

2015 Consolidated Management Report¹

Business model

Telefónica is one of the world's leading communications services providers, offering mobile and fixed communication services with a strategy focused on the possibilities that the new digital world offers and becoming one of its principal leaders.

Telefónica's aim is to reinforce its position as an active player in the digital world by seizing all the opportunities afforded by its global scale and its industrial and strategic alliances.

Telefónica's current organizational structure is composed of the following segments: Telefónica Spain, Telefónica Brazil, Telefónica Germany and Telefónica Hispanoamérica (comprised of our consolidated subsidiaries in Argentina, Chile, Peru, Colombia, Mexico, Venezuela and Central America, Ecuador and Uruguay). These segments include the information related to wireline, wireless, DSL, TV, and other digital services provided in each country or countries. Any services not specifically included in these new segments are part of "Other companies and eliminations".

On March 24, 2015, Telefónica signed an agreement with Hutchison on the sale of Telefónica's operations in the United Kingdom. Therefore, Telefónica's operations in the United Kingdom are reported as discontinued operations, and its assets and liabilities are classified as "held for sale" in compliance with IFRS. 2014 and 2013 results have been retrospectively revised and are reported following these same criteria.

The Telefónica Group's strategy aims to:

- Enhance value through:
 - Offering excellent connectivity
 - Providing a bundled offer with video and digital services
 - Providing increased customer value and customer experience
- With the following enablers:
 - End-to-end Digitalization: reducing our legacy investments to increase virtualization, reduce physical servers, data centers and applications
 - Big Data and Innovation to add value to our customers
 - Continued focus on capital allocation in our legacy investments and simplification processes

In addition, Telefónica maintains an industrial alliance with China Unicom. Furthermore, in order to potentially unlock the value of Telefónica's scale, the "Partners" program was created in 2011, and now includes five operators (Bouygues, Etisalat, Sunrise, Megafon and O2 Czech Republic). The Telefónica Partners Program is an initiative that makes available to selected operators and under commercial terms a host of services that allows partners to leverage on Telefónica's scale and to cooperate on key business topics (digital services, roaming, services to multinationals, procurement that allows us to deliver our financial commitments, devices, etc.).

¹ This Management Report has been prepared taking into consideration the "Guidelines on the preparation of annual corporate governance reports for listed companies" published by the CNMV in July 2013.

Moreover, Telefónica has increased its presence in key markets. In 2014 Telefónica acquired E-Plus (through Telefónica Germany) and in 2015 Telefónica acquired DTS (through Telefónica Spain) and GVT (through Telefónica Brazil).

On February 10, 2016, Telefónica announced the creation of "Telxius" a company which brings together certain infrastructure assets of the Group in several countries, which will enable the management of the Telefónica Group's infrastructure on a global scale with a more specialized and focused approach, with the aim of increasing the services provided to other operators, improving the return on capital invested and allowing Telefónica to participate more actively in the growth opportunities that exist in the industry, including the possibility of incorporating third party assets.

2015 highlights

In 2015 Telefónica has taken further steps aimed at achieving profitable and sustainable long-term growth and has also improved its competitive position in key markets. Commercial activity in fiber, smartphones, LTE and Pay-TV has intensified, leading to revenue growth acceleration (+8.7% year-on-year in reported terms).

In 2015, **revenues** totaled 47,219 million euros, 8.7% higher than 2014.

OIBDA totaled 11,414 million euros in 2015, down 17.2% in reported terms, and was adversely affected by a restructuring costs provision of 3,212 million euros in 2015. In organic terms (which term and calculation is explained further below), OIBDA was up 3.6%, due mainly to the positive evolution of Telefónica Germany (+20.9% year-on-year), reflecting increased synergies, as well as the positive results from Telefónica Hispanoamérica (+7.2% year-on-year).

The evolution of foreign exchange rates impacted negatively in the 2015 consolidated financial results, in particular the depreciation of several Latin American currencies against the euro, such as the Brazilian real and to a lesser extent the implicit depreciation of the Venezuelan bolívar.

In the 2015 consolidated financial statements, the Company used the exchange rate of the Venezuelan bolívar set at the denominated SIMADI, which at December 31, 2015 was set at 199 Venezuelan bolívar fuerte per U.S. dollar, for the purpose of translating the transactions, cash flows and balances related to the investments in Venezuela. In the 2014 consolidated financial statements, Telefónica used the exchange rate of the Venezuelan bolívar set at the denominated SICAD II (set at 49.988 Venezuelan bolívar fuerte per U.S. dollar).

Telefónica's **total accesses** totaled 322.3 million as of December 31, 2015. Telefónica United Kingdom customers have been excluded from our 2014 and 2015 customer base, since we have classified Telefónica United Kingdom as a disposal group held for sale and its operations have been classified as discontinued operations. Group accesses increased 1.9% year-on-year, as a result mainly of the additional accesses gained following the purchase of GVT by Telefónica Brazil and DTS in Spain and the growth in accesses in Telefónica Hispanoamérica and Telefónica Germany. If we consider the accesses from GVT and DTS as of December 31, 2014 to make both years comparable, accesses would have decreased by 1.1% affected, in part, by prepaid disconnections in Telefónica Brazil (which resulted in the disconnection of 11.5 million accesses in 2015 and 1.6 million accesses in 2014). In 2015, commercial activity increased based on high value customers, resulting in a sustained growth of the contract mobile segment (smartphones and LTE), fiber and Pay TV. Accesses in Telefónica Hispanoamérica (41.8% of the Group's total as of December 31, 2015) increased by 2.3% year-on-year, while accesses in Telefónica Germany (15.0% of the Group's total) increased by 1.5% year-on-year.

The below table shows the evolution of accesses over the past two years:

ACCESSES

Thousands of accesses	2014	2015	%Reported YoY	%Organic YoY (1)
Fixed telephony accesses (2)	36,602.0	39,487.7	7.9%	(3.1%)
Internet and data accesses	18,132.5	21,344.3	17.7%	1.3%
Broadband (3)	17,649.3	20,950.3	18.7%	1.7%
Fiber (4)	1,755.0	6,100.3	n.m.	29.9%
Mobile accesses	249,978.9	247,085.1	(1.2%)	(1.2%)
Prepay	164,959.2	157,283.7	(4.7%)	(4.7%)
Contract	85,019.6	89,801.4	5.6%	5.6%
M2M	7,595.5	9,142.4	20.4%	20.4%
Pay TV (5)	5,087.2	8,271.6	62.6%	12.0%
Unbundled loops	4,087.3	3,647.3	(10.8%)	(10.8%)
Shared ULL	94.1	77.9	(17.2%)	(17.2%)
Full ULL	3,993.3	3,569.4	(10.6%)	(10.6%)
Wholesale ADSL	750.1	868.2	15.7%	15.7%
Other	1,684.1	1,547.3	(8.1%)	(8.1%)
Final Clients Accesses	309,800.5	316,188.7	2.1%	(0.9%)
Wholesale Accesses	6,521.6	6,062.8	(7.0%)	(7.0%)
Total Accesses	316,322.1	322,251.5	1.9%	(1.1%)

Notes:

- T. Ireland customers are excluded since third quarter 2014. Accesses include E-Plus customers since fourth quarter 2014 and GVT and DTS customers since May 1, 2015.
- O2 UK customers are excluded from accesses since first quarter 2014 due to the discontinuation of operations in the UK.
- (1) In order to calculate organic changes, we have added the accesses of DTS and GVT as of December 31, 2014 to our accesses as of such date.
- (2) Includes "fixed wireless" and Voice over IP accesses.
- (3) Includes DSL, satellite, optic fiber, cable modem and broadband circuits.
- (4) Includes 3.25 million GVT fiber (FTTx) customers since May 1, 2015.
- (5) Includes 1.1 million DTS customers since May 1, 2015.

The below table shows the contribution of each item for which we have adjusted to our reported growth. With respect to each line item, the contribution to reported growth of such line item, expressed in percentage points, is the result of dividing the impact of each item for which we have adjusted by the amount of such line item, on a reported basis, for the prior year.

TELEFÓNICA 2015	%Reported YoY	%Organic YoY (1)	DTS	GVT
Fixed telephony accesses	7.9%	(3.1%)	0.0 p.p.	11.3 p.p.
Internet and data accesses	17.7%	1.3%	0.0 p.p.	16.2 p.p.
Broadband	18.7%	1.7%	0.0 p.p.	16.7 p.p.
Fiber	n.m.	29.9%	0.0 p.p.	167.6 p.p.
Pay TV	62.6%	12.0%	28.3 p.p.	16.9 p.p.
Final Clients Accesses	2.1%	(0.9%)	0.5 p.p.	2.6 p.p.
Total Accesses	1.9%	(1.1%)	0.5 p.p.	2.5 p.p.

(1) In order to calculate organic changes, we have added the accesses of DTS and GVT as of December 31, 2014 to our accesses as of such date.

The table below shows the evolution of accesses by segment:

Accesses 2015	YoY variation		% Over Total Accesses	
	%Reported YoY	%Organic YoY (1)	2014	2015
Spain	1.9%	(1.6%)	13.0%	13.0%
Germany	1.5%	--	15.1%	15.0%
Brazil	1.4%	(6.4%)	30.2%	30.1%
Hispanoamérica	2.3%	--	41.6%	41.8%
Others	16.6%	--	0.1%	0.1%

(1) In order to calculate organic changes, we have added the accesses of DTS and GVT as of December 31, 2014 to our accesses as of such date.

The Group's strategy is based on capturing growth in its markets, especially on attracting high-value customers.

Mobile accesses totaled 247.1 million at December 31, 2015, down 1.2% compared to December 31, 2014, affected mainly by the decrease in prepaid accesses due to the disconnection of prepaid accesses in Brazil (11.5 million accesses in 2015 and 1.6 million accesses in 2014). Contract accesses, however, were up 5.6% year-on-year, continuing to increase their weight over total mobile accesses up to 36.3% (+2.3 p.p. year-on-year).

