TELEFONICA S A
Form 6-K
July 30, 2015
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 July, 2015

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant s name into English)

Distrito Telefónica, Ronda de la Comunicación s/n,

28050 Madrid, Spain

3491-482-8700

(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

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 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

Table of Contents

Telefónica, S.A.

TABLE OF CONTENTS

Table of Contents

FINANCIAL HIGHLIGHTS

Second consecutive quarter of reported year-on-year growth in the main variables: accesses (+13%), revenues (+12.4%), OIBDA (+6.8%), net income (+70.4%) and EPS (+62.1%).

Organic year-on-year revenue growth acceleration to 4.4% (11,876 million euros).

Sequential improvement of 1.1 p.p., with Telefónica España (+0.8 p.p.) and Telefónica Brasil (+0.3 p.p.) as main contributors.

Mobile data stood as a key growth driver, increasing 17.3% year-on-year vs. 11.9% in the first quarter.

Strong organic growth of high-value customers: mobile contract +6%; smartphones +30%; LTE customers 4.7x reported; FFTH connected 1.4x; Pay TV 1.3x.

In January-June, revenues stood at 23,419 million euros (+3.9% year-on-year organic; +12.5% reported).

OIBDA increase of 3.3% organic year-on-year (3,702 million euros), 0.9 p.p. higher than the first quarter.

T. España and T. Deutschland drove sequential acceleration (+7.1 p.p. and +3.5 p.p. respectively).

Year-on-year growth in the quarter reflected sales progression, initial integration synergies in Germany and savings from the simplification and efficiency program.

OIBDA margin remained stable at 31.2%, with an organic erosion of 0.3 p.p. vs. April-June 2014.

In the first half of 2015, OIBDA totalled 7,320 million euros (+7.2% year-on-year; +2.9% organic).

January-June CapEx (5,094 million euros; +12.6% year-on-year organic) included 1,589 million euros of spectrum acquisition (mainly Germany in the second quarter), **and was focused on developing Fibre and**

LTE networks.

Net income reached 1,891 million euros in the quarter and 3,693 million euros in the first half; EPS stood at 0.37 euros and 0.75 euros respectively.

Net financial debt in June increased to 51,238 million euros due to seasonal and non-recurrent extraordinary factors, which will be normalised throughout the year.

The leverage ratio considering the sale of O2 UK stood at 2.38x.

The 3 main rating agencies have upgraded Telefónica s outlook over the first half of the year.

Increased guidance 2015:

Revenue guidance has been upgraded to >9.5% (vs. >7% previously), with the new dates for the incorporation of GVT and DTS in the consolidation perimeter adding 1.8 p.p. to growth.

OIBDA margin limited erosion has been updated to around 1.2 p.p. (around 1 p.p. previously), as the new consolidation dates of GVT and DTS have a negative impact of 0.3 p.p.

The CapEx/Sales excluding spectrum guidance is maintained at 17% for 2015.

The Net Debt/OIBDA objective is confirmed at below 2.35x, adjusted for the closing of the sale of O2 UK.

Table of Contents

The dividend for 2015 is reiterated (0.35 euros per share in the form of a voluntary scrip dividend in the fourth quarter 2015 and 0.40 euros per share in cash in the second quarter 2016). Additionally, the amortisation of Treasury stock for a total of 1.5% share capital has been executed in July 2015.

The dividend for 2016 of 0.75 euros per share in cash is reiterated. Additionally, the amortisation of Treasury stock for a total of 1.5% share capital will be proposed at the 2016 AGM (in both cases subject to the closing of the sale of O2UK).

Telefónica de **España** revenue evolution improved again in the quarter to -1.1% year-on-year (+2.7 percentage points vs. the previous quarter), after remaining stable year-on-year in the months of May and June. Growth in the high-value customer segment and the strategy to upsell to new tariffs explained this evolution, which translated directly to OIBDA. Thus, second quarter OIBDA decreased 1.3% year-on-year in organic terms and the margin stood at 44.4% (-0.1 percentage points). The Movistar Fusión + convergent offer was launched in early July, combining the differential assets of Telefónica España and DTS.

At the end of May the acquisition of GVT was completed, with Telefónica **Brasil** becoming the leading integrated operator in the market, increasing the Company s growth profile and improving its competitive position. Revenues in the second quarter accelerated their year-on-year organic growth to 5.2%, on the back of the solidness of the mobile business (+6.9%), the organic contribution of GVT and the significant recovery of the fixed business excluding GVT (+3.7 percentage points sequentially to -0.3%). OIBDA grew 0.4% year-on-year due to the efficiency and cost control measures implemented, which offset the impact of the weaker macro environment and higher commercial costs.

In **Germany**, the execution of integration activities continued at a solid pace and is already yielding significant synergies in this second quarter. Also, the success of the data monetization strategy continued to benefit from higher smartphone and LTE penetration, reaching 51% and 14% respectively, and from a higher number of customers (35% of gross additions) with tariffs with a data allowance higher than 1Gb per month. Regarding financial results in the quarter, it is worth mentioning the 12.5% year-on-year organic OIBDA growth (+3.5 percentage points sequentially) and the margin expansion to 23.6% (+2.4 percentage points organic year-on-year).

Solid organic revenue and OIBDA evolution of **T. Hispanoamérica** (revenues +10.3%; OIBDA +9.1%), jointly with high commercial momentum in mobile (especially smartphones) and fixed broadband (more bundles with higher speeds). For the sixth quarter in a row, organic OIBDA margin, excluding Venezuela, posted a year-on-year expansion of 0.9 percentage points explained by Mexico (+5.7 percentage points), Colombia (+3.0 percentage points), Argentina (+3.7 percentage points) and Chile (+0.8 percentage points).

Table of Contents

Comments from César Alierta, Executive Chairman

Telefónica s second quarter results confirm the strength of the new growth cycle initiated the last quarter, with year-on-year growth of 13% in accesses, 12.4% in revenues, 6.8% in OIBDA and 70.4% in net income. It is also worth highlighting the organic growth acceleration in the quarter, supported by the strong recovery in the Spanish business, reaching revenue stabilisation in May and June for the first time since December 2009. Meanwhile, other businesses continued to grow organically in accesses, revenues and OIBDA.

