TELEFONICA S A
Form 6-K
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of May, 2014

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 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

Telefónica, S.A.

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INTERIM MANAGEMENT STATEMENT

JANUARY MARCH 2014

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

Telefónica s management model, regional and integrated, means that the legal structure of the companies is not relevant for the release of Group financial information, and therefore, the operating results of each of these business units are presented independently, regardless of their legal structure. For the purpose of presenting information on a business unit basis, revenue and expenses arising from invoicing among companies within Telefónica s perimeter of consolidation for the use of the brand and management contracts have been excluded from the operating results for each business unit, while centrally-managed projects are included at the regional level. 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 the first quarter of 2014, Telefónica further advanced in the execution of its operating model transformation strategy focused on capturing the opportunity of the digital revolution and maximising value creation. As a consequence, these results reflect organic revenue and OIBDA growth improvement on the back of the on-going focus on capturing high-value customers, simplification efforts and cost savings. The Company also continued reducing its debt level (2,657 million euros vs. December 2013).

It is important to note that Telefónica Czech Republic results were deconsolidated from Telefónica Group since January 2014 (following the disposal of the Company), therefore affecting year-on-year comparison of Telefónica s reported results.

At the end of March, Telefónica Group reached 313.1 million **accesses**, down 1% year-on-year due to the aforementioned sale of T. Czech Republic and the disposal of assets relating to the fixed consumer business in the United Kingdom (second quarter of 2013). Excluding these impacts, total accesses grew 2% year-on-year in organic terms driven by mobile contract, principally smartphones, and Pay TV. Particularly noteworthy is the evolution of total accesses in T. Hispanoamérica (+5% vs. March 2013; 41% of total accesses) and T. Brasil (+3% year-on-year; 30% of total accesses).

Mobile accesses increased by 3% year-on-year in organic terms to 247.5 million at the end of the quarter thanks to strong contract access growth (+9% organic), accounting for 35% of the total (+1 percentage point year-on-year). Particularly noteworthy is T. Brasil s on-going progress in capturing high-value customers (+28% year-on-year in contract customers, with net additions in the quarter up 70% year-on-year).

Smartphone (all with a data plan attached) penetration stood at 30% at the end of March 2014 (+9 percentage points year-on-year) and posted net additions of 5.6 million in the quarter in organic terms, more than double the figure in the first quarter of 2013 (3.6x higher in the case of T. Brasil).

Retail fixed broadband accesses totalled 17.6 million, up 2% vs. March 2013 in organic terms.

Pay TV accesses (3.6 million) rose 8% year-on-year, highlighting the performance of T. España (consolidating its recovery trend for the second quarter in a row) and the double-digit year-on-year growth of T. Hispanoamérica and T. Brasil.

Exchange rate fluctuations, in particular the depreciations of the Brazilian reai and the Argentine peso along with the implicit devaluation of the Venezuelan bolivar following the introduction of the new exchange rate mechanism (SICAD I), negatively impacted financial results. Thus, in the January-March period exchange rates deducted 11.8 percentage points to year-on-year revenue growth and 11.7 percentage points to OIBDA growth.

It is important to note that exchange rate fluctuations also reduced payments in euros related to CapEx, interest, taxes and minorities, fully offsetting the negative impact of exchange rates on OIBDA, thus neutralising their effect on cash flow generation in the quarter.

On the other hand, changes in the perimeter of consolidation reduced year-on-year revenue growth by 3.1 percentage points and OIBDA growth by 3.7 percentage points in the first quarter of the year, as a result of the deconsolidation of T. Czech Republic.

First quarter **revenues** totalled 12,232 million euros in January-March 2014, up 1.5% year-on-year in organic terms (-13.5% reported), posting positive growth for the fourth quarter in a row and accelerating vs. full-year 2013. Excluding the negative impact of regulation, organic revenues grew 3.4% compared with January-March 2013.

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By services, mobile data revenue growth accelerated compared with the previous quarter (+8.8% year-on-year in organic terms; +7.8% in the fourth quarter of 2013), now accounting for 40% of mobile service revenues, up 2 percentage points compared with the first quarter of 2013. It is also noteworthy the performance of non-SMS data revenues in January-March 2014, improving year-on-year growth to 23.6% in organic terms and already accounting for 71% of total data revenues (+8 percentage points year-on-year).

Consolidated operating expenses totalled 8,548 million euros in the quarter, up 1.5% year-on-year in organic terms (-13.0% reported), with the pace of year-on-year growth easing for the second consecutive quarter due to strict cost control and efficiency measures, despite the high level of commercial activity.

Breakdown by components:

- **Supplies** declined 1.6% year-on-year in organic terms (-14.5% reported) on lower mobile termination costs mainly in Spain, UK, Germany and Brazil, more than compensating the impact of increased handset consumption associated with the higher volume of gross additions in Hispanoamérica.

- **Personnel expenses** increased 1.2% in organic terms vs. January-March 2013 (-13.7% reported), mainly reflecting the negative impact of inflation in some countries, which could not compensate the savings from restructuring plans carried out in recent years (mainly in Spain, Brazil and UK). Non-recurrent restructuring expenses amounted to 5 million euros in the first quarter of 2014 (mainly in UK) compared with 58 million euros in the same period of 2013 (primarily in Brazil, Czech Republic and UK).

The average headcount was 121,706 employees, down 8.3% compared with the first quarter of 2013, affected by the deconsolidation of T. Czech Republic. Excluding this impact, the average headcount in the quarter was down 3.8% year-on-year.

- **Other operating expenses** rose 5.1% in organic terms vs. the first quarter of 2013 (-10.9% reported) mainly as a result of higher network costs associated with data traffic growth and expenses related to network modernisation.

Gains on sales of fixed assets stood at 47 million euros up to March 2014 (26 million euros in the first quarter of 2013) and are mainly associated with the sale of non-strategic towers in Spain (46 million euros of impact on OIBDA).

Operating income before depreciation and amortisation (OIBDA) in the first quarter of 2014 amounted to 3,929 million euros, up 0.5% year-on-year in organic terms (-14.0% reported), with growth accelerating vs. full year 2013 and posting positive year-on-year growth for the second consecutive quarter. This performance was underpinned by sustained revenue growth and cost containment measures, along with efficiencies and synergies from the new operating model. Excluding the adverse impact of regulation, OIBDA grew by 1.9% compared with January-March 2013 in organic terms.

The **OIBDA margin** stood at 32.1% at the end of the first quarter, virtually stable year-on-year in organic terms compared with the same period of 2013 (-0.3 percentage points).

Depreciation and amortisation totalled 2,092 million euros in the first three months of the year, down 3.6% year-on-year in organic terms (-16.4% reported) mainly due to lower fixed asset depreciation, more than offsetting increased depreciation on spectrum acquisition. Total depreciation and amortisation charges arising from purchase price allocation processes amounted to 158 million euros (-26.4% year-on-year).

Operating income (OI) in the first quarter of 2014 stood at 1,838 million euros, up 5.2% year-on-year in organic terms (-11.0% reported).

Net financial expenses amounted to 801 million euros in the first quarter, of which 146 million euros were due to net negative foreign exchange differences primarily as a result of the implicit devaluation of the Venezuelan bolivar. Excluding this effect, net financial expenses fell 0.2% due to a 14.3% reduction in the average debt. The effective cost of debt over the last twelve months was 5.55%, 21 basis points higher than in December 2013, as most of the average debt reduction has been in euros and Czech crowns (with below average costs) and as currency hedging costs in the Argentinean peso-US dollar increased in the quarter, despite that exchange rate fluctuations more than compensated the cost of currency hedging.