Smartphone accesses maintained a strong growth rate (up 42.9% year-on-year), totaling 112.9 million accesses and reaching a penetration rate over total accesses of 48.5% (+14.8 p.p. year-on-year), reflecting the Company's strategic focus on the growth of its data services.

Fixed broadband accesses stood at 21.0 million at December 31, 2015, up 18.7% year-on-year (of which 16.7 p.p. was due to the inclusion of accesses from GVT in the 2015). Fiber accesses stood at 6.1 million at December 31, 2015.

TV accesses totaled 8.3 million at December 31, 2015, up 63% year-on-year (of which 28 p.p. was due to the inclusion of accesses from DTS and 17 p.p. was due to the inclusion of accesses from GVT in the 2015 access base).

Telefónica's customer base includes the consumer and business segments, and therefore is not affected by customer concentration risk.

The table below shows the evolution of our estimated access market share for mobile and DSL for the past two years.

Competitive Position Evolution

Telefónica	Mobile Market Share (1)	
	2014	2015
Spain	31.2%	30.8%
Germany	36.9%	38.1%
Brazil	28.4%	28.4%
Argentina	31.3%	32.3%
Chile	39.4%	36.7%
Peru	55.2%	49.7%
Colombia	23.5%	22.4%
Venezuela	33.7%	34.2%
Mexico	20.8%	22.7%
Central America	31.5%	33.2%
Ecuador	27.9%	29.7%
Uruguay	34.4%	34.9%

(1) Internal estimation in both years

Competitive Position Evolution

Telefónica	DSL Market Share (1)	
	2014	2015
Spain	45.1%	43.5%
Brazil (2)	16.4%	28.1%
Argentina	30.3%	29.4%
Chile	39.8%	39.4%
Colombia	18.8%	18.1%

(1) Internal estimation in both years

(2) Includes GVT in 2015

2015/2014 Consolidated results

In this section, we discuss changes in the Group's consolidated income statements for 2015 and 2014. Changes in the Group's consolidated income statements for 2014 and 2013 are discussed in a separate section further below. The consolidated income statement data for the years ended December 31, 2014 and 2013 set forth in both sections has been retrospectively revised to show the reclassification of the results attributable to our operations in the United Kingdom as discontinued operations and are not derived from Telefónica, S.A.'s consolidated financial statements originally published for such years, which are not included herein.

Millions of euros	Year ended December 31				Percent Change	
	2014 (*)		2015		2015 vs 2014	
	Total	% of revenues	Total	% of revenues	Total	%
Revenues	43,458	100.0%	47,219	100.0%	3,761	8.7%
Other income	1,521	3.5%	1,841	3.9%	320	21.1%
Supplies	(11,750)	(27.0%)	(12,910)	(27.3%)	(1,160)	9.9%
Personnel expenses	(6,621)	(15.2%)	(9,800)	(20.8%)	(3,179)	48.0%
Other expenses	(12,827)	(29.5%)	(14,936)	(31.6%)	(2,109)	16.4%
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	13,781	31.7%	11,414	24.2%	(2,367)	(17.2%)
Depreciation and amortization	(7,431)	(17.1%)	(8,517)	(18.0%)	(1,086)	14.6%
OPERATING INCOME	6,350	14.6%	2,897	6.1%	(3,453)	(54.4%)
Share of loss of investments accounted for by the equity method	(498)	(1.1%)	(5)	(0.0%)	493	(99.0%)
Net financial expense	(2,779)	(6.4%)	(2,581)	(5.5%)	198	(7.1%)
PROFIT BEFORE TAX	3,073	7.1%	311	0.7%	(2,762)	(89.9%)
Corporate income tax	(260)	(0.6%)	(13)	(0.0%)	247	(95.0%)
Profit after tax from continuing operations	2,813	6.5%	298	0.6%	(2,515)	(89.4%)
Profit after tax from discontinued operations	439	1.0%	2,582	5.5%	2,143	n.m.
PROFIT FOR THE YEAR	3,252	7.5%	2,880	6.1%	(372)	(11.4%)
Non-controlling interests	(251)	(0.6%)	(135)	(0.3%)	116	(46.2%)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	3,001	6.9%	2,745	5.8%	(256)	(8.5%)

(*) Revised data to reflect the results of Telefónica's operations in the United Kingdom as discontinued operations.

Adjustments made to calculate organic variations

Year-on-year changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis, by considering a constant perimeter of consolidation and constant exchange rates and by making certain other adjustments which are described herein. We believe that "organic" variations, while not a substitute for reported variations, provide useful information for investors and other interested parties because:

- they give additional information on the underlying performance of the operating business, removing the impact of certain items we believe are less relevant when considering the performance of Telefónica's underlying business;
- Telefónica uses this data internally to assess its profitability; and
- we believe this data facilitates the comparison between Telefónica's performance with that of other operators, although "organic" is not a term defined in IFRS, and "organic" measures included herein may not be comparable to similar measures presented by other companies.

For purposes of this report, "organic" variation is defined as the reported variation as adjusted to exclude the impact of certain items which we believe are less relevant when considering the performance of Telefónica's underlying business.

The adjustments made to calculate 2015/2014 organic variations are the following:

- **Foreign exchange effects and the impact of hyperinflationary adjustments in Venezuela:**

We have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates in 2015 and 2014. In particular, we have used the average foreign exchange rates of 2014 for both years.

Foreign exchange rates had a negative impact on our reported 2015 results, mainly due to the depreciation of various Latin American currencies versus the euro, in particular the Brazilian real and, to a lesser extent, the Venezuelan bolívar.

We have also excluded the impact of hyperinflationary adjustments in Venezuela by reversing such adjustments.

- **Changes in the scope of consolidation:**

We have excluded the impact of changes in our consolidation perimeter in 2015 and 2014. The main changes in our consolidation perimeter in such years related to the consolidation of GVT in Telefónica Brazil since May 2015, the consolidation of DTS in Telefónica Spain since May 2015, the consolidation of E-Plus in Telefónica Germany since October 2014 and the sale of Telefónica Ireland in July 2014.

In order to exclude the impact of these changes in our perimeter, we have:

- consolidated GVT's results from May 1 to December 31, 2014 in our 2014 results;
- consolidated DTS's results from May 1 to December 31, 2014 in our 2014 results;
- consolidated E-Plus's results from January 1 to September 30, 2014 in our 2014 results; and
- excluded Telefónica Ireland's results from January 1 to June 30, 2014 from our 2014 results.

- **Restructuring costs:**

We have excluded the impact of certain restructuring costs, mainly those related to the 1st Collective Agreement of Related Companies in Spain, restructuring processes relating to Germany and Brazil and the Group's simplification program.

In 2015, these restructuring costs totaled 3,212 million euros and were aimed at increasing future efficiency, representing a further step towards the transformation and simplification initiatives carried out by Telefónica. These costs were distributed by segment as follows (impacts in OIBDA): Telefónica Spain (2,896 million euros), Telefónica Germany (74 million euros), Telefónica Hispanoamérica (38 million euros), Telefónica Brazil (7 million euros) and other companies (197 million euros).

In 2014, these restructuring costs totaled 658 million euros and were attributable to the simplification initiatives that the Group has implemented to meet its targets. These costs were mainly distributed by segment as follows (impacts in OIBDA): Telefónica Germany (414 million euros), Telefónica Brazil (68 million euros), Telefónica Hispanoamérica (99 million euros, mainly in Peru) and other companies (77 million euros).

- **Results of tower sales:**

The results attributable to the sale of towers in 2015 and 2014 have been excluded in both years.

In 2015 the results from the sale of towers totaled 65 million euros, distributed as follows: Telefónica Spain (38 million euros), Telefónica Brazil (10 million euros) and Telefónica Hispanoamérica (18 million euros, mainly in Chile). In 2014 the results from the sale of towers totaled 196 million euros in OIBDA, mainly in Telefónica Spain (191 million euros).

- **Irrevocable commitment with Fundación Telefónica:**

In 2015 we have excluded the expense (325 million euros) resulting from Telefónica, S.A.'s irrevocable commitment to make a donation to Fundación Telefónica in order to provide this entity with the financing required so that it can carry out its existing or new social programs and non-profit activities in the short and medium term.

- **Adjustments to the final purchase price of E-Plus:**

In 2015 we have excluded the result from the difference between the preliminary purchase price of E-Plus (as estimated at the end of the valuation period) and the final purchase price agreed with KPN, totaling 104 million euros (which had a 102 million euros positive impact on OIBDA, net of costs related to the acquisition).

- **Spectrum acquisition:**

We have excluded the impact of spectrum acquisitions in 2015 and 2014.

In 2015, these acquisitions totaled 1,585 million euros, 1,198 million euros corresponding to Telefónica Germany, 49 million euros corresponding to Telefónica Spain and 338 million euros corresponding to Telefónica Hispanoamérica (mainly Argentina and Ecuador).

In 2014 these acquisitions totaled 1,294 million euros, 889 million euros corresponding to Telefónica Brazil and 405 million euros corresponding to Telefónica Hispanoamérica with the following distribution by country or region:

- Telefónica Argentina (168 million euros);
- Telefónica Colombia (111 million euros); and
- Telefónica Venezuela and Central America (126 million euros).

- **Real Estate Efficiency Plan:**

In 2014 we have excluded the impact of certain urban assets qualification changes in Telefónica Spain and also the investment in Telefónica's Barcelona head office, which had an impact on capital expenditures (Capex) of 78 million euros.

- **Other adjustments:**

We have excluded the impact of the impairment resulting from the deterioration in certain minority participations, totaling 23 million euros in 2015. We have also excluded the impact of the 30 million euros provision recorded in 2015 in Telefónica Spain to optimize the distribution network.