Adding to the strength of the business, this quarter has incorporated GVT in Brazil and DTS in Spain, two key assets that are going to further bolster our presence in both markets and our leadership in quality services, and also contribute to the generation of future synergies, reinforcing our growth potential in both cases. In this sense, it is important to highlight the evolution of the business in Germany, which has started to deliver in the second quarter, just half a year after its incorporation, clear signs of the synergies resulting from such integration, posting 12.5% organic OIBDA growth.

Business performance is built on solid fundamentals, as it is supported by the strong investments carried out. Thus, Telefónica España has the most extensive fibre to the home network and the largest number of customers connected in Europe, reaching 12.5 million premises passed in June. With the incorporation of GVT, Vivo has a fibre network of 16.1 million premises passed on FTTN and FTTH technologies. Meanwhile, in mobile our LTE networks reached 67% coverage in Europe and 35% in Latin America.

All of the above allows us to face with confidence the ongoing business transformation thanks to the explosion of data consumption. Particularly noteworthy, for example, is the significant year-on-year growth of 66% in video traffic, 52% in mobile data traffic and the 60% higher data usage of an LTE customer vs. a 3G customer.

The strength of the evolution of the business in the first half of the year, coupled with our positioning in order to capture growth opportunities in the coming quarters, have led us to revise our objectives upwards for 2015.

Table of Contents

TELEFÓNICA

SELECTED FINANCIAL DATA

Unaudited figures (Euros in millions)

	January - June 2015	% Chg Reported	% Chg Organic	April - June 2015	% Chg Reported	% Chg Organic
Revenues	**23,419**	**12.5**	**3.9**	**11,876**	**12.4**	**4.4**
Telefónica España	5,844	(2.5)	(2.5)	2,966	(1.1)	(1.1)
Telefónica Deutschland (1)	3,849	68.6	2.1	1,949	67.8	1.3
Telefónica Brasil (2)	5,737	4.6	4.8	2,943	4.5	5.2
Telefónica Hispanoamérica	7,132	15.0	10.0	3,467	10.6	10.3
Other companies & eliminations (3)	856	(0.1)		551	21.8	
Telefónica Ireland (4)		n.m.			n.m.	
OIBDA	**7,320**	**7.2**	**2.9**	**3,702**	**6.8**	**3.3**
Telefónica España	2,598	(5.3)	(4.9)	1,316	(1.9)	(1.3)
Telefónica Deutschland (1)	869	68.5	10.8	461	74.1	12.5
Telefónica Brasil (2)	1,759	1.6	0.6	919	1.7	0.4
Telefónica Hispanoamérica	2,152	16.1	11.8	1,025	8.8	9.1
Other companies & eliminations (3)	(58)	n.m.		(20)	n.m.	
Telefónica Ireland (4)		n.m.			n.m.	
OIBDA margin	**31.3%**	**(1.5 p.p.)**	**(0.3 p.p.)**	**31.2%**	**(1.6 p.p.)**	**(0.3 p.p.)**
Telefónica España	44.5%	(1.4 p.p.)	(1.1 p.p.)	44.4%	(0.4 p.p.)	(0.1 p.p.)
Telefónica Deutschland (1)	22.6%	(0.0 p.p.)	1.8 p.p.	23.6%	0.9 p.p.	2.4 p.p.
Telefónica Brasil (2)	30.7%	(0.9 p.p.)	(1.3 p.p.)	31.2%	(0.8 p.p.)	(1.5 p.p.)
Telefónica Hispanoamérica	30.2%	0.3 p.p.	0.5 p.p.	29.6%	(0.5 p.p.)	(0.3 p.p.)
Operating Income (OI)	**3,068**	**(8.0)**	**0.6**	**1,557**	**(10.8)**	**(1.7)**
Net income	**3,693**	**105.4**		**1,891**	**70.4**	
Basic earnings per share (euros)	**0.75**	**100.9**		**0.37**	**62.1**	
Basic earnings per share from continuing operations (euros)	**0.36**	**8.6**		**0.26**	**24.6**	
CapEx	**5,094**	**66.4**	**12.6**	**3,412**	**97.9**	**6.8**
Telefónica España	887	26.2	19.2	473	8.6	2.4
Telefónica Deutschland (1)	1,658	n.m.	5.6	1,437	n.m.	8.2
Telefónica Brasil (2)	961	15.4	8.7	566	8.2	(0.7)
Telefónica Hispanoamérica	1,474	28.2	13.1	852	49.2	12.7
Other companies & eliminations (3)	115	4.9		85	40.3	
Telefónica Ireland (4)		n.m.			n.m.	
Spectrum	**1,589**	**n.m.**	**n.m.**	**1,427**	**n.m.**	**n.m.**
Telefónica España	49	n.m.	n.m.	27	n.m.	n.m.
Telefónica Deutschland (1)	1,195	n.m.	n.m.	1,195	n.m.	n.m.
Telefónica Brasil (2)		n.m.	n.m.		n.m.	n.m.

Telefónica Hispanoamérica	345	82.3	60.1	205	n.m.	n.m.
OpCF (OIBDA-CapEx)	**2,226**	**(40.9)**	**(4.7)**	**289**	**(83.4)**	**(0.4)**
Telefónica España	1,711	(16.2)	(13.4)	843	(7.0)	(3.0)
Telefónica Deutschland (1)	(789)	c.s.	17.5	(976)	c.s.	17.6
Telefónica Brasil (2)	798	(11.2)	(7.6)	354	(7.2)	2.2
Telefónica Hispanoamérica	678	(3.8)	10.4	173	(53.4)	3.6
Other companies & eliminations (3)	(173)	32.1		(104)	n.m.	
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.