Corporate income tax totalled 307 million euros over an income before taxes of 1,037 million euros, implying an effective tax rate of 29.7%. This is 2.3 percentage points lower year-on-year, mainly due to the higher contribution to results of countries with lower tax rates.

Profit attributable to minority interests reduced net income by 37 million euros in the first three months of the year (-57 million euros in the first quarter of 2013) mainly as a result of the lower profit attributed to minority interests in Brazil, affected by the exchange rate, and the deconsolidation of T. Czech Republic.

As a result, **consolidated net income** in the first quarter amounted to 692 million euros (-23.2% year-on-year; -16.6% underlying) and **basic earnings per share** amounted to 0.15 euros per share (-27.0% year-on-year; -20.0% underlying).

CapEx up to March totalled 1,555 million euros (-19.9% year-on-year) and included 187 million euros relating to the acquisition of spectrum in Colombia and Central America (695 million euros in the first quarter of 2013, mainly in the UK). In organic terms, investments rose 29.7% year-on-year, with more than 69% of total investments devoted to business transformation and growth.

Operating cash flow (OIBDA-CapEx) totalled 2,374 million euros in the first quarter, down 10.6% year-on-year in organic terms (-9.6% reported).

Interest payments amounted to 1,020 million euros in January-March 2014, down 9.4% year-on-year mainly due to the aforementioned reduction in average debt, despite the higher effective cost of debt and other non-recurring impacts.

Payment of taxes totalled 170 million euros in the first quarter of 2014, 314 million euros less than in the same period a year earlier, mainly due to the effect of previous year s final filings and the evolution of exchange rates.

In January-March 2014, **working capital** consumption amounted to 688 million euros, improving by 613 million euros year-on-year due to factoring collections from handset sales while maintaining supplier financing (thanks to working capital measures), lower spectrum acquisition payments vs. accruals and the positive impact of collections from the Spanish government s vendor payment plan, among other factors. It is important to highlight that working capital consumption in the quarter was affected by the seasonality of investment payments.

Operations with minority shareholders totalled 119 million euros in the first three months of the year, 29 million euros less than in the same period of 2013, mainly due to the impact of the performance of the Brazilian reais on T. Brasil dividend payment.

As a result, **free cash flow** amounted to 339 million euros in the first quarter, the highest since 2011, posting a significant year-on-year improvement of 796 million euros.

Net financial debt was reduced by 2,657 million euros in the first quarter of 2014 to 42,724 million euros at March 2014. Including post-closing events (disposal of T. Ireland), net debt stood at 41,944 million euros.

Net Financial debt reduction was mainly due to the sale of T. Czech Republic for 2,306 million euros (1,966 million euros collected and 340 million euros deferred payment), the placement of Undated Deeply Subordinated Securities in the amount of 1,750 million euros considered as equity instruments, free cash flow generation before spectrum payments of 433 million euros and other factors amounting to 225 million euros, most notably higher interest payments than accruals. In contrast, factors that increased debt include the implicit devaluation of the Venezuelan bolivar (1,110 million euros), the payment of labour commitments mainly associated with early retirements (210 million euros), spectrum payments (94 million euros) and other factors that increased debt by 643 million euros, including financial investments and the net purchase of treasury stock.

The **leverage ratio (net debt over OIBDA)** for the past 12 months stood at 2.30 times at the end of March 2014, and at 2.27 times if including the aforementioned post-closing transactions (disposal of T. Ireland).

In the first quarter of 2014, **Telefónica s financing activity** through bond and loan markets stood at around 5,700 million equivalent euros. This activity was mainly focused on strengthening the liquidity position and smoothing the debt maturity profile of Telefónica S.A. for the following years. Therefore, as of the end of March, the Group maintains a comfortable liquidity position to accommodate next years debt maturities. In Hispanoamérica, Telefónica s subsidiaries tapped financing markets for approximately 124 million equivalent euros in the first quarter of 2014. Also noteworthy is the 500-million-euro bond placement by T. Deutschland in January.

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Telefónica S.A. and its holding companies have remained active under the various Commercial Paper Programmes (Domestic and European), with an outstanding balance of approximately 1,632 million euros at the end of March.

Telefónica maintains total undrawn committed credit lines with different credit entities for an approximate amount of 12,560 million euros, with around 11,250 million maturing in more than 12 months.

Digital Services

In the new area of the Chief Commercial Digital Officer, recently established to bring digital services to the core of our businesses, main advances to be highlighted are:

- In the **B2B** area, Telefónica signed a **M2M** deal with JCDecaux, the world s leader in outdoor advertising, to bring connectivity and new digital features to a new range of smart M2M powered solutions for urban environment in Europe and Latin America. Additionally, Telefonica s global M2M solution was also chosen by Tesla, an industry-leader of in-car telematics, to provide M2M connectivity for the Model S in Europe. Thus, M2M revenue grew by more than 50% year-on-year in organic terms in the first quarter, showing a sharp acceleration compared to previous quarters on the back of special projects recognised this quarter and the strong year-on-year growth of the M2M[1] accesses base (+20% organic).

With regards to **Cloud** services, revenue advanced by more than 20% organic year-on-year in the first three months of the year, gradually adding value to our offering. In addition, the Spanish cloud computing start-up eyeOS was acquired, enabling Telefónica to offer an open-source desktop virtualisation service.

Information Security revenues grew slightly above 20% organic year-on-year in the quarter fueled by strong momentum in CyberSecurity , as relevant projects awarded in Spain and Colombia are leveraging global SOC roll-outs to accelerate growth and provide advanced services.

It should be also mentioned some strategic investments made as the creation of Axonix , the first mobile **Advertising** exchange platform owned and powered by a mobile operator and powered by MobClix technology. This new company is also supported by affiliates of Blackstone s GSO Capital Partners.

- In **Video**, within the area of **Consumer**, Telefónica acquired for Spain exclusive content rights in Moto GP and Formula 1. Thus, the strategic focus on fostering Pay TV growth is delivering positive results with revenues growing in organic terms by 12% year-on-year and accesses by 8% year-on-year in the quarter, and increasing market share in the main markets where the Company is present. Particularly noteworthy was the performance in Spain and Brazil, where access growth is significantly accelerating (+11% and +14% year-on-year respectively).

Telefónica also reached a strategic agreement with Saluspot for **E-health** services, which enables to offer free online health advice.

In the **Security** area, successful consumer products maintained a steady performance, being noteworthy the growth achieved in Brazil up to 3.9 million accesses (x4 year-on-year).

At the same time, Telefónica continued enhancing its data proposition by delivering value through continuous customer adoption of digital services leveraging **Global Partnerships**. As a result, the number of accesses with Evernote and Rhapsody reached 185 thousand and 74 thousand respectively at the end of March.

Additionally, in April the brand of the Digital **Financial Services** (Yaap) to be provided in Spain by the joint venture established with CaixaBank and Santander was announced. Two services will be launched in the coming months, Yaap Shopping , a virtual showroom helping small businesses, and Yaap Money , a peer to peer service that will enable people to send money from one mobile device to another.