The table below shows 2015/2014 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain income statement measures:

TELEFÓNICA 2015	YoY variation	
	% Reported YoY	% Organic YoY
Revenues	8.7%	4.0%
Other income	21.1%	19.5%
Supplies	9.9%	1.6%
Personnel expenses	48.0%	4.1%
Other expenses	16.4%	8.1%
OIBDA	(17.2%)	3.6%
Operating income (OI)	(54.4%)	3.7%
CapEx	10.3%	5.0%
OpCF (OIBDA-CapEx)	(64.0%)	1.9%

The below table shows the contribution of each item for which we have adjusted to our reported growth. With respect to each line item, the contribution to reported growth of such line item, expressed in percentage points, is the result of dividing the impact of each item for which we have adjusted by the amount of such line item, on a reported basis, for the prior year.

TELEFÓNICA 2015	Contribution to reported growth (percentage points)								
	Exchange rate effect and hyperinflation	Perimeter change	Restruc- turing costs	Towers sales	Commitment with Fundación	Adjustments to the final prurchase price of E- Plus	Spectrum acquisition	Real Estate Efficiency Plan	Other adjustments
Revenues	(4.4)	8.8	-	-	-	-	-	-	-
Other income	(4.2)	8.4	-	(8.7)	-	6.9	-	-	-
Supplies	(3.2)	11.3	-	-	-	-	-	-	-
Personnel expenses	(2.5)	7.6	38.8	-	-	-	-	-	-
Other expenses	(6.2)	11.0	(0.1)	-	2.5	-	-	-	0.4
OIBDA	(5.0)	5.4	(18.5)	(0.9)	(2.4)	0.7	-	-	(0.4)
Operating Income (OI)	(6.9)	(4.6)	(40.2)	(2.0)	(5.1)	1.6	-	-	(0.8)
CapEx	(5.1)	8.6	-	-	-	-	3.0	(0.9)	-
OpCF (OIBDA- CapEx)	(4.9)	(0.0)	(50.1)	(2.5)	(6.4)	2.0	(5.2)	1.5	(1.0)

Results discussion

Revenues totaled 47,219 million euros in 2015, increasing 8.7% compared to 2014 in reported terms. This increase was mainly attributable to the consolidation of E-Plus, GVT and DTS (which accounted for 8.8 p.p. of the year-on-year increase), which was partially offset by the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-4.4 p.p.). In organic terms, revenues increased 4.0% due to higher connectivity revenues, mainly in the mobile business as a consequence of the strong data revenue growth. The growing focus on our key markets was reflected in the revenue mix with Telefónica Spain, Telefónica Brazil and Telefónica Germany accounting for 66.0% of the revenues, increasing local scale and keeping at the same time the Group's differential diversification and global scale.

The structure of revenues reflects Telefónica's business diversification. Despite the adverse impact of exchange rates and hyperinflation in Venezuela, the segment with the largest contribution to our

revenues in 2015 was Telefónica Hispanoamérica, representing 30.5% (+0.2 p.p. compared to 2014), followed by Telefónica Spain, representing 26.3% (-1.4 p.p. compared to 2014), Telefónica Brazil, representing 23.4% (-2.4 p.p. compared to 2014) and Telefónica Germany, which increased its contribution with respect to 2014 to 16.7% (+4 p.p. year-on-year).

- **Mobile business revenues** totaled 27,936 million euros in 2015 (of which 24,510 million euros corresponded to service revenues and 3,505 million euros corresponded to handset revenues) up 7.7% year-on-year in reported terms. This increase was mainly attributable to the consolidation of E-Plus (which accounted for 7.8 p.p. of the year-on-year increase), which was partially offset by the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-5.0 p.p.). Excluding these impacts, year-on-year growth was 4.6% due to higher mobile revenues in Telefónica Hispanoamérica and Telefónica Brazil as a result mainly of the increase in the customer base and data adoption.

Mobile service revenues totaled 24,510 million euros in 2015, up 6.5% year-on-year in reported terms. This increase was mainly attributable to the consolidation of E-Plus (which accounted for 7.4 p.p. of the year-on-year increase), which was partially offset by the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-5.2 p.p.). Excluding these impacts, year-on-year growth was 4.0% due mainly to the higher customer base and higher data consumption.

Mobile data revenues totaled 10,501 million euros in 2015, up 22.5% in reported terms. This increase was mainly attributable to the consolidation of E-Plus (which accounted for 10.8 p.p. of the year-on-year increase) and the higher consumption of data of our customers, which was partially offset by the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-6.9 p.p.). Excluding these impacts, mobile data revenues increased by 16.9% due mainly to the increased revenues of non-SMS data (up 25.3%) and higher use of data per customer. Mobile data revenues accounted for 42.5% of mobile service revenues in 2015, up 5.7 percentage points compared to 2014 in reported terms.

- **Fixed revenues** totaled 17,634 million euros in 2015, up 9.3% year-on-year in reported terms. This increase was mainly attributable to the consolidation of GVT and DTS (which accounted for +11.1 p.p. of the year-on-year increase), which was partially offset by the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-4.1 p.p.). Excluding these impacts, fixed revenues increased 2.2%. This increase was mainly due to higher broad band connection revenues and Pay-TV revenues as a result of the commercial actions carried out by the Company in order to increase our value proposition and the higher customer base in Pay-TV.

Other income in 2015 mainly included own work capitalized in our fixed assets, profit from the sale of other assets, and the sale of towers by Telefónica Spain, Telefónica Brazil and Telefónica Hispanoamérica.

In 2015, other income totaled 1.841 million euros, up 21.1% year-on-year in reported terms. In 2015, other income was positively affected by the consolidation of E-Plus, GVT and DTS, the positive result from the E-Plus price adjustment (104 million euros), the positive impact from the expired payment obligation (98 million euros) in Telefónica Brazil, the spectrum swap with AT&T in Telefónica Mexico carried out in December 2015 (79 million euros), the sale of real estate in Telefónica Spain (78 million euros) and the result from the sale of towers amounting to 65 million euros.

In 2014, the sale of towers had a positive impact of 196 million euros. Other income also included an extraordinary sale of real estate in Telefónica Spain (63 million euros).

Total expenses (which include supply costs, personnel costs and other expenses (principally external services and taxes) but do not include amortization and depreciation expenses), were 37,646 million euros in 2015, up year-on-year 20.7% in reported terms. This increase was mainly attributable to the

consolidation of E-Plus, GVT and DTS (which accounted for 10.2 p.p. of the year-on-year increase) and higher restructuring costs amounting to 3,212 million euros (which accounted for 8.2 p.p. of the year-on-year increase), which was partially offset by the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-4.2 p.p.). The costs are explained in detail below:

- **Supplies** amounted to 12,910 million euros in 2015, up 9.9% year-on-year in reported terms mainly as a result of the consolidation of E-Plus, GVT and DTS (which accounted for 11.3 p.p. of the year-on-year increase), and was partially offset by the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-3.2 p.p.). In organic terms, supplies expenses grew by 1.6% year-on-year, due to increased commercial activity in high-end devices and higher TV content costs, which more than offset the decrease in mobile interconnection costs.
- **Personnel expenses** amounted to 9,800 million euros in 2015, up 48.0% in reported terms year-on-year compared to 2014. This increase was mainly attributable to higher restructuring costs of 3,143 million euros (which accounted for +38.8 p.p. of the year-on-year increase), the consolidation of E-Plus, GVT and DTS (which accounted for 7.6 p.p. of the year-on-year increase), and was partially offset by the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-2.5 p.p.). In organic terms, personnel costs increased 4.1% year-on-year mainly affected by inflationary pressures in some Latin American countries.

The average headcount was 125,892 employees in 2015, up 11.5% compared to 2014 (-2.3% excluding the impact of changes in the scope of consolidation). Including Telefónica United Kingdom, the average headcount 2015 was 133,569 employees, up 10.8% compared to 2014 (-2.1% excluding the impact of changes in the scope of consolidation).

- **Other expenses** amounted to 14,936 million euros in 2015, up 16.4% in reported terms. This increase was mainly attributable to the consolidation of E-Plus, GVT and DTS (which accounted for 11.0 p.p. of the year-on-year increase), the provision of 325 million euros related to the irrevocable agreement between Telefónica, S.A. and Fundación Telefónica for its short-and mid-term financing (+2.5 p.p.) and to a lesser extent, the impairment resulting from the deterioration in certain minority participations (+0.2 p.p.) and the increase in other expenses related to restructuring processes (+0.1 p.p.), which was partially offset by the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-6.2 p.p.). In organic terms, other expenses increased by 8.1% compared to 2014, mainly as a result of increased network costs, higher IT costs and a higher commercial activity. Increased inflation in some Latin American countries offset in part the savings resulting from the simplification measures carried out by the Company.

OIBDA was 11,414 million euros in 2015, down 17.2% in reported terms. This decrease was mainly attributable to the higher restructuring costs (which accounted for 18.5 p.p. of the year-on-year decrease and included a restructuring costs provision of 3,212 million euros, the impact of changes in foreign exchange rates and hyperinflation in Venezuela (-5.0 p.p.), the provision of 325 million euros related to the agreement between Telefónica S.A. and Fundación Telefónica for its short and mid-term financing (-2.4 p.p.) and, to a lesser extent, the decreased results from the sale of towers (-0.9 p.p.), the provision recorded in connection with the optimization of the distribution channel in Spain of 30 million euros (-0.2 p.p.) and the impairment resulting from the deterioration in certain minority participations (-0.2 p.p.), which was partially offset by the impact of the consolidation of E-Plus, GVT and DTS (+5.4 p.p.) and the adjustments made to the final acquisition price of E-Plus (+0.7 p.p.).

In organic terms, OIBDA grew 3.6% due to the positive evolution of Telefónica Germany (+20.9% year-on-year), reflecting increased synergies, the better performance of Telefónica Brazil (+2.9% year-on-year) and the results from Telefónica Hispanoamérica (+7.2% year-on-year).

OIBDA margin stood at 24.2% in 2015, down 7.5 percentage points compared to 2014 in reported terms due mainly to the restructuring costs provision of 3,212 million euros in 2015.