For comparative purposes, the quarterly data for 2014 are reported adjusting the exchange rate in Venezuela from SICAD I to SICAD II 50 VEF/USD for the Telefónica Group, Hispanoamérica and Venezuela and Central America following the adoption of SICAD II 50 VEF/USD in the fourth quarter of 2014. The January-March 2015 consolidated financial statements use the exchange rate of the Venezuelan bolivar set at the denominated SIMADI, (as of 30 June, this rate was set at 197 Venezuelan bolivars fuertes per dollar).

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. 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 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 charges mainly related to the integration processes in Germany and Brazil and the simplification programme. In addition, CapEx 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) E-Plus has been included since 1 October 2014.
(2) GVT has been included since 1 May 2015.
(3) DTS has been included since 1 May 2015.
(4) T. Ireland has been removed from the consolidation perimeter since 1 July 2014.

4

TABLE OF CONTENTS

The financial information related to the first half of 2015 contained in this document has been prepared under International Financial Reporting Standards (IFRS), as adopted by the European Union. For comparative purposes only, the comparative figures for the first half of 2014 have been modified with respect to those presented last year, due to the conversion to the same rate as of the last quarter of 2014 (SICAD II 50 VEF/USD) of those operations referenced to the Venezuelan bolivar and following the consideration of T. UK as a discontinued operation in compliance with IFRS rules. The financial information for the first half of 2014 using the exchange rate in use at the time (SICAD I 10.60 VEF/USD), 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.

01

CONSOLIDATED RESULTS

Telefónica s second quarter results confirm the new growth cycle started in the previous quarter, which accelerated this quarter with an improvement in organic growth levels of both revenue (+4.4 year-on-year) and OIBDA (+3.3%). This growth is based on a general improvement of the competitive positioning, supported by a high-value customer base (fibre, Pay TV, LTE, smartphones) which is at the same time levered on the investments carried out to modernise and transform our networks.

In reported terms, year-on-year growth continued strong both in revenues (+12.4%) and OIBDA (+6.8%); basic earnings per share stood at 0.37 euros in the second quarter (+62.1% year-on-year) and 0.75 euros in the first six months, doubling vs. the same period in 2014.

On the other hand, the DTS acquisition in Spain was closed in April, and GVT in Brazil in May, allowing Telefónica to start benefiting from synergies in the coming quarters, adding to those already being realised in Germany after the purchase of E-Plus.

It is important to highlight that year-on-year evolution during the second quarter reflected the consolidation of GVT s results in Telefónica Brasil and DTS in Other companies and eliminations (both since 1 May 2015), as well as E-Plus in T. Deutschland (since 1 October 2014) and the deconsolidation of T. Ireland s results (since July 2014). Likewise, Telefónica s operations in the UK are reported as discontinued operations within Telefónica Group, and their assets and liabilities are classified as held for sale in compliance with International Financial Reporting Standards (IFRS), as a result of the signing in March 2015 of the definitive sale agreement

Likewise, the Company has decided to adopt the exchange rate of the Venezuelan bolivar set at SIMADI at the end of the first six month-period of 2015, as being the most representative among the available exchange rates as of that date, impacting second quarter financial results. As of 30 June, this rate was set at 197 Venezuelan bolivars fuertes per dollar. This change in the conversion of the financial information implied a reduction in the quarter of 397 million euros in revenues and 90 million euros in OIBDA, with the purpose of adapting the results of the first half of the year to the new exchange rate.

Also, for better interpretation purposes, the comparative figures for the first quarter of 2014 of those operations referenced to the Venezuelan bolivar have been restated applying the exchange rate used in the conversion for the full year 2014 results (50 bolivars fuertes per dollar).

As of June 2015, **accesses** reached 329.4 million and grew 3% year-on-year organic (+13% reported), on the back of T. Brasil s and T. Hispanoamérica s solid growth pace (+4% and +3%, respectively). The strong year-on-year growth trend in high-value customers continued during the second quarter of 2015, especially in mobile contract (+16%), fibre (+4.6x) and Pay TV (1.9x).

Mobile accesses stood at 253.6 million and increased 12% year-on-year (+3% organic) on the back of solid mobile contract growth (+16% year-on-year; +6% organic), which already accounted for 34% of mobile accesses (+1 percentage points year-on-year). In contract, it is worth mentioning T. Brasil, with year-on-year growth of 13% and quarterly net additions of 679 thousand customers (+23% compared to the previous quarter) and T. Deutschland, with net additions during the quarter of 201 thousand customers (1.4 times vs. the previous quarter).

Smartphones totalled 99.2 million as of June 2015 and posted strong year-on-year growth of 56% (+30% organic) reaching a penetration of 41% (+11 percentage points year-on-year). Smartphone penetration in contract increased to 65% (+10 percentage points year-on-year), while in prepaid penetration stood at 31% (+11 percentage points year-on-year). LTE customers (18.6 million; 4.7x year-on-year) represented 8% of total mobile accesses (+6 percentage points year-on-year).

Retail broadband accesses reached 20.8 million, a 2% increase compared to June 2014 in organic terms (+18% reported). In the quarter, the organic net loss amounted to 31 thousand accesses, mainly explained by T. España (-67 thousand accesses, affected by several factors, including the installers strike in April and May) that could not be offset by the improvement in T. Brasil (+85 thousand accesses; 7.2 times year-on-year).

Table of Contents

Fibre accesses stood at 5.4 million (4.6 times vs. June 2014; 1.4 times in organic terms) and reached organic quarterly net additions of 301 thousand accesses (+32% year-on-year) on the back of T. España (160 thousand) and T. Brasil (131 thousand).

Pay TV accesses (8.0 million; 1.9 times year-on-year) recorded organic quarterly net additions of 263 thousand customers, driven by T. Brasil (61 thousand customers; 1.4 times year-on-year) and T. Hispanoamérica (112 thousand customers; +10% year-on-year).

The year-on-year variation of the exchange rates during the second quarter of 2015 is especially affected by the aforementioned SIMADI adoption and the depreciation of the Brazilian reais and the Colombian peso vs. the euro. Thus, the evolution of exchange rates detracted 2.7 percentage points from revenue and OIBDA year-on-year growth in April-June. In January-June 2015, FX contributed with 0.2 percentage points to year-on-year revenue growth and detracted 0.2 percentage points from OIBDA growth, as the aforementioned negative impacts were partially offset by the appreciation of the other Latin American currencies vs. the euro.