[1] Impacted by the disconnection of 569 thousand inactive M2M accesses in Spain in the first quarter 2014.

[2] Security Operation Center

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The area of **Global Device Management** is supporting a rapid adoption of smartphones in the customer base with special focus on LTE. Thus, 65% of total devices purchased in the first quarter were smartphones, with total volume of LTE devices increasing by 9 times year-on-year.

Telefónica Global Resources

Telefónica Global Resources continued driving the Company s technological transformation during the quarter, accelerating network modernisation and simplification, ensuring a higher quality of infrastructure and systems and enhancing the differentiation of products and services.

The **global Network and Operations unit** sharply accelerated the rollout of ultra-broadband infrastructure. Homes passed with fibre amounted to 5.8 million, around 80% more than in March 2013, and LTE sites deployment increased by more than 3 times year-on-year to reach more than 10,200 sites. Highlights include:

- Fibre-to-the-home coverage in Spain has increased significantly, with 4.1 million homes now passed (6.1 million premises) achieving 24% coverage over total homes. At the end of March, 1.5 million homes were passed in Sao Paulo (2.3 million of premises).

- Significant increase in LTE coverage in countries such as the Germany (+5 percentage points quarter-on-quarter) and Spain (+4 percentage points quarter-on-quarter).

- More than 80% of 3G and/or 4G base stations are connected to ultra-broadband infrastructure (100% in Spain, 80% in the UK and 77% in Germany).

As such, network capacity expansion and optimisation will support growth in total data traffic (30% year-on-year in fixed broadband and 60% year-on-year in mobile data).

The award of the Single RAN[3] tender in Spain represents a major development in network modernisation and simplification, making the technological evolution of the network more flexible and preparing it for use of the 800 MHz band, with more efficient energy consumption. This rollout will allow a single mobile access network simultaneously supporting all standards (2G, 3G and/or 4G) in at least 80% of all sites within three years. This modernisation will be accompanied by a quality plan guaranteeing differentiating features.

Finally, pilot tests have been carried out in Germany around 4G technological developments (e.g. LTE-A with carrier aggregation and VoLTE), ensuring network availability for future rollouts.

The **global IT unit** is developing the Company s IT transformation strategy through: (i) consolidation, focusing on the Data Centres, technical infrastructure and corporate applications; (ii) simplification and transformation of applications; and (iii) support for transformation towards a Digital Telco. Highlights in the quarter include:

A 2% reduction in physical servers, increasing virtualised servers to more than 35% at the end of March, thus increasing efficiency to meet the Company s current and forecast physical server use.

Progress in the transformation of applications, mainly through the Full Stack[4] initiatives, which led by the operators, allow the reduction of complexity through standard solutions that enable faster, simpler and more efficient rollout of new services. The Full Stack solution was fully operational in Argentina at the end of March, serving over 10 million customers.

Switch-off of approximately 80 applications (25% of the target for the year-end) to simplify processes and improve time-to-market.

3 Single RAN technology offers great management flexibility, enabling equipment to use 2G/3G/4G services over available frequency bands, enabling, for example, refarming of 3G or 4G and a reduction of legacy infrastructure.

4 A Full Stack solution designs business processes based on a standard reference framework (as defined by the TMForum). This is implemented using a commercial applications suite (out of the box) for business support and operation systems (BSS and OSS), which supports these business processes and their data models, providing an end-to-end solution.

Definitions

Guidance criteria 2014: 2014 guidance in organic terms assumes constant exchange rates as of 2013 (average FX in 2013), excludes Venezuela in both years and considers constant perimeter of consolidation. OIBDA level guidance for 2014 excludes write-offs, capital gains/losses from companies disposals, towers sales and other significant exceptionals such as restructuring costs, etc. CapEx excludes spectrum acquisition.

Organic growth: Assumes constant exchange rates as of 2013 (average FX in 2013), excludes hyperinflationary accounting in Venezuela in both years and considers constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, tower sales and material non-recurring impacts. CapEx also excludes spectrum acquisition.

Underlying growth: Considers constant perimeter of consolidation and excludes the impact on net profit of write-downs, capital gains/losses from companies disposals, tower sales, and material non-recurring impacts, as well as depreciation and amortisation charges arising from purchase price allocation processes.

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ACCESSES

Unaudited figures (thousands)

	2012	2013				2014	
	December	March	June	September	December	March	% Chg
Final Clients Accesses	310,088.3	309,785.3	311,331.2	314,141.6	316,759.9	306,816.6	(1.0)
Fixed telephony accesses (1) (2) (3)	40,002.6	39,764.2	39,520.8	39,399.8	39,338.5	37,593.5	(5.5)
Internet and data accesses	19,402.6	19,404.6	19,023.3	19,112.4	19,102.0	18,121.9	(6.6)
Narrowband	653.2	618.2	590.0	567.7	510.8	421.0	(31.9)
Broadband (4) (5)	18,596.2	18,633.7	18,287.3	18,395.6	18,447.8	17,585.5	(5.6)
Other (6)	153.1	152.7	145.9	149.1	143.4	115.4	(24.4)
Mobile accesses	247,346.9	247,312.0	249,460.0	252,188.1	254,717.2	247,534.1	0.1
Prepay (7)	165,821.9	164,500.5	164,550.6	165,133.3	165,557.0	161,410.9	(1.9)
Contract	81,525.0	82,811.5	84,909.4	87,054.9	89,160.3	86,123.3	4.0
M2M (8)	6,728.0	7,142.7	7,768.0	8,175.8	8,631.8	8,307.0	16.3
Pay TV	3,336.2	3,304.5	3,327.1	3,441.2	3,602.2	3,567.1	7.9
Wholesale Accesses	5,731.3	5,866.1	6,003.2	6,173.9	6,358.5	6,327.7	7.9
Unbundled loops	3,308.8	3,404.8	3,522.0	3,665.4	3,833.4	3,910.8	14.9
Shared ULL	183.5	169.5	157.6	147.3	130.6	116.1	(31.5)
Full ULL	3,125.3	3,235.3	3,364.4	3,518.1	3,702.9	3,794.7	17.3
Wholesale ADSL	845.4	854.7	857.6	864.0	866.9	746.8	(12.6)
Other	1,577.1	1,606.7	1,623.6	1,644.5	1,658.2	1,670.1	3.9
Total Accesses	315,819.6	315,651.4	317,334.4	320,315.5	323,118.4	313,144.3	(0.8)

TELEFÓNICA MOBILE ACCESSES

Unaudited figures (thousands)

	2012	2013				2014	
	December	March	June	September	December	March	% Chg
Prepay percentage (%)	67.0%	66.5%	66.0%	65.5%	65.0%	65.2%	(1.3 p.p.)
Contract percentage (%)	33.0%	33.5%	34.0%	34.5%	35.0%	34.8%	1.3 p.p.
MBB accesses (000)	52,774.9	55,249.2	63,300.5	67,420.1	72,844.0	76,191.3	37.9%
MBB penetration (%)	21%	22%	25%	27%	29%	31%	8.4 p.p.
Smartphones (000)	44,296.1	46,925.1	55,083.3	59,370.6	65,029.9	68,907.0	46.8%
Smartphone penetration (%)	19%	20%	24%	25%	27%	30%	9.5 p.p.