By segments, Telefónica Hispanoamérica was the main contributor to Group OIBDA with 38.2% (+8.6 p.p. compared to 2014), Telefónica Brazil contributed 31.3% (+5.6 p.p. compared to 2014) and Telefónica Germany contributed 16.3% (+11 p.p. compared to 2014). Telefónica Spain contributed 20.5% to Group OIBDA, down 20.7 percentage points compared to 2014, mainly as a result of the restructuring cost provision of 2,896 million euros in 2015.

Depreciation and amortization amounted to 8,517 million euros in 2015, up 14.6% year-on-year in reported terms, mainly due to the consolidation of E-Plus, GVT and DTS. The total depreciation and amortization charges arising from purchase price allocation processes amounted to 745 million euros in 2015, up 29.9% year-on-year.

Operating income (OI) in 2015 totaled 2,897 million euros, down 54.4% compared to 2014 for the reasons in OIBDA set forth above. In organic terms, operating income grew 3.7% year-on-year as a result of higher revenues and costs savings.

The **share of loss of investments accounted for by the equity method** for 2015 was a loss of 5 million euros (compared to a loss of 498 million euros in 2014). The loss recorded in 2014 was mainly due to the valuation adjustment of Telco, S.p.A. at Telecom Italia, S.p.A. amounting to 464 million euros.

Net financial expense amounted to 2,581 million euros in 2015, 7.1% lower than the previous year. Excluding exchange rate differences, costs improved by 21.2% (528 million euros) to 1,961 million euros. Negative foreign exchange differences amounted to 620 million euros (excluding monetary correction), primarily due to adoption of the SIMADI exchange rate for the Venezuelan bolivar. The lower cost of debt in euros explains 146 million euros of this improvement, due to lower fixed rate debt and capture of the reduction in short-term rates. The divestment of the entire holding in Telecom Italia, S.p.A. generated a positive variation of 404 million euros. Other effects resulted in losses of 22 million euros. These included the monetary correction for inflation in Venezuela, net of higher expenses in Latin America currencies, costs for updating contingencies, and other gains and losses on equities. The effective cost of debt over the last twelve months, excluding exchange rate differences and the positive impact of the divestment of Telecom Italia, S.p.A., stood at 4.69%, down 57 basis points year-on-year.

Corporate income tax totaled 13 million euros in 2015 (compared to 260 million euros in 2014) mainly due to the temporary difference recorded related to the restructuring provision and a higher activation of tax credits in Spain. Considering a pre-tax income of 311 million euros, the effective tax rate was 4.2%, 4.3 percentage points lower year-on-year.

Profit after tax from discontinued operations totaled 2,582 million euros (compared to 439 million euros in 2014), mainly due to deferred tax assets resulting from the estimated difference in Telefónica, S.A. between the tax value and the agreed sale value of Telefónica's operations in the United Kingdom, amounting to 1,789 million euros (which are expected to materialize in a foreseeable future when the sale is completed). This effect has been reduced by the amount corresponding to the tax amortization of goodwill generated in 2006 in connection with the acquisition of the companies to be sold under the sale agreement and deducted until December 31, 2015, amounting to 377 million euros. Additionally, the non-current assets ceased to be amortized and depreciated for accounting purposes once they were reclassified as assets held for sale.

The following table provides additional information on our discontinued operations:

Millions of euros	2015	2014	%
Revenues	7,697	6,919	11.2%
Other income	170	187	(9.1%)
Supplies	(3,636)	(3,431)	6.0%
Personnel expenses	(549)	(477)	15.1%
Other expenses	(1,857)	(1,463)	26.9%
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	1,825	1,735	5.2%
Depreciation and amortization	(300)	(1,118)	73.2%
OPERATING INCOME	1,525	617	n.m.
Share of loss of investments accounted for by the equity method	(5)	(12)	(58.3%)
Net financial expense	(28)	(43)	(34.9%)
PROFIT BEFORE TAX FROM DISCONTINUED OPERATIONS	1,492	562	n.m.
Corporate income tax	1,090	(123)	n.m.
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	2,582	439	n.m.

Profit attributable to non-controlling interest reduced profit for the year attributable to equity holders of the parent by 135 million euros, 116 million euros less than in 2014, mainly due to the lower profit attributable to minority interests in Telefónica Brazil and Colombia Telecom.

As a result of the foregoing, **profit for the year attributable to equity holders of the parent** for 2015 was 2,745 million euros, down by 8.5% year on year.

2015/2014 Segment results

TELEFÓNICA SPAIN

The below table shows the evolution of accesses in Telefónica Spain over the past two years:

ACCESSES

Thousands of accesses	2014	2015	%Reported YoY	%Organic YoY (1)
Fixed telephony accesses (2)	10,447.8	10,005.6	(4.2%)	(4.2%)
Internet and data accesses	5,928.7	6,000.0	1.2%	1.2%
Broadband (3)	5,885.9	5,962.0	1.3%	1.3%
Fiber	1,316.8	2,223.0	68.8%	68.8%
Mobile accesses	17,575.4	17,258.5	(1.8%)	(1.8%)
Prepay	3,328.1	2,777.1	(16.6%)	(16.6%)
Contract	14,247.3	14,481.4	1.6%	1.6%
M2M	1,612.4	1,778.8	10.3%	10.3%
Pay TV	1,884.7	3,671.5	94.8%	10.5%
Unbundled loops	4,087.3	3,647.3	(10.8%)	(9.1%)
Wholesale ADSL & Circuits	707.8	815.1	15.2%	15.2%
Final Clients Accesses	35,836.7	36,935.6	3.1%	(0.9%)
Wholesale Accesses	5,366.0	5,037.7	(6.1%)	(6.1%)
Total Accesses	41,202.7	41,973.3	1.9%	(1.6%)

Notes:

(1) In order to calculate organic changes, we have added the accesses of DTS as of December 31, 2014 to our accesses as of such date.

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

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

The below table shows the contribution of the acquisition of DTS to our accesses in 2015 (compared to 2014) which we have adjusted to our reported growth:

TELEFÓNICA SPAIN 2015	%Reported YoY	%Organic YoY (1)	DTS
Pay TV	94.8%	10.5%	76.3 p.p.
Final Clients Accesses	3.1%	(0.9%)	4.0 p.p.
Total Accesses	1.9%	(1.6%)	3.5 p.p.

(1) In order to calculate organic changes, we have added the accesses of DTS as of December 31, 2014 to our accesses as of such date.

In 2015 the commercial activity was leveraged on the differentiated assets of the Company and, in the second half of 2015 was strengthened by the convergent offer "Movistar Fusión+" launched in July 2015 as well as the promotion that included all "TV Premium Extra" content from 9.90 euros/month, launched in August 2015. This promotion was subscribed by almost 700 thousand customers, reflecting the attractiveness of the offer (new TV contents and ultra-speed fiber) in an economic environment where private consumption continues to improve.

Churn evolution has been positive in 2015, especially taking into account the elimination of "Fusión" long-term contracts on August 1, 2015. This fact, together with the good evolution in adds since the launching of "Movistar Fusión+" has resulted in a positive performance of commercial activity. In 2015, broadband net adds duplicated year-on-year, fiber net adds grew by 25.3%, mobile contract net adds resumed

growth (+0.2 million customers) and in fixed telephony the net loss of accesses decreased by 31.1% year-on-year.

The results of Telefónica Spain in 2015 showed a lower decrease in revenues compared to the year-on-year results of 2014-2013, as a result of the transformation strategy implemented in recent years which relies on a high value offer based on the differentiated assets of Telefónica Spain, a more rational market in competition terms and a more favorable macroeconomic context, with improvement in private consumption.

Telefónica Spain had 42.0 million accesses at the end of December 2015, up 1.9% year-on-year, after the consolidation of the DTS satellite TV accesses (0.9 million accesses at December 2015). The organic variation was down by 1.6%, explained by the decrease in mobile accesses and fixed telephony accesses, although it is important to highlight that retail accesses grew by 3.1% year-on-year.

"Movistar Fusión", with a customer base of 4.2 million with 1.5 million additional wireless lines to the base offer as of December 31, 2015, maintained a solid year-on-year growth (+13% and +8% respectively compared to December 2014) and contributed 81% of the fixed retail broadband customer base and 63% of the wireless contract customer base. There was significant growth in the penetration of the high value services of "Movistar Fusión", with 31.8% of the customer base already using 100 Mb or 300 Mb ultra-fast broadband (+10.9 p.p. year-on-year) and 62.4% of the customer base with Pay-TV as of December 31, 2015 (+17.7 p.p. year-on-year).

Fixed accesses decreased 4.2% year-on-year, with a net loss of 442 thousand accesses in the year 2015. This decrease was mainly due to a lower fixed access market growth.

Retail broadband accesses totaled 6.0 million and grew 1.3% year-on-year, with net adds of 76 thousand accesses, due to the good evolution of fiber adds (+37.1% year-on-year) and lower churn (1.4% in 2015, -0.1 p.p. year-on-year).

Fiber accesses posted a new record in terms of net adds (0.9 million new accesses in 2015), reaching 2.2 million customers (1.7 times compared to December 31, 2014), representing 37.3% of total broadband customers (+14.9 p.p. year-on-year). Two thirds of fiber accesses are benefiting from the new speeds (30 and 300 Mb) launched in May 2015.

Ultra speed fiber accesses, with 100 or 300 Mb (with additional ARPU of 12 euros, including VAT) reached 1.5 million accesses (68.6% of total fiber accesses), after the new record of 0.5 million accesses in 2015, triggered by the higher level of adds (+25.9% year-on-year) and contained churn (0.9%, +0.1 p.p. year-on-year).

At December 31, 2015 our fiber deployment reached 14.3 million premises, 4 million more than at December 31, 2014.

Total **mobile accesses** stood at 17.3 million, down 1.8% compared with year-end 2014 as a result of the decrease in prepaid accesses. The contract access base accelerated its growth during 2015, growing by 1.6% year-on-year. The positive evolution of contract portability (-162 thousand customers at December 31, 2015, compared to -508 thousand customers at December 31, 2014), resulted in a positive contract net adds base (excluding M2M) (+68 thousand customers at December 31, 2015, compared to -113 thousand customers at December 31, 2014). Smartphone penetration stood at 66.3% of the mobile voice base (+5.7 p.p. compared to year-end 2014) and significantly boosted data traffic growth to 86.8% year-on-year in 2015 due to the higher number of customers with the renewed portfolio containing superior data packages.

