p.p.
LTE (000)	18,965.4	24,341.5	30,209.6	37,375.0	43,870.2	50,077.3	57,342.4	89.8
LTE penetration (%)	7.1%	9.1%	11.4%	15.7%	16.9%	19.3%	22.1%	10.8 p.p.

Notes:

GVT and DTS accesses are consolidated from 1 May 2015.

Telefónica UK accesses are included since the first quarter of 2015 as it has been reclassified back into full consolidation.

Table of Contents

TELEFÓNICA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - September		% Chg		July - September		% Chg	
	2016	2015	Reported	Organic	2016	2015	Reported	Organic
Revenues	38,315	41,054	(6.7)	0.8	13,080	13,903	(5.9)	(0.2)
Internal exp. capitalized in fixed assets	636	668	(4.8)	(2.4)	208	233	(10.6)	(5.5)
Operating expenses	(27,191)	(29,378)	(7.4)	(0.2)	(9,181)	(9,935)	(7.6)	(1.6)
Supplies	(11,108)	(12,213)	(9.0)	(3.9)	(3,685)	(4,152)	(11.2)	(5.6)
Personnel expenses	(5,140)	(5,394)	(4.7)	2.8	(1,704)	(1,814)	(6.0)	1.5
Other operating expenses	(10,943)	(11,772)	(7.0)	2.3	(3,791)	(3,969)	(4.5)	1.3
Other net income (expense)	147	45	n.m.	49.7	49	(10)	c.s.	27.9
Gain (loss) on sale of fixed assets	30	120	(75.1)	(36.4)	22	28	(21.8)	61.6
Impairment of goodwill and other assets	(5)	(1)	n.m.	n.m.	(3)	0	c.s.	c.s.
Operating income before D&A (OIBDA)	11,931	12,508	(4.6)	3.1	4,175	4,219	(1.0)	3.1
OIBDA Margin	31.1%	30.5%	0.7 p.p.	0.7 p.p.	31.9%	30.3%	1.6 p.p.	1.0 p.p.
Depreciation and amortization	(7,131)	(7,232)	(1.4)	3.4	(2,458)	(2,401)	2.4	6.1