Revenues stood at 11,876 million euros in the second quarter of 2015 and increased 4.4% year-on-year in organic terms (+12.4% reported), accelerating vs. the previous quarter (+1.1 percentage points), on the back of better contribution from Telefónica España (+0.8 percentage points) and Telefónica Brasil (+0.3 percentage points). In January-June revenues reached 23,419 million euros, +3.9% year-on-year in organic terms (+12.5% reported). Changes in the perimeter of consolidation contributed 10.2 percentage points to year-on-year growth in the second quarter and 8.1 percentage points in the first half. On the other hand, excluding the impact of regulation, revenues grew 5.6% in organic terms in April-June and 5.1% in January-June 2015.

Per segment, T. España, T. Brasil and T. Deutschland represented 66% of revenues during the first six months of 2015. Telefónica Hispanoamérica represented 30%, 1 percentage point more compared to the same period of the previous year despite the lower weight of Venezuela, which already represented less than 1% of the total.

Mobile data revenue year-on-year growth accelerated in the quarter 5 percentage points vs. the previous quarter to 17.3% (+28.8% in reported terms) and already represented 42% of mobile service revenues (+5 percentage points year-on-year), on the back of higher smartphone penetration (+11 percentage points year-on-year) and a growing weight of LTE customers (+6 percentage points compared to June 2014). Non-SMS data revenue improved year-on-year organic growth by 8 percentage points to 26.6% (+35.8% reported) and already represented 82% of data revenue (+6 percentage points year-on-year). It is important to highlight LTE s potential, with LTE traffic already representing 13% of mobile data traffic in the second quarter of the year and penetration over accesses still at 8%, due to the significant increase in unit per user consumption vs. 3G, generating double-digit ARPU uplift.

Operating expenses totalled 8,425 million euros in April-June 2015 and increased 4.4% year-on-year in organic terms (+14.6% reported), driven by growth in T. Hispanoamérica and T. Brasil, and despite the savings generated by T. Deutschland and T. España. In January-June 2015, expenses amounted to 16,610 million euros, and increased 4.2% year-on-year in organic terms (+14.7% reported) mainly as a result of higher network and system expenses.

Breakdown by component:

Supplies, 3,233 million euros in the second quarter of 2015, increased 2.5% year-on-year in organic terms (+13.6% reported) reflecting higher handset consumption, on higher smartphones gross additions, partially offset by lower mobile interconnection costs.

Personnel expenses, 1,682 million euros in April-June, increased 3.6% in organic terms compared to the same period of 2014 (+13.0% reported) affected by inflationary pressure in some countries. However, they reduced their year-on-year organic growth rate 1.5 percentage points vs. the previous quarter, driven by the savings from the restructuring plans that are being implemented. Non-recurring restructuring expenses impacted second quarter OIBDA in 16 million, mainly in Peru.

Table of Contents

The average headcount in the first half of 2015 stood at 120,233 employees, 1.9% higher vs. January-June 2014 (-2.1% considering constant perimeter).

Other operating expenses, 3,509 million euros in April-June, increased 6.6% in organic terms compared to the same period of the previous year (+16.3% reported) mainly due to network expenses associated to strong traffic growth.

Gains on sales of fixed assets totalled 28 million euros in the second quarter of 2015 (10 million euros in April-June 2014) mainly due to the sale of real estate assets in Spain (19 million euros impact in OIBDA). During the first half of 2015 this item reached 89 million euros (49 million euros in the same period of 2014) and primarily includes the sale of non-strategic towers (40 million euros of OIBDA impact), the aforementioned sale of real estate assets in Spain and the sale of yourfone GmbH in Germany (17 million euros of OIBDA impact).

Operating income before depreciation and amortization (OIBDA) in April-June 2015 amounted to 3,702 million euros (+6.8% year-on-year reported) and posted a year-on-year organic growth of 3.3%, accelerating vs. the first quarter (+0.9 percentage points), driven by T. España s contribution improvement (+2.9 percentage points compared to the previous quarter) and by T. Deutschland s strong growth rate (+12.5%; +3.5 percentage points compared to the previous quarter). In the first half of 2015 OIBDA totalled 7,320 million euros (+7.2% year-on-year; +2.9% organic).

The changes in the perimeter of consolidation contributed 6.7 percentage points to year-on-year OIBDA growth in April-June and 4.9 percentage points in the first half.

OIBDA margin in the second quarter stood at 31.2%, with a year-on-year organic erosion of 0.3 percentage points. In January-June, the margin reached 31.3% (-0.3 percentage points in organic terms vs. the same period of 2014).

Depreciation and amortisation in April-June reached 2,145 million euros and increased 24.5% year-on-year (4,252 million euros in the first six months; +21.8%) affected by the incorporation of GVT, DTS and E-Plus into the perimeter of consolidation. In organic terms, it grew 7.4% year-on-year in the quarter (+4.6% in January-June 2015) predominantly due to the depreciation of the new spectrum acquired in Brazil and Spain and the higher investment effort. Total depreciation and amortisation charges arising from purchase price allocation processes amounted to 219 million in the quarter (422 million in January-June 2015).

The **Operating income (OI)** amounted to 1,557 million euros and fell 1.7% vs. to the second quarter of 2014 in organic terms (-10.8% reported). In the first half of 2015, operating income reached 3,068 million euros (+0.6% year-on-year organic; -8.0% reported).

Net financial expenses in the first half of 2015 totalled 1,129 million euros, 8.5% lower than the same period of the previous year. Excluding the negative exchange rate differences of 293 million euros, largely due to the impact of the adoption of the Venezuelan bolívar exchange rate set at SIMADI, the improvement would be of 30.0% (358 million euros). Regarding this improvement, it is worth highlighting the positive effects of the divestment of the Group s total stake in Telecom Italia S.p.A. (380 million euros) and the lower cost of debt in euros (87 million euros), due to the reduction of fixed-rate debt and the capture of the lower euro short-term rates. The effective cost of the debt in the last twelve months, excluding exchange rates and the positive impact related to the divestment in Telecom Italia S.p.A., stood at 5.23%, 15 basis points below June 2014.