LTE network rollout continued to progress well and coverage reached (based on our estimates) approximately 75% of the population at the end of 2015, up 17 percentage points compared to December 31, 2014, thanks to the deployment of the 800 MHz. As a result, the LTE customer base

reached 3.3 million customers at December 31, 2015, doubling the customer base at December 31, 2014, while the penetration reached 21% (+10 p.p. year-on-year).

Pay-TV accesses reached 3.7 million, up by 94.8% in reported terms compared to December 31, 2014 as a result of the acquisition of DTS (+10.5% in organic terms), including 926 thousand satellite TV accesses from DTS.

The table below shows the evolution of Telefónica Spain's results over the past two years:

Millions of euros

TELEFÓNICA SPAIN	2014	2015	%Reported YoY	%Organic YoY (1)
Revenues	12,023	12,402	3.2%	(2.1%)
Mobile Business	4,556	4,337	(4.8%)	(4.8%)
Mobile service revenues	3,888	3,677	(5.4%)	(5.4%)
Fixed Business	8,543	9,359	9.6%	1.9%
Other income	635	516	(18.7%)	7.0%
Supplies	(2,592)	(2,996)	15.6%	(2.7%)
Personnel expenses	(2,139)	(5,173)	141.8%	4.0%
Other expenses	(2,256)	(2,413)	7.0%	(0.2%)
OIBDA	5,671	2,336	(58.8%)	(4.3%)
OIBDA Margin	47.2%	18.8%	(28.3 p.p.)	(1.0 p.p.)
Depreciation and amortization	(1,805)	(1,898)	5.2%	2.4%
Operating Income (OI)	3,866	438	(88.7%)	(7.8%)
CapEx	1,732	1,827	5.5%	4.5%
OpCF (OIBDA-CapEx)	3,939	509	(87.1%)	(8.3%)

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Spain, we have made the following adjustments in order to calculate 2015/2014 variations in organic terms:

- Changes in the scope of consolidation:**

We have excluded the impact of changes in our consolidation perimeter in 2015 and 2014. The only change to our Telefónica Spain consolidation perimeter in such years is related to the consolidation of DTS in Telefónica Spain since May 1, 2015. In order to exclude the impact of such change in our perimeter, we have consolidated DTS's results from May 1 to December 31, 2014 in our 2014 results.

- Restructuring costs:**

We have excluded the impact of the 2,896 million euros of restructuring costs in 2015, mainly related to the Voluntary Suspension Plan in Spain. The restructuring process is aimed at increasing future efficiency, representing a further step towards the transformation and simplification initiatives carried out by Telefónica.

No restructuring costs were excluded from our 2014 results to calculate organic variations.

- **Results of tower sales:**

The results attributable to the sale of towers in 2015 and 2014 have been excluded in both years. In 2015, the results from the sale of towers totaled 38 million euros. In 2014, the results from the sale of towers totaled 191 million euros.

- **Spectrum acquisition:**

We have excluded the impact of spectrum acquisitions in 2015, that totaled 49 million euros.

- **Real Estate Efficiency Plan:**

We have excluded the impact of certain urban assets qualification changes in Telefónica Spain in 2014, totaling 49 million euros.

- **Spain distribution channel:**

We have excluded the impact of the 30 million euros provision recorded in 2015 in Telefónica Spain to optimize the distribution network.

The table below shows 2015/2014 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain income statement measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA SPAIN 2015	YoY variation		Contribution to reported growth (percentage points)					
	%Reported YoY	%Organic YoY	Perimeter change (DTS)	Restructuring costs	Towers sales	Spectrum acquisition	Real Estate Efficiency Plan	Spain distribution channel
Revenues	3.2%	(2.1%)	5.4	--	--	--	--	--
Other income	(18.7%)	7.0%	0.9	--	(24.5)	--	--	--
Supplies	15.6%	(2.7%)	18.7	--	--	--	--	--
Personnel expenses	141.8%	4.0%	2.4	135.4	--	--	--	--
Other expenses	7.0%	(0.2%)	5.9	--	(0.1)	--	--	1.3
OIBDA	(58.8%)	(4.3%)	(0.4)	(51.1)	(2.7)	--	--	(0.5)
CapEx	5.5%	4.5%	1.1	--	--	2.8	(2.8)	--
OpCF (OIBDA- CapEx)	(87.1%)	(8.3%)	(1.0)	(73.5)	(3.9)	(1.2)	1.3	(0.8)

Results discussion

Revenues in Telefónica Spain in 2015 were 12,402 million euros, up 3.2% year-on-year in reported terms mainly as a result of the consolidation of DTS since May 1, 2015 (which accounted for +5.4 p.p. of the year-on-year increase). In organic terms, revenues were down by 2.1% due to lower mobile service revenues in the mobile business and lower access and voice revenues in the fixed business.

We consider revenue breakdown to be increasingly less relevant given the high penetration level of our convergent offer, by which we mean the offer of more than a single service for a single price. However, we continue to report revenue separately for information purposes. Fixed business revenues were up by 9.6% year-on-year in 2015, due to the consolidation of DTS, the repositioning of tariffs, higher retail broadband revenues and new services, mainly related to TV and IT services. Excluding the impact of DTS, fixed revenues increased by 1.9%. Mobile business revenues fell 4.8% year-on-year in 2015 due to the decline in mobile accesses and the 3.6% drop in ARPU.

Mobile ARPU was 15.3 euros in 2015, down by 3.6% year-on-year. Mobile ARPU is becoming less representative of the Group's business performance, owing to its high dependence on the allocation of revenue in convergent offers.

TELEFÓNICA SPAIN	2014	2015	%YoY
Voice Traffic (millions of minutes)	35,600	36,368	2.2%
ARPU (EUR)	15.9	15.3	(3.6%)
Prepay	6.2	5.7	(8.2%)
Contract (1)	20.6	19.5	(5.3%)
Data ARPU (EUR)	7.0	7.8	11.0%
% non-SMS over data revenues	95.0%	95.5%	0.5 p.p.

Notes:

(1) Excludes M2M.

OIBDA amounted to 2,336 million euros in 2015, down 58.8% year-on-year in reported terms, mainly due to provisions recorded in 2015 totaling 2,926 million euros (relating to restructuring cost accounted for 51.1 p.p. of the year-on-year decrease and 0.5 p.p. of the year-on-year decrease in distribution channel restructuring) and, to a lesser extent, the lower proceeds (38 million euros in 2015 compared to 191 million euros in 2014) from the sale of towers (-2.7 p.p.). This decrease was partially offset by the sale of real estate assets amounting to 73 million euros (net of costs).

In organic terms OIBDA decreased 4.3% year-on-year, mainly due to the lower revenues, higher personnel costs and higher content costs. The higher personnel costs, up by 4.0% year-on-year in organic terms, were primarily due to the resumption of the Company's contribution to its pension plan in July 2014, and to a lesser extent, the acquisition of DTS. Telefónica Spain had 32,171 employees at the end of December 2015, up 7.2% year-on-year, due mainly to the acquisition of DTS.

OIBDA margin was 18.8% in 2015 down 28.3 percentage points year-on-year.

TELEFÓNICA GERMANY

The below table shows the evolution of accesses in Telefónica Germany over the past two years:

ACCESSES

Thousands of accesses	2014	2015	%YoY
Fixed telephony accesses (1)	2,036.4	1,997.8	(1.9%)
Internet and data accesses	2,387.0	2,330.6	(2.4%)
Broadband	2,143.8	2,098.0	(2.1%)
Mobile accesses	42,124.9	43,062.8	2.2%
Prepay	23,350.7	23,979.4	2.7%
Contract (2)	18,774.1	19,083.4	1.6%
M2M	414.0	632.0	52.7%
Final Clients Accesses	46,548.3	47,391.2	1.8%
Wholesale Accesses	1,113.3	972.0	(12.7%)
Total Accesses	47,661.5	48,363.2	1.5%

Notes:

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) In the fourth quarter of 2014, 428 thousand E-Plus accesses were excluded before integration, due to the criteria harmonization.

In 2015, Telefónica Germany maintained market momentum, increasing slightly its estimated mobile service revenue market share.

The **total access** base grew 1.5% year-on-year and stood at 48.4 million at December 31, 2015, mainly driven by a 2.2% increase in the mobile base (which reached 43.1 million).

The contract mobile customer base grew 1.6% year-on-year and reached 19.1 million accesses, with a broadly stable 44.3% share over the total mobile base. Net adds reached 309 thousand accesses due to the solid contribution of partners (second brands). Smartphone penetration reached 54.2% of the total mobile access base, up 5.5 percentage points year-on-year driven by the continued growth of LTE customers (+154.5% year-on-year reaching 7.9 million at December 31, 2015). LTE penetration reached 18.6% of the total mobile access base.

The prepay access base increased 2.7% year-on-year to 24.0 million. Prepay posted 629 thousand net additions in 2015, 32.5% more than in 2014 due to the strong contribution from wholesale agreements (second brands). The retail broadband access loss trend continued to improve, with 46 thousand net loss in 2015, more than halving the number of 2014. VDSL was once again the main growth engine of fixed performance with 260 thousand net additions (+55% year-on-year) in 2015.