Note:

- *T. Czech Republic accesses are no longer consolidated since the first quarter of 2014.*

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

(2) *In the second quarter of 2013, 209 thousand accesses were disconnected due to the disposal of the assets of the fixed business in UK.*

(3) *In the first quarter of 2014, 45 thousand fixed wireless inactive accesses were disconnected in Mexico.*

(4) *Includes ADSL, satellite, optical fiber, cable modem and broadband circuits.*

(5) *In the second quarter of 2013, 511 thousand accesses were disconnected due to the disposal of the assets of the fixed business in UK.*

(6) *Retail circuits other than broadband.*

(7) *In the first quarter of 2014, 1.9 million inactive accesses were disconnected in Mexico.*

(8) *In the first quarter of 2014, 569 thousand inactive accesses were disconnected in Spain.*

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TELEFÓNICA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - March		% Var	
	2014	2013	Reported	Organic
Revenues	12,232	14,141	(13.5)	1.5
Internal exp. capitalized in fixed assets	162	183	(11.2)	(6.1)
Operating expenses	(8,548)	(9,824)	(13.0)	1.5
Supplies	(3,580)	(4,188)	(14.5)	(1.6)
Personnel expenses	(1,614)	(1,870)	(13.7)	1.2
Other operating expenses	(3,354)	(3,766)	(10.9)	5.1
Other net income (expense)	45	42	5.2	(0.4)
Gain (loss) on sale of fixed assets	47	26	79.7	(99.4)
Impairment of goodwill and other assets	(10)	(1)	n.m.	n.m.
Operating income before D&A (OIBDA)	3,929	4,567	(14.0)	0.5
OIBDA Margin	*32.1%*	*32.3%*	*(0.2 p.p.)*	*(0.3 p.p.)*
Depreciation and amortization	(2,092)	(2,502)	(16.4)	(3.6)
Operating income (OI)	1,838	2,066	(11.0)	5.2
Share of profit (loss) of investments accounted for by the equity method	1	18	(96.8)	
Net financial income (expense)	(801)	(674)	18.9	
Income before taxes	1,037	1,410	(26.4)	
Income taxes	(307)	(451)	(31.8)	
Income from continuing operations	729	958	(23.9)	
Non-controlling interests	(37)	(57)	(34.8)	
Net income	692	902	(23.2)	
Weighted average number of ordinary shares outstanding during the period (millions)	4,504	4,485	0.4	
Basic earnings per share (euros)	0.15	0.20	(27.0)	

Notes:

- *Basic earnings per share amounts are calculated by dividing net income, adjusted for the net coupon corresponding to Other equity instruments , by the weighted average number of ordinary shares outstanding during the period.*
- *For the basic earnings per share calculation purposes, the weighted average number of ordinary shares outstanding during the period have been obtained applying IAS rule 33 Earnings per share . Thereby, the weighted average number of shares held as treasury stock during the period has not been taken into account as outstanding shares.*

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

TELEFÓNICA

GUIDANCE 2014

	2014 Jan-Mar	Guidance 2014 (organic and excluding Venezuela)
Revenues (% Chg YoY)	-0,1%	Positive revenue growth
OIBDA margin (Chg YoY)	-0,4 p.p.	OIBDA margin towards stabilisation with erosion of around 1 p.p. y-o-y to allow for commercial flexibility if needed
CapEx / Sales	11,5%	CapEx / Sales: 15.5%-16%
		Guidance 2014 (reported)
Net financial debt	42,724	Lower than 43Bn

- *Guidance criteria 2014: 2014 guidance in organic terms assumes constant exchange rates as of 2013 (average FX in 2013), excludes Venezuela in both years and considers constant perimeter of consolidation. OIBDA level guidance for 2014 excludes write-offs, capital gains/losses from companies disposals, towers sales and other significant exceptionals such as restructuring costs, etc. CapEx excludes spectrum acquisition.*

2013 adjusted bases exclude:

- *T. Venezuela.*
- *Homogeneous perimeter: Group T. Czech Republic (excluding results from January-December 2013); T. Ireland (excluding results from July-December 2013).*
- *Tower sales.*
- *Capital gains/losses from companies disposals: Capital gains from the sale of Hispasat and Telefónica Móviles Aplicaciones y Soluciones. Value adjustments of T. Ireland and T. Czech Republic.*

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TELEFÓNICA

REPORTED VS. ORGANIC

Unaudited figures (Euros in millions)

	January - March			%	
	2014 Reported	2014 Organic	2013 Organic	Organic Change y-o-y	Reported Change y-o-y
Revenues	12,232	13,876	13,666	1.5	(13.5)
OIBDA	3,929	4,413	4,391	0.5	(14.0)
OIBDA margin	32.1%	31.8%	32.1%	(0.3 p.p.)	(0.2 p.p.)
Operating Income (OI)	1,838	2,154	2,048	5.2	(11.0)
CapEx	1,555	1,566	1,207	29.7	(19.9)
OpCF (OIBDA-CapEx)	2,374	2,847	3,183	(10.6)	(9.6)

	2014	2013
Reported revenues	12,232	14,141
Forex impact	1,680	
Hyperinflation in Venezuela	(36)	(31)
Changes in the consolidation perimeter		(445)
Organic revenues	13,876	13,666
Reported OIBDA	3,929	4,567
Forex impact	542	
Hyperinflation in Venezuela	(12)	(7)
Tower sales	(46)	(1)
Changes in the consolidation perimeter		(169)
Organic OIBDA	4,413	4,391
Reported CapEx	1,555	1,941
Forex impact	220	
Hyperinflation in Venezuela	(2)	(5)
Spectrum acquisition	(207)	(695)
Changes in the consolidation perimeter		(34)
Organic CapEx	1,566	1,207

Notes:

- *The breakdown of the effects for the reconciliation of reported vs. organic 2014 excludes the impacts of the forex and therefore it assumes average constant exchange rates as of March 2013. Forex impact on those effects is totally included under Forex impact epigraph.*
- ***Organic criteria:*** *Assumes constant exchange rates as of 2013 (average FX as of March 2013), excludes hyperinflationary accounting in Venezuela in both years and considers constant perimeter of consolidation. In OIBDA and OI terms excludes write-downs, capital gains/losses from companies disposals, tower sales and material non-recurring impacts. CapEx excludes spectrum acquisition.*

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TELEFÓNICA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited figures (Euros in millions)

	March 2014	December 2013	% Chg
Non-current assets	88,074	89,597	(1.7)
Intangible assets	18,307	18,548	(1.3)
Goodwill	23,445	23,434	0.0
Property, plant and equipment and Investment properties	30,131	31,040	(2.9)
Investments accounted for by the equity method	2,366	2,424	(2.4)
Non-current financial assets	7,353	7,775	(5.4)
Deferred tax assets	6,472	6,376	1.5
Current assets	24,088	29,265	(17.7)
Inventories	921	985	(6.5)
Trade and other receivables	9,736	9,640	1.0
Current financial assets	3,066	2,117	44.8
Tax receivables	1,451	1,664	(12.8)
Cash and cash equivalents	7,904	9,977	(20.8)
Non-current assets classified as held for sale	1,010	4,882	(79.3)
Total Assets = Total Equity and Liabilities	112,162	118,862	(5.6)
Equity	27,198	27,482	(1.0)
Equity attributable to equity holders of the parent and to other holders of equity instruments	21,479	21,185	1.4
Non-controlling interests	5,719	6,297	(9.2)
Non-current liabilities	58,537	62,236	(5.9)
Non-current interest-bearing debt	47,422	51,172	(7.3)
Non-current trade and other payables	1,663	1,701	(2.2)
Deferred tax liabilities	2,991	3,063	(2.3)
Non-current provisions	6,461	6,300	2.6
Current liabilities	26,427	29,144	(9.3)
Current interest-bearing debt	8,609	9,527	(9.6)
Current trade and other payables	14,170	15,221	(6.9)
Current tax payables	1,986	2,203	(9.9)
Current provisions	1,470	1,271	15.7
Liabilities associated with non-current assets held for sale	192	922	(79.2)
Financial Data			
Net Financial debt (1)	42,724	45,381	(5.9)

Note:

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

(1) Figures in million euros. Net financial debt in March 2014 includes: Non current interest-bearing debt + Non-current trade and other payables (1,108) + Current interest-bearing debt + current trade and other payables (106) - non-current financial assets (3,551) - current financial assets - cash and cash equivalents.