In the second quarter of 2015, net financial expenses accelerated their year-on-year drop compared to the previous quarter by 7.5 percentage points to -12.6% (485 million euros), despite the negative impact resulting from the adoption of the exchange rate set at SIMADI, mainly due to the positive impact caused by the divestment in Telecom Italia S.p.A. and the lower cost of debt in euros.

Corporate income tax in the April-June period represented an income of 314 million euros, primarily due to the larger activation of tax credits in 2015 mainly in Spain. During the first six months corporate income tax amounted to 71 million euros (230 million euros in the same period of 2014).

Profit from continuing operations stood at 1,385 million euros in April-June 2015 and increased 16.9% year-on-year. In the first half of the year, it reached 1,864 million euros (+2.6% vs. the same period of 2015).

Profit from discontinued operations totalled 537 million euros in the quarter (88 million euros in the same period of 2014), impacted by the cessation of depreciation and amortization since the signing of the final sale agreement of Telefónica s operations in the UK and the 135 million euros adjustment of deferred tax assets. Thus, in January-June it reached 1,841 million euros, with 1,320 million euros from deferred tax assets resulting from the estimation of the difference in Telefónica, S.A. between the fiscal value and the agreed value regarding the sale of Telefónica s UK operations, which are expected to materialize in the foreseeable future when they are finally made deductible in the sale.

Profit attributable to minority interests detracted 31 million euros from second quarter net income, down 80.9% year-on-year mainly due to the higher result attributed to minority interests in Brazil in 2014 (affected by non-recurrent factors) and by the negative results attributed to T. Deutschland minorities. In January-June they detracted 12 million euros from the net income (-94.0% year-on-year).

Thus, **consolidated net income** reached 1,891 million euros in April-June 2015 (1.7 times higher year-on-year) and 3,693 million euros in January-June (2.1 times higher). This translated into **basic earnings per share** of 0.37 euros in the quarter (+62.1% vs. the same period of the previous year) and of 0.75 euros up to June (2.0 times year-on-year).

CapEx in the first half of 2015 stood at 5,094 million euros (+12.6% year-on-year organic) and included 1,589 million euros in spectrum acquisitions (1,195 million in Germany and 204 million in Argentina, both in the second quarter; 135 million in Ecuador and 6 million in Chile in the first quarter; 49 million in Spain in the first six-month period). Growth and transformation projects continued being the main focus, reaching 76% of total investment (+5 percentage points year-on-year in organic terms).

The **operating cash-flow (OIBDA-CapEx)** totalled 289 million euros in the second quarter of 2015 (1,717 million euros excluding spectrum acquisitions) and fell 0.4% year-on-year organic (-83.4% reported). In the first half of 2015, it reached 2,226 million euros (3,815 million euros excluding spectrum), 4.7% less than in the same period of 2014 in organic terms (-40.9% reported).

Interest payments in the first half of 2015 (1,402 million euros) fell 9.2% compared to the same period of 2014, mainly due to lower coupon payments and the reduction in the cost of debt. In April-June (496 million euros) they fell 45.2% vs. the first quarter of 2015, due to the seasonality of bond coupons.

Payment of taxes amounted to 134 million euros in January-June 2015, 248 million euros less with respect to the same period of 2014, primarily due to tax recoveries on definitive tax filings of previous years.

Working capital consumed 943 million euros, mainly due to the seasonality of investment (with payments 653 million euros above accruals) and of certain operating expenses. This consumption was 656 million euros higher vs. first half of 2014 due to payments in 2015 related to restructuring expenses accrued in 2014 as well as extraordinary impacts in the first half of 2014 (deferred income on advance payments in Germany and collections from the Spanish government s vendor payment plan). On the other hand, management measures continued contributing to the monetisation of revenues financed through the factoring of collections (with sales of remaining handset portfolio 415 million euros higher than the new invoices) and to maintain supplier financing.

Regarding the second quarter, working capital contributed with a cash generation of 199 million euros (285 million euros in the second quarter of 2014) due to the management measures and lower CapEx and spectrum related payments vs. accruals.

Operations with minority shareholders totalled 400 million in January-June 2015, 146 million euros more year-on-year, fundamentally due to higher dividend payments in Germany. In the second quarter, these operations reached 374 million euros due to dividend payments in T. Deutschland.

Cash flow from discontinuing operations reached 547 million euros in the first half of 2015 (330 million euros in the same period of 2014), mainly due to a positive working capital contribution and an operating cash flow improvement. In the second quarter this cash flow totalled 131 million euros (260 million euros in the same period of 2014).

All in all, the **free cash flow**, excluding spectrum payments, reached 1,144 million euros in January-June 2015 (-194 million euros after spectrum).

Net financial debt stood at 51,238 million euros as of June 2015 and increased 5,611 million euros in the quarter, driven mainly by: i) net financial investments including changes in the perimeter of consolidation (acquisitions of GVT and DTS and Telco S.p.A. demerger) for 6,397 million euros; ii) shareholder remuneration

Table of Contents

(including net purchases of treasury stock and the payment of coupons of equity instruments) totalling 2,194 million euros; iii) spectrum payments of 1,212 million euros; iv) payment of labour-related commitments (151 million euros), mainly in connection with early retirements; and v) other factors that increased debt in 519 million euros, including the impact of the adoption of the exchange rate set at SIMADI for the conversion of positions in Venezuelan bolivars. Among factors that reduced the debt, it is worth highlighting; i) 3,003 million euros from the capital increase of Telefónica, S.A.; ii) the contribution of minority shareholders in Telefónica Brasil s capital increase, totalling 1,204 million euros; and iii) free cash flow generation before spectrum payments for a total of 655 million euros.