The table below shows the evolution of Telefónica Germany's results over the past two years:

Millions of euros

TELEFÓNICA GERMANY	2014	2015	%Reported YoY	%Organic YoY (1)
Revenues	5,522	7,888	42.9%	1.2%
Mobile Business	4,375	6,832	56.2%	2.8%
Mobile service revenues	3,580	5,532	54.5%	0.1%
Fixed Business	1,138	1,043	(8.3%)	(8.3%)
Other income	106	265	150.4%	14.7%
Supplies	(2,144)	(2,712)	26.5%	(3.4%)
Personnel expenses	(828)	(655)	(20.9%)	(10.1%)
Other expenses	(1,923)	(2,928)	52.2%	(1.1%)
OIBDA	733	1,858	153.7%	20.9%
OIBDA Margin	13.3%	23.6%	10.3 p.p.	3.8 p.p.
Depreciation and amortization	(1,426)	(2,128)	49.3%	(3.8%)
Operating Income (OI)	(693)	(270)	(61.0%)	(57.2%)
CapEx	849	2,230	162.8%	(11.1%)
OpCF (OIBDA-CapEx)	(116)	(372)	n.m.	126.2%

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Germany, we have made the following adjustments in order to calculate 2015/2014 variations in organic terms:

- Changes in the scope of consolidation:**

We have excluded the impact of changes in our consolidation perimeter in 2015 and 2014. The only change to our Telefónica Germany consolidation perimeter in such years related to the consolidation of E-Plus in Telefónica Germany since October 1 2014. In order to exclude the

impact of this change in our perimeter, we have consolidated E-Plus's results from January 1 to September 30, 2014 in our 2014 results.

- **Restructuring costs:**

We have excluded the impact of restructuring costs associated with certain simplification processes implemented in Germany. In 2015, restructuring costs had a 74 million euros impact on OIBDA. In 2014, restructuring costs had a 414 million euros impact on OIBDA.

- **Spectrum acquisition:**

We have excluded the impact of spectrum acquisitions in 2015, amounting to 1,198 million euros. There were no spectrum acquisitions in 2014.

- **Adjustments to the final purchase price of E-Plus :**

In 2015 we have excluded the result from the difference between the preliminary purchase price of E-Plus (as estimated at the end of the valuation period) and the final purchase price agreed with KPN, totaling 104 million euros (which had a 102 million euros positive impact on OIBDA net of costs related to the acquisition).

The table below shows 2015/2014 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain income statement measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA GERMANY 2015	YoY variation		Contribution to reported growth (percentage points)			
	%Reported YoY	%Organic YoY	Perimeter change (E-Plus)	Restructuring Costs	Spectrum acquisition	Adjustments to the final prurchase price of E- Plus
Revenues	42.9%	1.2%	41.1	--	--	--
Other income	150.4%	14.7%	32.3	--	--	98.6
Supplies	26.5%	(3.4%)	30.9	--	--	--
Personnel expenses	(20.9%)	(10.1%)	26.9	(39.0)	--	--
Other expenses	52.2%	(1.1%)	54.7	(0.9)	--	0.1
OIBDA	153.7%	20.9%	50.2	46.5	--	13.9
CapEx	162.8%	(11.1%)	36.8	--	141.2	--
OpCF (OIBDA-CapEx)	n.m.	126.2%	(47.1)	(293.2)	1031.3	(87.7)

Results discussion

Total **revenues** were 7,888 million euros in 2015, up 42.9% year-on-year in reported terms due mainly to the consolidation of E-Plus since October 1, 2014 (which accounted for 41.1 p.p. of the year-on-year increase). In organic terms, revenues increased by 1.2% due mainly to higher handset sales arising from Christmas campaigns.

Mobile service revenues totaled 5,532 million euros in 2015, up 54.5% year-on-year in reported terms, due mainly to the consolidation of E-Plus since October 1, 2014 and to a lesser extent, the increasing share of the partner segment (second brands) within the customer base. Telefónica Germany continued to focus on data revenues, which increased by 58.4% and accounted for 51.3% of mobile service revenues in 2015. Non-P2P SMS data revenues amounted to 2,034 million euros (increasing 4.9% year-on-year), accounting for 71.6% of the total data revenues (+0.4 p.p. year-on-year).

Fixed revenues were 1,043 million euros in 2015, down 8.3% year-on-year, due to continued decrease in accesses.

Mobile ARPU was 10.7 euros in 2015 down 8.9% year-on-year, while contract ARPU stood at 17.2 euros down 6.5% year-on-year, as a result of the higher share of wholesale customers in the customer base. Data ARPU was 5.5 euros, down 6.8% year-on-year, mainly as a result of the continued decline of SMS volumes.

TELEFÓNICA GERMANY	2014	2015	%YoY
Voice Traffic (millions of minutes)	41,186	62,696	52.2%
ARPU (EUR)	11.8	10.7	(8.9%)
Prepay	5.4	5.8	8.2%
Contract (1)	18.4	17.2	(6.5%)
Data ARPU (EUR)	5.9	5.5	(6.8%)
% non-SMS over data revenues	71.2%	71.6%	0.4 p.p.

Notes:

(1) Excludes M2M.

OIBDA totaled 1,858 million euros in 2015, up 153.7% year-on-year in reported terms, as a result mainly of the consolidation of E-Plus (which accounted for 50.2 p.p. of the increase), the lower restructuring costs recorded in 2015 (+46.5 p.p.) and the positive result from the E-Plus preliminary acquisition price and the final acquisition price agreed on with KPN (+13.9 p.p.). In organic terms, OIBDA increased by 20.9% year-on-year, driven by the increased synergies, which mainly affected personnel expenses and supplies.

The **OIBDA margin** stood at 23.6% in reported terms for 2015, up 10.3 percentage points compared to 2014.

TELEFÓNICA BRAZIL

The below table shows the evolution of accesses in Telefónica Brazil over the past two years:

ACCESSES

Thousands of accesses	2014	2015	%Reported YoY	%Organic YoY (1)
Fixed telephony accesses (2)	10,743.4	14,654.5	36.4%	(1.6%)
Internet and data accesses	4,082.6	7,195.5	76.2%	2.5%
Broadband	3,939.8	7,129.5	81.0%	3.6%
Fiber	374.6	3,779.9	n.m.	14.0%
Mobile accesses	79,932.1	73,261.3	(8.3%)	(8.3%)
Prepay	51,582.4	42,194.4	(18.2%)	(18.2%)
Contract	28,349.7	31,066.9	9.6%	9.6%
M2M	3,506.9	4,234.7	20.8%	20.8%
Pay TV	770.6	1,787.9	132.0%	9.7%
Final Clients Accesses	95,528.6	96,899.3	1.4%	(6.4%)
Wholesale Accesses	25.9	22.3	(14.0%)	(14.0%)
Total Accesses	95,554.5	96,921.5	1.4%	(6.4%)

Notes:

(1) In order to calculate organic changes, we have added the accesses of GVT as of December 31, 2014 to our accesses as of such date.

(2) Includes "fixed wireless" and Voice over IP accesses.

The below table shows the contribution of the acquisition of GVT to our accesses in 2015 (compared to 2014) which we have adjusted to our reported growth:

TELEFÓNICA BRAZIL 2015	%Reported YoY	%Organic YoY (1)	GVT
Fixed telephony accesses	36.4%	(1.6%)	38.6 p.p.
Internet and data accesses	76.2%	2.5%	72.0 p.p.
Broadband	81.0%	3.6%	74.6 p.p.
Fiber	n.m.	14.0%	785.0 p.p.
Pay TV	132.0%	9.7%	111.5 p.p.
Final Clients Accesses	1.4%	(6.4%)	8.3 p.p.
Total Accesses	1.4%	(6.4%)	8.3 p.p.

Note:

(1) In order to calculate organic changes, we have added the accesses of GVT as of December 31, 2014 to our accesses as of such date.

Telefónica Brazil closed the year 2015 improving its competitive position in the mobile as well as in the fixed market. In the mobile business, Telefónica Brazil kept its leadership in the higher value segments, which permitted the operator to capture mobile market revenue growth in 2015. In the fixed business, the transformation towards fiber and Pay-TV was strengthened by the GVT consolidation in May 2015, adding as of December 31, 2015, 8.5 million customers to the Group.

Revenues and OIBDA evolution was positively supported by the acceleration of mobile data and the good evolution of fixed broadband and Pay-TV. Additionally, Telefónica Brazil carried out costs control measures aimed at offsetting the adverse macroeconomic situation.

However, results in 2015 were adversely affected by the interconnection tariff reduction in the mobile business (-33.0%) and in the retail fixed-mobile tariff (-23.3%) since February 24, 2015.

Telefónica Brazil reached 96.9 million **accesses** at December 31, 2015, up 1.4% due mainly to the consolidation of GVT. Excluding the impact of such consolidation, accesses were down 6.4%, due to the disconnection of prepaid accesses.

In the **mobile business**, the strategic focus remained on gaining and retaining high value customers, reaching a market share of 42.4% in the contract segment as of December 31, 2015 (Source: ANATEL). Telefónica Brazil maintained its market leadership in terms of total accesses with a market share of 29.5% as of December 2015 (source: ANATEL). The commercial offer in the contract segment included a higher data volume, more minutes of voice traffic and innovative products such as "Vivo Bis" (pursuant to which the data not consumed in a month is automatically added to data available for the following month). The contract growth was partially offset by the disconnection of 11.5 million prepaid accesses.

In the **fixed business**, Telefónica Brazil maintained its strategic focus on fiber deployment, with 16.6 million premises passed with FTTx at December 31, 2015 and 3.8 million homes connected, and also on increasing Pay-TV accesses (up 10% year-on-year). Fixed telephony accesses stood at 14.7 million in 2015, up 36.4% in reported terms due mainly to the consolidation of GVT. In organic terms, these accesses were down by 1.6% year-on-year. Retail broadband customers totaled 7.1 million customers as of December 31, 2015, up 81.0% year-on-year due mainly to the consolidation of GVT (up 3.6% year-on-year in organic terms due to the increase of fiber accesses). Of the 7.1 million customers at the end of 2015, 53.0% were connected with FTTC. Pay TV customers stood at 1.8 million as of December 31, 2015, up 132.0% in reported terms due mainly to the consolidation of GVT, increasing by 9.7% year-on-year in organic terms due to a higher penetration of high value and IPTV clients. IPTV accesses increased their relevance, representing 9.6% of total Pay-TV accesses.