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TELEFÓNICA

FREE CASH FLOW AND CHANGE IN DEBT

Unaudited figures (Euros in millions)

		January - March		
		2014	2013	% Chg
I	Cash flow from operations	3,550	4,074	(12.9)
II	Net interest payment (1)	(1,020)	(1,125)	
III	Payment for income tax	(170)	(484)	
A=I+II+III	Net cash provided by operating activities	2,360	2,465	(4.2)
B	Payment for investment in fixed and intangible assets	(2,112)	(2,961)	
	Spectrum (2)	(94)	(701)	
C=A+B	Net free cash flow after CapEx	248	(497)	c.s.
D	Net Cash received from sale of Real Estate	2	6	
E	Net payment for financial investment (3)	1,778	63	
F	Net payment for operations with minority shareholders and treasury stock (4)	1,164	(583)	
G=C+D+E+F	Free cash flow after dividends	3,192	(1,010)	c.s.
H	Effects of exchange rate changes on net financial debt	1,056	942	
I	Effects on net financial debt of changes in consolid. and others	(520)	(1,402)	
J	Net financial debt at beginning of period	45,381	51,259	
K=J-G+H+I	Net financial debt at end of period	42,724	51,809	(17.5)

Note:

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

(1) *Includes cash received from dividends paid by subsidiaries that are not fully consolidated.*

(2) *In 2014 it includes the following spectrum payments: 79 million euros in Panama, 13 million euros in Brazil and 2 million euros in United Kingdom. In 2013: 671 million euros in United Kingdom, 24 million euros in Uruguay, 5 million euros in Colombia and 1 million euros in Nicaragua.*

(3) *In 2014 it includes charges amounting to 1,966 million euros from the sale of T. Czech Republic.*

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

TELEFÓNICA

RECONCILIATIONS OF CASH FLOW AND OIBDA MINUS CAPEX

Unaudited figures (Euros in millions)

	January - March		
	2014	2013	% Chg
OIBDA	3,929	4,567	(14.0)
- CapEx accrued during the period	(1,555)	(1,941)	
- Payments related to cancellation of commitments	(210)	(188)	
- Net interest payment	(1,020)	(1,125)	
- Payment for tax	(170)	(484)	
- Gain (loss) on sale of fixed assets and impairment of goodwill and other assets	(38)	(25)	
-Investment In working capital and other deferred income and expenses	(688)	(1,301)	
= Net Free Cash Flow after CapEx	248	(497)	c.s.
+ Net Cash received from sale of Real Estate	2	6	
- Net payment for financial investment	1,778	63	
- Net payment for operations with minority shareholders and treasury stock	1,164	(583)	
= Free Cash Flow after dividends	3,192	(1,010)	c.s.

Unaudited figures (Euros in millions)	January - March		
	2014	2013	% Chg
Net Free Cash Flow after CapEx	248	(497)	c.s.
+ Payments related to cancellation of commitments	210	188	
- Operations with minority shareholders	(119)	(148)	
= Free Cash Flow	339	(457)	c.s.
Weighted average number of ordinary shares outstanding during the period (millions)	4,504	4,485	
= Free Cash Flow per share (euros)	0.08	(0.10)	c.s.

Notes:

- *The concept Free Cash Flow reflects the amount of cash flow available to remunerate Telefónica S.A. Shareholders, to protect solvency levels (financial debt and commitments), and to accomodate strategic flexibility.*
- *The differences with the caption Net Free Cash Flow after CapEx included in the table presented above, are related to Free Cash Flow being calculated before payments related to commitments (payment of labour commitments) and after operations with minority shareholders, due to cash recirculation within the Group.*
- *2013 and 2014 reported figures include the hyperinflationary adjustments in Venezuela in both years.*

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TELEFÓNICA

NET FINANCIAL DEBT PLUS COMMITMENTS

Unaudited figures (Euros in millions)

		March 2014
	Long-term debt (1)	48,530
	Short term debt including current maturities (2)	8,715
	Cash and cash equivalents	(7,904)
	Short and Long-term financial investments (3)	(6,617)
A	Net Financial Debt	42,724
	Gross commitments related to workforce reduction (4)	4,227
	Value of associated Long-term assets (5)	(790)
	Taxes receivable (6)	(1,352)
B	Net commitments related to workforce reduction	2,085
A + B	Total Debt + Commitments	44,808
	Net Financial Debt / OIBDA (7)	2.30x

- *Note:*

- *2014 reported figures include the hyperinflationary adjustments in Venezuela.*

(1) *Includes Non current interest-bearing debt and 1,108 million euros of Non-current trade and other payables .*

(2) *Includes Current interest-bearing debt and 106 million euros of Other current payables .*

(3) *Includes 3,066 million euros of Current financial assets and 3,551 million euros of Non-current financial assets .*

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

(5) *Amount included in the caption Non-current financial assets of the Statement of Financial Position. Mostly related to investments in fixed income securities and long-term deposits that cover the materialization of technical reserves of the Group insurance companies.*

(6) *Net present value of tax benefits arising from the future payments related to actual workforce reduction commitments.*

(7) *Calculated based on the last 12 months OIBDA, excluding gains/losses on the sale of companies.*

TELEFÓNICA

EXCHANGES RATES APPLIED

	P&L and CapEx (1)		Statement of Financial Position (2)	
	Jan - Mar 2014	Jan - Mar 2013	March 2014	December 2013
USA (US Dollar/Euro)	1.370	1.320	1.379	1.379
United Kingdom (Sterling/Euro)	0.828	0.850	0.828	0.834
Argentina (Argentinean Peso/Euro)	10.356	6.616	11.033	8.993
Brazil (Brazilian Real/Euro)	3.230	2.635	3.120	3.231
Chile (Chilean Peso/Euro)	754.848	623.511	759.965	723.490
Colombia (Colombian Peso/Euro)	2,744.855	2,364.273	2,715.480	2,657.292
Costa Rica (Colon/Euro)	728.863	668.003	763.359	700.280
Guatemala (Quetzal/Euro)	10.658	10.348	10.655	10.814
Mexico (Mexican Peso/Euro)	18.123	16.683	18.000	18.045
Nicaragua (Cordoba/Euro)	34.905	32.028	35.350	34.935
Peru (Peruvian Nuevo Sol/Euro)	3.848	3.397	3.872	3.857
Uruguay (Uruguayan Peso/Euro)	30.325	25.266	31.208	29.498
Venezuela (Bolivar Fuerte/Euro) (3)	14.753	8.067	14.753	8.688

(1) These exchange rates are used to convert the P&L and CapEx accounts of Telefónica foreign subsidiaries from local currency to euros.