Compared to December 2014, net financial debt grew 6,151 million euros. Factors causing the debt to increase included: i) 6,536 million euros in net financial investments including changes in the perimeter of consolidation; ii) shareholder remuneration totalling 2,687 million euros; iii) spectrum payments of 1,308 million euros; iv) payment of labour-related commitments (417 million euros), mainly in connection with early retirements; and v) other factors totalling 980 million euros, principally the higher value in euros of net debt in denominated in foreign currencies due to the appreciation of the sterling pound vs. the euro and the impact of the adoption of the exchange rate set at SIMADI for the conversion of positions in Venezuelan bolivars. Conversely, noteworthy factors reducing debt included: i) 3,003 million euros from the capital increase of Telefónica S.A.; ii) the contribution of minority shareholders in Telefónica Brasil s capital increase, totalling 1,204 million euros; iii) free cash flow generation before spectrum payments for a total of 1,114 million; and iv) the issuance of capital instruments for a total of 456 million.

The **leverage ratio (net debt to OIBDA[1])** in the last 12 months at the end of June 2015 stood at 2.92 times. Including the collection of the full firm value on the sale of O2 UK, the ratio would stand at 2.38 times (2.35 times excluding second quarter corporate transactions: acquisitions of GVT and DTS, adjusting corresponding OIBDA, and Telco S.p.A. demerger).

During the first half of 2015, **Telefónica s financing activity** in capital markets stood at about 11.388 million euros equivalent and was mainly focused on financing the GVT acquisition as well as on strengthening the liquidity position and actively managing the cost of debt, through the extension of the maturity of the credit lines and credit margins reduction. It is worth mentioning the capital increases in Telefónica, S.A., for a total of 3.0 billion euros, and Telefónica Brasil, S.A. for 16.1 billion Brazilian reais, related 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).

Likewise, it is worth mentioning the signing in February 2015 of a syndicated credit line with 33 financial entities totalling 2.5 billion euros and maturing in 2020. In parallel, the economic terms of the syndicated credit facility signed in February 2014, for an amount of 3.0 billion euros, have been modified. Therefore, as of the end of June 2015, the Group liquidity position allows accommodating the next debt maturities.

In Hispanoamérica, Telefónica s subsidiaries tapped financing markets in the January-June 2015 period for approximately 861 million equivalent euros. It is worth highlighting the hybrid issuance from Colombia Telecomunicaciones, S.A. ESP totalling 500 million dollars.

In the first quarter, T. Deustchland 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.

Telefónica, S.A. and its holding companies have continued with their issuance activity under the various Commercial Paper Programs (Domestic and European), increasing the outstanding amount to approximately 2,106 million euros at the end of June.

Telefónica maintains total undrawn committed credit lines with different credit entities for an approximate amount of 8,148 million euros, with around 7,329 million maturing in more than 12 months, which, along with the adjusted cash position, places liquidity at 13.9 billion euros.

[1] OIBDA 12 month rolling, not considering O2 UK discontinuation, incorporating E-Plus OIBDA corresponding to July-September 2014 as well as DTS and GVT s OIBDA corresponding to July 2014-April 2015, and excluding the non-recurring impact from restructuring costs in 2014.

Table of Contents

Definition

Organic growth: 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 integration processes in Germany and Brazil and the simplification programme. CapEx also excludes investment in spectrum and the Real Estate efficiency plan.

Digital Services

In the second quarter of 2015, digital services revenues totalled 938 million euros (+27.0 year-on-year in organic terms), reflecting the consolidation from 1 May of DTS and GVT. During the first six months of the year revenues totalled 1,621 million euros, with year-on-year growth in organic terms of 29.7%.

Main highlights are:

Revenues in the **Video** business in the second quarter stood at 541 million euros and grew 34.8% year-on-year in organic terms (862 million in the first half of the year; +41.9% year-on-year), leveraged on the expansion of the access base (8.0 million; +25% year-on-year in organic terms) in Spain, Brazil and Hispanoamerica as well as the inclusion of 1.4 million accesses from DTS and almost 1 million accesses from GVT.

With the DTS acquisition, Telefónica consolidates a high-value customer base, expanding its opportunities for cross-selling. In July, the company launched the new Pay TV offer, Movistar+ , with national satellite coverage with the most comprehensive and higher-quality offering in the market, integrating Movistar and Digital+ content, including the Spanish football league (La Liga) and the Copa del Rey for the 2015/16 season.

Security revenues (71 million euros in the quarter) grew 28.0% year-on-year in organic terms and 46.9% in the six-month period.

In the area of **Security for consumer customers**, total accesses reached 10.2 million (+63% year-on-year). Additionally, new Cloud services (in Spain and the United Kingdom) and multi-device security products with McAfee (in Peru and Argentina) were launched. In Spain, it should be noted, Movistar Verisure Hogar , a pioneering and unique quintuple play service, which, thanks to the agreement reached with Securitas Direct, offers a value-added security service for connected households.

M2M revenues in the second quarter (39 million euros) remained stable year-on-year in organic terms. Noteworthy is the launch in Spain of Smart Patrimonio , a solution that monitors cultural heritage landmarks for preventative preservation purposes.

The investments made in infrastructures (upgrade of several data centres), in platforms and in the deployment of new services allowed **Cloud** revenues to grow 36.3% year-on-year in organic terms, reaching 108 million euros in the quarter.

In the **Financial Services** area, revenues reached 65 million euros in the quarter (+5.5% year-on-year in organic terms; +6.4% in the first half).

The **Global Device Management**, 82.6% of shipments were smartphones (+9.0 percentage points year-on-year) and 52.3% were LTE (+30.1 percentage points year-on-year). It should be highlighted, the strategic agreement reached with China Unicom for the joint purchase of LTE handsets, with the purpose of selecting smartphones with common specifications.

Table of Contents

Telefónica Global Resources

During the second quarter of the year, TGR continued contributing to a fast and agile development of technologies enabling the best digital end-to-end experience for our customers.

The **Global Network and Operations Area** accelerated ultra-broadband deployments, in both fixed (FTTx) and mobile (LTE) and drove the development, design and certification of homogeneous technological solutions.