The table below shows the evolution of Telefónica Brazil's results over the past two years:

Millions of euros

TELEFÓNICA BRAZIL	2014	2015	%Reported YoY	%Organic YoY (1)
Revenues	11,231	11,060	(1.5%)	4.5%
Mobile Business	7,618	6,906	(9.3%)	6.2%
Mobile service revenues	7,228	6,495	(10.1%)	5.3%
Fixed Business	3,613	4,154	15.0%	1.9%
Other income	261	416	59.3%	35.4%
Supplies	(2,680)	(2,568)	(4.2%)	4.4%
Personnel expenses	(976)	(1,042)	6.8%	3.5%
Other expenses	(4,293)	(4,293)	(0.0%)	8.6%
OIBDA	3,543	3,573	0.9%	2.9%
OIBDA Margin	31.5%	32.3%	0.8 p.p.	(0.5 p.p.)
Depreciation and amortization	(1,762)	(1,916)	8.7%	12.9%
Operating Income (OI)	1,781	1,657	(6.9%)	(6.7%)
CapEx	2,933	2,105	(28.2%)	(1.1%)
OpCF (OIBDA-CapEx)	610	1,468	140.8%	9.3%

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Brazil, we have made the following adjustments in order to calculate 2015/2014 variations in organic terms:

- **Foreign exchange effects:**

We have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates in 2015 and 2014. In particular, we have used the average foreign exchange rate of 2014 for both years. Foreign exchange rates had a negative impact on our reported 2015 Telefónica Brazil results as a result of the depreciation of the Brazilian real.

- **Changes in the scope of consolidation:**

We have excluded the impact of changes in our consolidation perimeter in 2015 and 2014. The only change to our Telefónica Brazil consolidation perimeter in such years related to the consolidation of GVT since May 1, 2015. In order to exclude the impact of this change in our perimeter, we have consolidated GVT's results from May 1 to December 31, 2014 in our 2014 results.

- **Restructuring costs:**

We have excluded the impact of certain restructuring costs associated with certain simplification processes implemented in Telefónica Brazil. In 2015, these restructuring costs totaled 7 million euros. In 2014, these restructuring costs totaled 68 million euros.

- **Spectrum acquisition:**

We have excluded the impact of spectrum acquisitions in 2014 amounting to 889 million euros (related to a LTE block in the 700 MHz band) while there were no spectrum acquisitions in 2015.

- **Results of tower sales:**

The results attributable to the sale of towers in 2015 and 2014 have been excluded in both years. The results from the sale of towers totaled 10 million euros and 1 million euros in 2015 and 2014, respectively.

The table below shows 2015/2014 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain income statement measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA BRAZIL 2015	YoY variation		Contribution to reported growth (percentage points)				
	%Reported YoY	%Organic YoY	Exchange rate effect	Perimeter change (GVT)	Restructuring Costs	Spectrum acquisition	Towers sales
Revenues	(1.5%)	4.5%	(16.6)	10.1	--	--	--
Other income	59.3%	35.4%	(26.9)	34.5	--	--	4.1
Supplies	(4.2%)	4.4%	(16.2)	7.2	--	--	--
Personnel expenses	6.8%	3.5%	(18.1)	26.8	(6.2)	--	--
Other expenses	(0.0%)	8.6%	(16.9)	7.6	--	--	--
OIBDA	0.9%	2.9%	(17.0)	12.5	1.7	--	0.3
CapEx	(28.2%)	(1.1%)	(12.1)	15.1	--	(30.3)	--
OpCF (OIBDA-CapEx)	140.8%	9.3%	40.7	0.2	9.9	145.8	1.7

Results discussion

Revenues totaled 11,060 million euros in 2015, down 1.5% in reported terms, mainly due to the depreciation of the Brazilian real (which accounted for -16.6 p.p. of the evolution) and partially offset by the impact of the consolidation of GVT (+10.1 p.p.). In organic terms, the year-on-year variation was 4.5%, principally thanks to the good evolution in the mobile business (+6.2% year-on-year) as well as the fixed business (+1.9% year-on-year), which was partially offset by the impact of the regulatory interconnection tariff reduction (-2.7 p.p. of the year-on-year variation).

- **Revenues from the mobile business** totaled 6,906 million euros in 2015, down 9.3% in reported terms due mainly to the depreciation of the Brazilian real (which accounted for -15.3 p.p. of the evolution). Excluding this impact, revenues from the mobile business increased by 6.2% due to the positive evolution of service revenues (+5.3% year-on-year) as a result of the good performance of outbound revenues, which increased as a result of an increase in the contract customer base and the higher data penetration. This trend was partially offset by lower inbound revenues affected by lower interconnection tariffs. Handset revenues were up by 5.1% in reported terms, due to higher proportion of contract adds and higher smartphones and LTE handset sales.
- **Fixed telephony revenues** totaled 4,154 million euros, up by 15.0% in reported terms due mainly to the consolidation of GVT (+31.9 p.p.) and were partially offset by the impact of depreciation of the Brazilian real (which accounted for -19.4 p.p. of the evolution). Excluding these effects, revenues were up by 1.9%, mainly due to the increase in fixed broadband revenues, which were up by 9.3% supported by the increase of fiber and the growth of Pay TV accesses with higher ARPU, in spite of the lower retail fixed-mobile tariff (-2.5 p.p.).

The **mobile ARPU** decreased 13.2% year-on-year in reported terms due mainly to depreciation of the Brazilian real. In organic terms, it increased 1.6% year-on-year as a consequence of the higher data ARPU which more than offset the negative impact of the reduction in the mobile termination rates. We believe the high quality of the customer base is reflected in an increase in the outbound ARPU and the 31.5% growth in the data ARPU.

TELEFÓNICA BRAZIL	2014	2015	%YoY	%Local Currency YoY
Voice Traffic (millions of minutes)	127,412	131,029	2.8%	2.8%
ARPU (EUR)	7.3	6.3	(13.2%)	1.6%
Prepay	3.9	3.2	(18.5%)	(4.7%)
Contract (1)	15.7	13.3	(15.0%)	(0.7%)
Data ARPU (EUR)	2.6	2.9	12.5%	31.5%
% non-SMS over data revenues	77.4%	82.9%	5.5 p.p.	5.5 p.p.

Notes:

(1) Excludes M2M.

OIBDA stood at 3,573 million euros in 2015, up 0.9% in reported terms due mainly to the consolidation of GVT (which accounted for +12.5 p.p. of the evolution) and, to a lesser extent, the lower restructuring costs incurred in 2015 compared to 2014 (+1.7 p.p.), and the higher results from the sale of towers compared to 2014 (+0.3 p.p.), all of which was partially offset by the negative impact of the depreciation of the Brazilian real (-17.0 p.p.). In organic terms, the year-on-year increase was 2.9% due to revenue growth and cost efficiency offsetting a worse macro scenario with higher inflation, high devaluation and a higher rate of bad debt. Personnel expenses totaled 1,042 million euros in 2015, up 6.8% in reported terms as result mainly of the consolidation of GVT, which was partially offset by the depreciation of the Brazilian real. In organic terms, personnel expenses increased by 3.5% year-on-year due to higher social benefits and the internalization of the work of certain network contractors which more than offset the savings resulting from restructuring plans in 2014. In addition, network costs grew due to higher energy costs and the deployment and improvement of fixed- and mobile networks, legal contingencies and higher content costs. OIBDA was also positively impacted by the expiration of a payment obligation (98 million euros).

The OIBDA margin stood at 32.3% in reported terms for 2015, up 0.8 percentage points compared to 2014.

TELEFÓNICA HISPANOAMÉRICA

The below table shows the evolution of accesses in Telefónica Hispanoamérica over the past two years:

ACCESSES

Thousands of accesses	2014	2015	%YoY
Fixed telephony accesses (1) (2)	13,374.4	12,829.8	(4.1%)
Internet and data accesses	5,433.8	5,667.8	4.3%
Broadband	5,379.4	5,610.4	4.3%
Mobile accesses	110,346.5	113,302.7	2.7%
Prepay (3)	86,698.0	88,332.8	1.9%
Contract	23,648.5	24,969.8	5.6%
M2M	2,062.2	2,296.9	11.4%
Pay TV	2,431.9	2,812.2	15.6%
Final Clients Accesses	131,586.6	134,612.4	2.3%
Wholesale Accesses	16.4	30.9	87.8%
Total Accesses T. Hispanoamérica	131,603.0	134,643.3	2.3%

Notes:

(1) Includes "fixed wireless" and Voice over IP accesses.

(2) Includes 50 thousand "fixed wireless" additional customers in Peru, in the second quarter of 2014.

(3) In the fourth quarter of 2014, 1.8 millions of inactive customers were disconnected in Central America.

Total accesses in Telefónica Hispanoamérica reached 134.6 million accesses at December 31, 2015 (+2.3% year-on-year).

Mobile accesses totaled 113.3 million (+2.7% year-on-year) due to positive net adds of 3.0 million accesses.

- There was strong contract segment growth, which expanded by 5.6% year-on-year. Growth was particularly strong in Peru (+12.9% year-on-year), Mexico (+22.3% year-on-year) and Chile (+4.2% year-on-year). Annual net adds reached 1.3 million accesses, primarily due to Peru (+659 thousand net adds) which benefitted from a successful migration strategy (from prepay to contract). Mexico also showed positive net adds (+327 thousand accesses) due to higher commercial activity.
- In the prepay segment (+1.9% year-on-year), with net adds of 1.6 million customers, growth was driven mainly by Mexico (+2.9 million customers) while Venezuela and Central America closed with 1.2 million net adds, partially compensating the net loss in Chile (-0.9 million customers) and Peru (-0.7 million customers) where we have faced a fierce competition and we have concentrated on high value customers migrating the best prepaid customers to contract and not following competition offers that would damage the quality of our networks due to intense traffic.
- There was growth in smartphones (+43.7% year-on-year) to 40.2 million accesses as of December 31, 2015, with a penetration over mobile accesses of 36.7% (+10.4 p.p. year-on-year), related mainly to Mexico, Argentina, Peru and Colombia. 4G handsets also continued to grow, reaching 8.3 million accesses as of December 31, 2015 (corresponding to a penetration of 7.4%).