(2) Exchange rates as of 03/31/14 and 12/31/13.

(3) After considering Venezuela as an hyperinflationary country, P&L and CapEx from the operations in the country are to be accounted at the closing exchange rate Bolivar Fuerte/Euro. In the January-March 2014 period the exchange rate is based on the new SICAD-I USD auction system.

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NET DEBT STRUCTURE BY CURRENCY

Unaudited figures

	March 2014			
	EUR	LATAM	GBP	USD
Net debt structure by currency	76%	13%	7%	4%

TOTAL FINANCIAL LIABILITIES BREAKDOWN

Unaudited figures

	March 2014		
	Bonds and commercial paper	Debt with financial institutions	Other financial debt (including governments) and net derivatives
Total financial liabilities	75%	20%	5%

CREDIT RATINGS

	Long-Term	Short-Term	Perspective	Date of last rating change
Moody's[1]	Baa2	P-2	Negative	10/18/2012
S&P[1]	BBB	A-2	Negative	12/20/2012
Fitch[1]	BBB+	F-2	Negative	06/08/2012

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

TELEFÓNICA

YEAR TO DATE MAIN FINANCING OPERATIONS

Unaudited figures

	Issue date	Amount (m)	Currency	Issuer	Coupon	Maturity date	ISIN code
DEBENTURES AND BONDS							
Eurobond	10-Feb-14	500	EUR	Telefonica Deutschland	2.375%	10-Feb-21	XS1025752293

Eurobond	26-Mar-14	200	EUR	Telefónica Emisiones SAU	Euribor 3M + 0.65%	26-Mar-16	XS1046491657
CLP Bond	27-Mar-14	47,000	CLP	Telefónica Chile S.A.	5.75%	14-Mar-19	BCTCH-Q*
Eurobond	10-Apr-14	200	EUR	Telefónica Emisiones SAU	Euribor 3M + 0.75%	10-Apr-17	XS1053304991

	Issue date	Amount (m)	Currency	Issuer	Coupon	First Call date	ISIN code
UNDATED DEEPLY SUBORDINATED RESET RATE SECURITIES							
Hybrid bond	31-Mar-14	750	EUR	Telefonica Europe BV	5.0%	31-Mar-20	XS1050460739
Hybrid bond	31-Mar-14	1,000	EUR	Telefonica Europe BV	5.875%	31-Mar-24	XS1050461034

	Signing date	Amount	Currency	Borrower	Maturity date
INTEREST-BEARING DEBT					
Syndicated facility	18-Feb-14	3,000	EUR	Telefónica S.A.	18-Feb-19
Bilateral Loan	19-Mar-14	125	EUR	Telefónica S.A.	19-Mar-19

* Reference number of Bolsa de Comercio de Santiago

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TELEFÓNICA ESPAÑA

In the first quarter of 2014, Telefónica España continued to show business recovery. Total revenues in the quarter posted a significant improvement in its year-on-year declining trend and fell 8.2% (-3.7 percentage points vs. the previous quarter).

The gradual improvement in revenues reflects the improved commercial performance in fibre, pay TV and mobile accesses, and an increasing preference from customers for quality services. In parallel, profitability was maintained at high levels as a result of the Company s transformation process.

On the commercial front, the Company launched an enhanced Pay TV proposition on 7 March featuring exclusive content, and focusing on customer experience and increased value, particularly in Movistar Fusión , the most complete convergent offer in the market which continues to enhance the differential assets of Telefónica España.

Following the end of the quarter, on 25 April, the Company refreshed its Movistar Fusión tariff portfolio, with a simplified offering and increasing customer value, including Movistar TV for all customers. As such, the new offers with full Movistar services and 10 Mb fixed broadband connection with the different packages of TV contents, which are always offered over fibre in covered areas, are: Contigo (42 euros per month; VAT included); Para Todos (60 euros); Energía (68 euros); Fútbol (75 euros) and Total (95 euros). These options are available in any device. If the customer opts for the 100 Mb fibre option, an additional 12 euros premium (including VAT) is added to these monthly fees. All the options include different bundles of voice and 4G data.

Telefónica España managed 40.7 million **accesses** at the end of March, 5% lower vs. the previous year, impacted by the disconnection of 569 thousand inactive M2M mobile contract accesses in the first quarter of 2014.

Movistar Fusión continued to be the Company´s key growth lever and reached 3.2 million customers and 1.2 million additional mobile lines, representing 64% of consumer fixed broadband customers and 50% of mobile contract customers. The continued improvement in the mix of new customers and customers contracting additional services is also noteworthy, accounting for 71% of gross additions in the first quarter (64% in the previous quarter). Fusión ARPU amounted to 70.2 euros in the first quarter, virtually stable year-on-year, and churn stood at 1.3%.

Retail fixed telephony accesses fell by 6% year-on-year, with a net loss of 206 thousand accesses in the quarter.

Retail fixed broadband accesses grew by 2% year-on-year to 5.9 million, with quarterly net additions of 14 thousand, and gross additions below previous quarters due to different promotional activity. It is worth to note that churn remained stable year-on-year at 1.7%.

Fibre accesses net additions marked a new record for the second consecutive quarter reaching 108 thousand customers (100 thousand in the fourth quarter of 2013), driving the customer base to 701 thousand, virtually double the figure vs. the previous year. The take-up ratio of fibre customers connected over the total households passed remained at 17%, despite the intense pace of deployment. The fibre network was extended by 589 thousand new households in the first quarter to 4.1 million (6.1 million premises), 1.8 times higher than in March 2013. Fibre is a key strategic focus for the Company as source of differentiation and growth, with a target of covering 7.1 million households by the end of 2014 (10 million premises). It is also noteworthy that fibre customers have higher ARPU (currently, a 10 euros price premium) and lower churn (0.6 times) than ADSL customers.

The success of the new Movistar TV offering reflects Telefónica s commitment for a higher differentiation based on a superior service quality. **Pay TV accesses** posted positive net additions of 58 thousand accesses, consolidating the change of trend started in the previous quarter and leading total access base to 730 thousand at the end of the quarter (+11% year-on-year).

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Total mobile accesses stood at 18.1 million, 10% lower than in March 2013, impacted by the disconnection of 569 thousand inactive M2M mobile contract accesses mentioned above. The contract segment now accounts for 78% of the total (+3 percentage points year-on-year) and smartphone penetration reached 54% (+12 percentage points year-on-year), driving an 8.4% year-on-year growth in data traffic in January-March. LTE coverage reached 44% of population at the end of the quarter.

The contract net loss in the quarter excluding M2M (-127 thousand accesses) improved for the fourth consecutive quarter (-10% compared to the fourth quarter of 2013) mainly driven by increased gross additions, and posted a noteworthy reduction compared to the same quarter of the previous year (-62% year-on-year), despite the intense competition that drove a higher portability loss.

It should also be underlined that two thirds of the contract mobile customers in the consumer segment have already migrated to Fusión or the new mobile tariffs launched in 2013.