Thus, premises passed with fibre totalled 12.5 million in Spain and 16.1 million in Brazil and allowed to reach 5.4 million fibre customers (1.4 times year-on-year organic). The integration of GVT contributed with 11.6 million premises passed and 3.2 million FTTx customers. In LTE, population coverage in Europe and Latin America reached 67% and 35% respectively; LTE sites in service surpassed 25 thousand and 89% of 3G and LTE base stations were connected at high-speed to the transmission network. As a result, LTE customers increased 4.7 times reaching the 18.6 million.

Total data traffic grew 40% year-on-year organic, driven by mobile broadband (+52%) and fixed broadband (+39%). The latter due to higher video traffic (+66% including IPTV). Average consumption per smartphone in the second quarter increased 30% year-on-year to 556 MB per month, driven by the higher LTE penetration, which offers a superior customer experience.

Among the initiatives aimed at increasing our competitive differentiation and efficiency, the following are worth noting:

- Creation of a Global Device Development Centre, which guarantees an integrated process, from device design to its certification, while it captures cost, time and innovation synergies.

- Integration of the two mobile networks in Germany, offering our customers the best 3G urban coverage and expanding in rural areas to reach 90% of the country s population.

- Automation through self-organising networks, to optimise the deployment, operation and maintenance of networks, like in Brasil and Germany.

- VoLTE support for all contract customers in Germany.

- Closure of two copper central offices in Spain, and migration of all customers to all-IP solutions, leveraged on the deployment of the fibre network.

In the **Global IT area,** application transformation translated in a reduction of the structural complexity and in a transformation of the BBS Business Support Systems to standardise, upgrade and simplify processes and systems. Likewise, this approach simplifies integrations, reduces *Time To Market* of new digital services and improves user experience.

Regarding *Full Stack*[2] projects, it is worth highlighting GVT s integration in Brazil, having launched integration projects related to legal entities, tactical solutions for the fixed business, etc. Thus *Full Stack* is already being developed in 15 countries, progressing in line with the target of managing more than 35% of customers by 2016.

In parallel, this area enables digital capabilities to efficiently manage and process all the information available related to the Company, the network and the customers (Big Data and Business Intelligence).

With regards to efficiency and simplification, 351 applications have been eliminated year-on-year, 4 Data Centers were released, the virtualisation level increased 10 percentage points year-on-year organic, having reduced physical servers by 10%.

[2] Business Support Systems transformation processes, with integrated, best-in-class and out of the box solutions to enable online, automated, bundled and multichannel processes.

TELEFÓNICA

ACCESSES

Unaudited figures (thousands)

	2014				2015		
	March	June	September	December	March	June	% Chg
Final Clients Accesses	283,012.7	285,331.4	285,237.0	309,800.5	312,635.8	323,021.6	13.2
Fixed telephony accesses (1) (2)	37,382.1	37,326.1	37,103.9	36,602.0	36,219.8	40,164.5	7.6
Internet and data accesses	18,105.5	18,151.4	18,150.3	18,132.5	18,195.7	21,229.3	17.0
Broadband (3)	17,569.1	17,625.9	17,640.2	17,649.3	17,704.7	20,754.8	17.8
Fibre (4)	975.9	1,181.6	1,447.1	1,755.0	2,062.6	5,444.4	n.m.
Mobile accesses	223,958.0	225,662.0	225,332.8	249,978.9	252,753.8	253,597.5	12.4
Prepay	150,854.2	150,750.4	149,877.0	164,959.2	166,813.7	166,636.1	10.5
Contract	73,103.9	74,911.6	75,455.7	85,019.6	85,940.1	86,961.4	16.1
M2M	6,269.0	6,665.1	6,841.4	7,595.5	8,029.0	8,447.4	26.7
Pay TV (5)	3,567.1	4,191.9	4,650.0	5,087.2	5,466.5	8,030.3	91.6
Wholesale Accesses	6,327.7	6,438.6	6,585.6	6,521.6	6,475.7	6,401.0	(0.6)
Total Accesses	289,340.3	291,770.0	291,822.5	316,322.1	319,111.5	329,422.6	12.9

Notes:

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

O2 UK accesses are excluded from the first quarter of 2014 as a result of the discontinuation of the operation.

(1) *Includes fixed wireless and VoIP accesses.*
(2) *From 1 May 2015 4.3 million GVT accesses are included.*
(3) *Includes ADSL, satellite, fiber, cable modem and broadband circuits.*
(4) *From 1 May 2015 3.2 million GVT fibre accesses (FTTN) are included.*
(5) *From 1 May 2015 1.4 million DTS accesses and 1.0 million GVT accesses are included.*

TELEFÓNICA

MOBILE ACCESSES

Unaudited figures (thousands)

	2014				2015		
	March	June	September	December	March	June	% Chg
Prepay percentage (%)	67.4%	66.8%	66.5%	66.0%	66.0%	65.7%	(1.1 p.p.)
Contract percentage (%)	32.6%	33.2%	33.5%	34.0%	34.0%	34.3%	1.1 p.p.
Smartphones (000)	58,340.2	63,670.7	71,447.1	79,027.7	91,431.1	99,184.0	55.8
Prepay	25,660.8	29,208.1	35,349.2	36,539.6	46,368.5	51,139.4	75.1
Contract	32,679.4	34,462.6	36,097.9	42,488.1	45,062.5	48,044.6	39.4
Smartphone penetration (%)	27.7%	30.0%	33.7%	33.6%	38.3%	41.4%	11.4 p.p.
Prepay	17.2%	19.6%	23.8%	22.4%	28.0%	30.9%	11.4 p.p.
Contract	53.2%	54.8%	56.8%	59.2%	61.4%	64.8%	10.0 p.p.
LTE (000)	2,758.5	3,982.1	5,505.8	9,830.7	14,059.4	18,571.7	n.m.
LTE penetration (%)	1.3%	1.8%	2.5%	4.1%	5.7%	7.6%	5.8 p.p.