Total churn stood at 3.5% in the quarter, impacted by the disconnection of M2M accesses previously mentioned. Excluding this impact, total churn totalled 2.5%, virtually stable year-on-year. Contract churn, excluding M2M, improved by 0.1 percentage points year-on-year to 2.2%.

ARPU in January-March fell by 12.7% year-on-year, affected by mobile termination rate cuts in April and July 2013 (-66% combined), and the disconnection of M2M accesses in the first quarter of 2014. In comparable terms, excluding the impact of those disconnections, ARPU fell 14.8% year-on-year. However, it should be noted that the ARPU of individual services is becoming less relevant due to the increasing penetration of Movistar Fusión, impacted by the allocation of revenue between the fixed and mobile businesses.

Revenues in the first quarter of 2014, 2,992 million euros, improved the pace of year-on-year decline sequentially to 8.2% (-11.9% in the fourth quarter of 2013), despite the regulatory impact. This performance is mainly due to the increased convergent base with a slowdown in the number of customers repositioning in the quarter (in both the mobile and fixed businesses), and the growth of mobile handset sales revenue (+23.2% year-on-year in the quarter), driven by increased commercial efforts in the period.

Excluding handset sales and regulatory impacts (mobile termination rates and roaming), revenues fell 7.1% year-on-year in the first quarter of the year (-9.6% in the previous quarter).

Fixed business revenues fell 6.4% year-on-year (-4.8% in the previous quarter) on the back of a higher decline in revenues from traditional services and seasonality of projects.

Mobile business revenues for January-March 2014 declined 10.1% year-on-year, posting a significant improvement compared to previous quarters (-18.9% in the fourth quarter of 2013 and -19.7% in the third quarter), on the back of improved service revenues and a change of trend in handset sales.

Mobile service revenues were 13.4% lower year-on-year and reflected a significant improvement compared to the fourth quarter of 2013 (-19.8%), underpinned by the increased commercial activity and a lower impact from customer base repositioning.

Operating expenses amounted to 1,714 million euros in the first quarter of 2014, down 5.1% year-on-year, as a result of savings generated by efficiency program and a strict cost control. The pace of reduction in expenses slowed down compared to the previous quarter (-11.5% year-on-year), mainly due to a lower decline in commercial expenses in the first three months of the year (-11.1% year-on-year; -20.8% in the fourth quarter), jointly with increased handset sales.

Breakdown by component:

Supplies fell 5.4% compared to January-March 2013, as a consequence of lower mobile interconnection costs, although the pace of it year-on-year decline slowed (-14.2% in the previous quarter) due to an increased expense on handsets.

Personnel expenses declined 6.1% year-on-year, as a result of the savings coming from the redundancy programme (37 million euros) and from the temporary suspension of the Company s contribution to the pension plan since April 2013 (14 million euros). At the end of March, Telefónica España s headcount totalled 29,845 employees (-3.9% year-on-year).

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Other operating expenses were down 4.1% year-on-year, mainly reflecting efficiencies resulting from process simplification, redefinition of distribution channel and insourcing of activities, and despite the increased commercial effort on advertising and handset sales.

OIBDA amounted to 1,402 million euros in the first quarter of the year, down 8.4% on the same period of the previous year, reaching an OIBDA margin of 46.9% (stable year-on-year) despite the pressure on revenues. This performance was affected by the sale of non-strategic towers in the quarter for 46 million euros. In organic terms, OIBDA declined 11.4% year-on-year (-9.6% in the fourth quarter of 2013) and OIBDA margin fell by 1.6 percentage points, as the higher commercial effort this quarter offsets the on-going effort to generate efficiency gains.

CapEx amounted to 267 million euros up to March (+5.8% year-on-year), reflecting the accelerating rollout of the fixed and mobile networks, with the aim of maintaining the leadership in network quality and access speed, enhancing the differentiation of the Company s offer and boosting growth businesses in the sector.

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TELEFÓNICA ESPAÑA

ACCESSES

Unaudited figures (Thousands)

	2012	2013				2014	
	December	March	June	September	December	March	% Chg
Final Clients Accesses	38,821.7	38,196.6	37,695.5	37,171.2	36,663.6	35,588.4	(6.8)
Fixed telephony accesses (1)	11,723.0	11,587.2	11,420.3	11,261.3	11,089.8	10,883.9	(6.1)
Naked ADSL	25.0	22.9	22.5	22.4	22.8	22.1	(3.8)
Internet and data accesses	5,779.3	5,830.2	5,860.5	5,872.6	5,899.0	5,909.5	1.4
Narrowband	54.0	53.2	50.2	46.1	38.5	35.9	(32.6)
Broadband (2)	5,709.3	5,761.7	5,795.6	5,812.3	5,846.8	5,860.3	1.7
Fibre	311.9	372.0	430.9	494.0	593.7	701.3	88.5
Other (3)	16.0	15.3	14.7	14.3	13.7	13.3	(12.6)
Mobile accesses	20,608.7	20,119.3	19,782.3	19,428.0	19,002.1	18,064.7	(10.2)
Prepay	5,180.5	4,966.5	4,769.5	4,560.0	4,262.7	3,996.7	(19.5)
Contract	15,428.2	15,152.7	15,012.8	14,867.9	14,739.3	14,068.0	(7.2)
M2M (4)	1,873.3	1,927.2	1,961.3	1,979.4	1,991.3	1,446.6	(24.9)
Pay TV	710.7	659.9	632.5	609.3	672.7	730.3	10.7
Wholesale Accesses	4,396.0	4,502.0	4,626.5	4,792.2	4,990.1	5,150.3	14.4
WLR (5)	481.2	485.9	488.6	506.6	525.8	541.7	11.5
Unbundled loops	3,262.0	3,358.1	3,475.3	3,619.0	3,787.1	3,910.8	16.5
Shared ULL	183.5	169.5	157.6	147.3	130.6	116.1	(31.5)
Full ULL (6)	3,078.5	3,188.6	3,317.6	3,471.7	3,656.5	3,794.7	19.0
Wholesale ADSL	652.3	657.6	662.2	666.2	676.8	697.5	6.1
Other (7)	0.5	0.4	0.4	0.4	0.4	0.4	(20.2)
Total Accesses	43,217.8	42,698.6	42,322.0	41,963.3	41,653.6	40,738.7	(4.6)

TELEFÓNICA ESPAÑA

MOBILE ACCESSES

Unaudited figures (thousands)

	2012	2013				2014	
	December	March	June	September	December	March	% Chg
Prepay percentage (%)	25.1%	24.7%	24.1%	23.5%	22.4%	22.1%	(2.6 p.p.)
Contract percentage (%)	74.9%	75.3%	75.9%	76.5%	77.6%	77.9%	2.6 p.p.

MBB accesses (000)	7,722.4	7,888.8	8,375.8	8,486.8	8,761.5	9,055.8	14.8%
MBB penetration (%)	37%	39%	42%	44%	46%	50%	10.9 p.p.
Smartphones (000)	6,905.0	7,230.7	7,841.8	8,027.3	8,382.6	8,738.2	20.8%
Smartphone penetration (%)	39%	41%	45%	47%	50%	54%	12.4 p.p.

TELEFÓNICA ESPAÑA

FUSIÓN ACCESSES

Unaudited figures (thousands)

	2012	2013				2014	
	December	March	June	September	December	March	% Chg
Fusión Customers	1,120.7	1,733.7	2,190.7	2,566.2	2,916.3	3,221.3	85.8
Mobile ad-ons	413.0	704.2	864.6	1,012.2	1,139.9	1,245.0	76.8

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

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TELEFÓNICA ESPAÑA

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - March		% Chg	
	2014	2013	Reported	Organic
Revenues	2,992	3,260	(8.2)	(8.2)
Revenues ex-handset revenues	2,851	3,145	(9.3)	(9.3)
Wireless Business	1,155	1,286	(10.1)	(10.1)
Mobile service revenues	1,014	1,171	(13.4)	(13.4)
Data revenues	377	399	(5.4)	(5.4)
Handset revenues	141	114	23.2	23.2
Wireline Business	2,079	2,220	(6.4)	(6.4)
FBB and new services (1)	1,040	1,075	(3.3)	(3.3)
Voice & access revenues	921	1,041	(11.5)	(11.5)
Other	119	105	13.2	13.2
Internal expenditure capitalized in fixed assets	75	69	9.4	9.4
Operating expenses	(1,714)	(1,807)	(5.1)	(5.1)
Supplies	(587)	(620)	(5.4)	(5.4)
Personnel expenses	(526)	(559)	(6.1)	(6.1)
Other operating expenses	(602)	(627)	(4.1)	(4.1)
Other net income (expense)	5	5	19.6	19.6
Gain (loss) on sale of fixed assets	43	6	n.m.	n.m.
Impairment of goodwill and other assets	(0)	(1)	(83.2)	(83.2)
Operating income before D&A (OIBDA)	1,402	1,532	(8.4)	(11.4)
OIBDA Margin	*46.9%*	*47.0%*	*(0.1 p.p.)*	*(1.6 p.p.)*
CapEx	267	252	5.8	5.8
Spectrum	0	0		
OpCF (OIBDA-CapEx)	1,136	1,279	(11.2)	(14.8)

Note:

- *OIBDA and OI before management and brand fees.*

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

TELEFÓNICA ESPAÑA

SELECTED OPERATING MOBILE BUSINESS DATA

Unaudited figures

	2013				2014	
	Q1	Q2	Q3	Q4	Q1	% Chg Local Cur
Voice Traffic (Million minutes)	8,238	8,774	8,647	8,768	8,588	4.2
Data traffic (TB)	12,965	13,465	14,581	13,579	14,058	8.4
ARPU (EUR) (1)	18.4	18.4	17.4	16.4	16.1	(12.7)
Prepay	7.5	7.5	7.5	6.5	6.3	(15.4)
Contract (2)	25.1	25.0	23.4	22.3	21.0	(16.5)
Data ARPU (EUR) (1)	6.5	6.8	6.9	6.8	6.9	5.6
% non-SMS over data revenues	90.8%	91.6%	92.4%	93.8%	94.8%	4.0 p.p.
Churn (1)	2.3%	2.1%	2.1%	2.3%	3.5%	1.2 p.p.
Contract (2)	2.3%	2.0%	1.9%	2.0%	2.2%	(0.1 p.p.)

Notes:

- *ARPU calculated as a monthly weighted average of the quarter.*
- *Voice traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company s mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.*
- *Data traffic is defined as terabytes used by the company customers, both outbound and inbound (1TByte = 10^12 bytes). On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company s mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is also included. Traffic volume non rounded.*

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

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TELEFÓNICA UK

(year-on-year changes in local currency)

In the first quarter of the year, Telefónica UK continued with its technological transformation in a context of a slower commercial activity in the market. The Refresh tariffs continued to be a strong driver for trading, with successful management of customer loyalty, resulting in a high single digit growth of the contract base.

To further improve network experience and customer satisfaction, the Company upgraded its high value customers to LTE, advanced the fast deployment of its LTE network (41% outdoor coverage at the end of March 2014) and also continued to enhance and expand the existing 2G and 3G networks.

4G adopters continued to show encouraging results in terms of ARPU uplift and data consumption (2 times higher average data consumption than 3G customers).

Telefónica UK continued to show solid traction of the Refresh offer. On February 28th, the Company introduced new tariffs for Refresh , incorporating a wider range of handsets.

Total accesses stood at 23.8 million at the end of March 2014, virtually flat year-on-year (-0.2%) despite the impact from the disposal of the fixed assets in May 2013 (720 thousand accesses; 209 thousand in fixed telephony accesses and 511 thousand in fixed broadband accesses).

Operating highlights are:

Consistent growth of the **mobile contract customer base** (+7% year-on-year; +6% excluding M2M) led to **total mobile customer** increase of 3% year-on-year to 23.6 million at the end of the first quarter. The contract segment accounted for 55% of the mobile base (+2 percentage points year-on-year).

Contract net additions totalled 135 thousand in January-March 2014 (72 thousand excluding M2M), affected by the lower volume of gross additions in the market. **Total net additions** were negative by 73 thousand driven by disconnections in the prepaid segment.

In the first three months of 2014 contract churn excluding M2M remained stable year-on-year at 1.1%, thanks to the success of Refresh as a retention tool. **Total churn was** 0.3 percentage points better than in the first quarter of 2013 at 2.1%.

Smartphone penetration reached 50% by the end of March (+3 percentage points year-on-year), reaching a total base of 10.6 million.

ARPU[1] declined 10.4% year-on-year in the first quarter, impacted by mobile termination rate cuts and the Refresh model (higher handset revenues are recorded upfront and as a result, impact on lower service revenues). Excluding both impacts, ARPU declined 3.6% year-on-year in the first three months of 2014, showing an improving trend quarter-on-quarter (-4.7% year-on year in the fourth quarter of 2013).

Data traffic grew 47% driven by increased smartphone penetration coupled with growing contract base and higher usage per customer.

Revenue remained broadly stable in January-March (-0.3% year-on-year) at 1,644 million euros. This performance was impacted by the contribution of Refresh (+6.0 percentage points to revenue change in the quarter) and the disposal of the fixed consumer business in 2013 (-1.7 percentage points).

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

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Mobile service revenue totalled 1,307 million euros in the first three months of 2014 (-7.9% year-on-year). Stripping out mobile termination rate cuts and roaming regulation, as well as the new commercial model, mobile service revenues would have decreased 0.8% year-on-year, showing stabilisation compared to the fourth quarter of 2013 (-0.8% year-on-year).

Data revenue increased 0.2% year-on-year in the three months to March, with the positive trend of non-SMS revenue offsetting the decline in SMS revenue. As a result, data revenue accounted for 57% of mobile service revenues, 5 percentage points higher vs. previous year.

Non-SMS data revenue significantly improved its growth trend in the quarter to 13.9% year-on-year on the back of increased out of the bundle data usage resulting in bolt-on purchases (-1.0% in the fourth quarter) and now accounts for 57% of data revenues (+7 percentage points year-on-year).

Operating expenses year-on-year declined 5.1% to 1,260 million euros in the first quarter.

> **Supplies** fell 5.7% year-on-year in the quarter mainly driven by tight cost control and lower trading. In addition, expenses included a positive non-recurrent impact of 24 million euros from the true-up of past commissions.

> **Personnel expenses** declined 20.2% year-on-year due to the benefits of outsourcing of customer service. Personnel expenses include restructuring expenses of 5 million euros in the first quarter of 2014