Notes:

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

O2 UK accesses are excluded from the first quarter of 2014 as a result of the discontinuation of the operation.

Table of Contents

TELEFÓNICA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - June		% Chg		April - June		% Chg	
	2015	2014	Reported	Organic	2015	2014	Reported	Organic
Revenues	**23,419**	**20,817**	**12.5**	**3.9**	**11,876**	**10,566**	**12.4**	**4.4**
Internal exp. capitalized in fixed assets	359	292	23.2	16.0	189	150	26.4	13.4
Operating expenses	(16,610)	(14,477)	14.7	4.2	(8,425)	(7,353)	14.6	4.4
Supplies	(6,292)	(5,580)	12.8	2.2	(3,233)	(2,847)	13.6	2.5
Personnel expenses	(3,316)	(2,943)	12.7	4.3	(1,682)	(1,489)	13.0	3.6
Other operating expenses	(7,002)	(5,953)	17.6	6.1	(3,509)	(3,016)	16.3	6.6
Other net income (expense)	63	143	(55.5)	(62.1)	33	92	(63.9)	(69.5)
Gain (loss) on sale of fixed assets	89	49	82.5	c.s.	28	10	n.m.	n.m.
Impairment of goodwill and other assets	(1)	2	c.s.	c.s.	0	1	(64.0)	(41.5)
Operating income before D&A (OIBDA)	**7,320**	**6,825**	**7.2**	**2.9**	**3,702**	**3,467**	**6.8**	**3.3**
OIBDA Margin	***31.3%***	***32.8%***	***(1.5 p.p.)***	***(0.3 p.p.)***	***31.2%***	***32.8%***	***(1.6 p.p.)***	***(0.3 p.p.)***
Depreciation and amortization	(4,252)	(3,491)	21.8	4.6	(2,145)	(1,722)	24.5	7.4
Operating income (OI)	**3,068**	**3,334**	**(8.0)**	**0.6**	**1,557**	**1,744**	**(10.8)**	**(1.7)**
Share of profit (loss) of investments accounted for by the equity method	(4)	(54)	(93.4)		(0)	(58)	(99.9)	
Net financial income (expense)	(1,129)	(1,234)	(8.5)		(485)	(555)	(12.6)	
Profit before taxes from continuing operations	**1,935**	**2,047**	**(5.5)**		**1,071**	**1,131**	**(5.3)**	
	(71)	(230)	(69.2)		314	54	n.m.	

Corporate income tax						
Profit for the period from continuing operations	1,864	1,817	2.6	1,385	1,185	16.9
Profit for the period from discontinued operations	1,841	181	n.m.	537	88	n.m.
Profit for the period	**3,705**	**1,997**	**85.5**	**1,922**	**1,272**	**51.1**
Non-controlling interests	(12)	(199)	(94.0)	(31)	(163)	(80.9)
Net Income	**3,693**	**1,798**	**105.4**	**1,891**	**1,110**	**70.4**
Weighted average number of ordinary shares outstanding during the period (millions)	**4,755**	**4,596**	**3.5**	**4,860**	**4,580**	**6.1**
Continuing operations earnings per share (euros)	**0.36**	**0.33**	**8.6**	**0.26**	**0.21**	**24.6**
Discontinued operations earnings per share (euros)	**0.39**	**0.04**	**n.m.**	**0.11**	**0.02**	**n.m.**
Basic earnings per share (euros)	**0.75**	**0.37**	**100.9**	**0.37**	**0.23**	**62.1**

Notes:

For comparative purposes, the quarterly data for 2014 are reported adjusting the exchange rate in Venezuela from SICAD I to SICAD II 50 VEF/USD for the Telefónica Group, Hispanoamérica and Venezuela and Central America following the adoption of SICAD II 50 VEF/USD in the fourth quarter of 2014. The January-March 2015 consolidated financial statements use the exchange rate of the Venezuelan bolivar set at the denominated SIMADI, (as of 30 June, this rate was set at 197 Venezuelan bolivars fuertes per dollar).

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. 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, 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 ratio is calculated dividing profit for the period from continuing operations, 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 ratio 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 from 1 May 2015, consolidate E-Plus results from the fourth quarter 2014 and deconsolidate Telefónica Ireland s results from the third quarter 2014.

Table of Contents

TELEFÓNICA

GUIDANCE 2015

Bases 2014		Previous Operative Guidance 2015 (Feb-2015)	Upgraded Operative Guidance 2015 (Jul-2015)	Previous criteria 2015 Jan-Mar	Previous criteria 2015 Jan-Jun
42,794	Revenues (% Chg YoY)	Growth > 7%	**Growth > 9.5%**	8.8%	9.4%
32.7%	OIBDA margin (Chg YoY)	Limited erosion of around 1 p.p. y-o-y (to allow for commercial flexibility if needed)	**Limited erosion of around 1.2 p.p. y-o-y (to allow for commercial flexibility if needed)**	(1.0 p.p.)	(0.9 p.p.)
16.7%	CapEx / Sales	Around 17%	Around 17%	13.3%	14.8%
		Financial Guidance 2015 (unchanged)			
	Net financial debt / OIBDA	Net financial debt / OIBDA < 2.35x		2.13x	2.35x

Previous 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 integration processes in Germany and Brazil and the simplification programme. Additionally, CapEx excludes investment in spectrum and the real estate efficiency plan. GVT results are included from July 2015.

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 integration processes in Germany and Brazil and the simplification programme. Additionally, CapEx excludes investment in spectrum and the real estate efficiency plan. GVT and DTS results are included from May 2015.

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.

TELEFÓNICA

REPORTED VS. ORGANIC

Unaudited figures (Euros in millions)

	January - June			%	
	2015 Reported	2015 Organic	2014 Organic	Organic Change y-o-y	Reported Change y-o-y
Revenues	23,419	23,342	22,467	3.9	12.5
OIBDA	7,320	7,294	7,091	2.9	7.2
OIBDA margin	31.3%	31.2%	31.6%	(0.3 p.p.)	(1.5 p.p.)
Operating Income (OI)	3,068	3,084	3,066		