Traditional **fixed business accesses** stood at 12.8 million at December 31, 2015 (-4.1% year-on-year), with negative net adds of 545 thousand customers, affected by the erosion of traditional fixed business in the region, including Chile (-5.9% year-on-year), Peru (-4.4% year-on-year), Colombia (-2.1% year-on-year) and Argentina (-1.9% year-on-year).

Broadband accesses totaled 5.6 million at December 31, 2015 (+4.3% year-on-year), after reaching net adds of 0.2 million accesses during 2015 due mainly to access growth in Peru (+8.0%), Chile (+5.8%) and

Colombia (+4.0%). The penetration of fixed broadband accesses over traditional fixed business accesses was 43.7% at December 31, 2015 (+3.5 p.p. year-on-year). There was progressive migration towards data plans with higher speeds, with 53.4% of broadband accesses having a speed over 4Mb at December 31, 2015 (+4 p.p. year-on-year).

Pay **TV accesses** totaled 2.8 million (+15.6% year-on-year), with net adds of 0.4 million accesses as a result of an improvement in all countries in the region that offer the service. Growth was particularly positive in Peru (+26.7% year-on-year), Colombia (+17.5%) and Chile (+7.2%).

The table below shows the evolution of Telefónica Hispanoamérica's results over the past two years:

Millions of euros

TELEFÓNICA HISPANOAMÉRICA	2014	2015	%Reported YoY	%Organic YoY (1)
Revenues	13,155	14,387	9.4%	10.1%
Mobile Business	9,578	10,347	8.0%	10.2%
Mobile service revenues	8,454	9,160	8.4%	10.6%
Fixed Business	3,604	4,070	12.9%	10.0%
Other income	254	347	36.5%	29.6%
Supplies	(3,841)	(4,176)	8.7%	7.2%
Personnel expenses	(1,525)	(1,686)	10.6%	16.0%
Other expenses	(3,975)	(4,516)	13.6%	15.1%
OIBDA	4,068	4,356	7.1%	7.2%
OIBDA Margin	30.9%	30.3%	(0.6 p.p.)	(0.8 p.p.)
Depreciation and amortization	(2,034)	(2,241)	10.2%	7.8%
Operating Income (OI)	2,034	2,115	4.0%	6.7%
CapEx	2,842	3,060	7.7%	17.2%
OpCF (OIBDA-CapEx)	1,226	1,296	5.7%	(7.0%)

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Hispanoamérica, we have made the following adjustments in order to calculate 2015/2014 variations in organic terms:

- **Foreign exchange effects and the impact of hyperinflationary adjustments in Venezuela:**

We have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates in 2015 and 2014. In particular, we have used the average foreign exchange rates of 2014 for both years. We have also excluded the impact of hyperinflationary adjustments in Venezuela.

- **Restructuring costs:**

We have excluded the impact of certain restructuring costs associated with certain simplification processes implemented in Telefónica Hispanoamérica. In 2015, restructuring costs totaled 38 million euros. In 2014, restructuring costs totaled 99 million euros.

- **Results of tower sales:**

The results attributable to the sale of towers in 2015 and 2014 have been excluded, which totaled 18 million euros (mainly in Chile) in 2015 and 4 million euros in 2014.

- **Spectrum acquisition:**

We have excluded the impact of spectrum acquisitions in 2015 and 2014.

In 2015, these acquisitions totaled 338 million euros and related to Telefónica Argentina (196 million euros), Telefónica Ecuador (127 million euros), Telefónica Chile (6 million euros) and Telefónica México (8 million euros). In 2014, these acquisitions totaled 405 million euros and related to Telefónica Argentina (168 million euros), Telefónica Colombia (111 million euros) and Telefónica Venezuela and Central America (126 million euros).

The table below shows 2015/2014 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain income statement measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA HISPANOAMÉRICA 2015	YoY variation		Contribution to reported growth (percentage points)			
	%Reported YoY	%Organic YoY	Exchange rate effect and Hyperinflation	Towers sales	Restructuring Costs	Spectrum acquisition
Revenues	9.4%	10.1%	(0.6)	--	--	--
Other income	36.5%	29.6%	2.1	5.1	--	--
Supplies	8.7%	7.2%	1.5	--	--	--
Personnel expenses	10.6%	16.0%	--	--	(4.1)	--
Other expenses	13.6%	15.1%	(1.4)	--	--	--
OIBDA	7.1%	7.2%	(2.0)	0.3	1.5	--
CapEx	7.7%	17.2%	(3.6)	--	--	(3.3)
OpCF (OIBDA-CapEx)	5.7%	(7.0%)	1.5	1.0	5.1	7.7

Results discussion

Revenues amounted to 14,387 million euros in 2015, increasing 9.4% year-on-year in reported terms mainly due to the good results of data revenues (fixed as well as mobile) and voice revenues, in both cases due to a higher customer base, increased consumption and higher data penetration. This increase was partially offset by foreign exchange effects and hyperinflation in Venezuela and the decrease in mobile termination rates. In organic terms, revenues increased 10.1% year-on-year.

- Mobile service revenues reached 9,160 million euros in 2015, up 8.4% in reported terms mainly due to increased revenues in Argentina, Peru, Mexico and Chile, as explained in greater detail below, which was partially offset by the foreign exchange effects and the hyperinflation in Venezuela (which accounted for -2.2 p.p. of the year-on-year variation). Mobile service revenues performance by country was as follows:
 - In Argentina, mobile service revenues reached 2,194 million euros in 2015 and grew by 29.2% year-on-year in reported terms mainly due to the good performance of consumption and data penetration and, to a lesser extent, the growth of the voice business and the foreign exchange effect (which increased growth by 6.4 p.p.). In local currency, these revenues grew by 22.9%.
 - In Mexico, mobile service revenues reached 1,539 million euros in 2015, increasing by 8.9% in reported terms mainly due to a higher customer base and the positive

performance of the data business. In local currency these revenues grew by 8.4%, accounting the foreign exchange effect for 0.5 percentage points of the year-on-year reported increase.

- In Chile, mobile service revenues reached 1,177 million euros in 2015, up 5.8% in reported terms year-on-year mainly due to the foreign exchange effect (which accounted for 4.6 p.p. of the increase) and the increase in data revenues that more than compensated the fall in the traditional voice business and the lower mobile termination rates. In local currency these revenues grew by 1.2%.
- In Peru, mobile service revenues reached 1,390 million euros in 2015, up 11.2% in reported terms mainly due to the foreign exchange effect (which accounted for 7.0 p.p. of the increase) and the higher contract customer base, the data boom and higher inbound revenues.
- In Venezuela and Central America, mobile service revenues reached 1,261 million euros in 2015, down 3.5% in reported terms mainly due to the foreign exchange effect and hyperinflation in Venezuela (which decreased growth in 35.1 p.p.). Excluding these effects, these revenues increased by 31.7% mainly due to the higher tariffs in all services in order to try to compensate the high inflation in Venezuela and the higher non-SMS data revenues (+83% in 2015), which represented 83.4% of total data revenues (+11.4 p.p. year-on-year).
- Data revenues in the segment were up by 19.5% in reported terms in 2015, reaching 3,198 million euros mainly due to the increase in penetration of data which increased from 31.7% to 34.9% in 2015 and higher data usage. This increase was partially offset by foreign exchange effects and hyperinflation in Venezuela (which decreased growth by 4.2 p.p.). Excluding these effects, these revenues grew by 23.6% as a result of the aforementioned increase in penetration of data.
- Fixed business revenues reached 4,070 million euros in 2015, up 12.9% in reported terms mainly due to the increase in broadband and new services revenues (+20.5%). Revenues from broadband and new services, accounted for 64.7% of fixed revenues (+4.9 p.p. year-on-year). The growth was mainly related to Argentina which experienced a substantial increase in voice and broadband revenues, as well as Chile and Peru, which had increased broad band revenues. Excluding the foreign exchange effect and hyperinflation in Venezuela (which decreased growth by 2.9 p.p.) these revenues grew by 10.0%.

ARPU was up by 6.1% in 2015, due to the data ARPU increase (+19.9% year-on-year) due to the increase of smartphone penetration and higher average consumption, which offset voice ARPU decrease. The lower ARPU was mainly due to lower interconnection costs and the devaluation of certain Latin American currencies against the U.S. dollar, which more than offset the increase in outgoing voice ARPU (up 7.0% year-on-year).

OIBDA reached 4,356 million euros in 2015, up 7.1% in reported terms (+7.2% in organic terms), being Telefónica Argentina, Telefónica Peru and Telefónica Chile the main contributors to this growth, as higher revenues offset higher costs. OIBDA was positively affected by a spectrum swap in Mexico with AT&T in December 2015 (which contributed 79 million euros). The higher costs were mainly attributable to:

- higher commercial costs, due to higher handset costs as a result of higher high-end handset sales (which more than offset lower interconnection costs resulting from the mobile termination rates reductions in Chile, Colombia, Peru and Mexico);
- higher personnel costs driven by increases in inflation in some countries of the region;

- higher costs related to commercial campaigns, higher network costs due to higher voice and data traffic; and
- higher costs resulting from the devaluation of certain Latin American currencies against the U.S. dollar.

Additional information by country is provided below:

- Argentina: **OIBDA** reached 1,006 million euros, up by 25.4% in reported terms mainly due to the exchange rate effect and higher service revenues, more than offsetting the higher costs resulting from the overall prices increase, although Telefónica continued to carry out cost containment plans in order to offset the inflation effect. In local currency, the year-on-year variation was 19.2%.
- Chile: **OIBDA** reached 760 million euros, up 7.4% in reported terms mainly due to the exchange rate effect and higher service revenues, lower supply costs due to regulatory changes (lower interconnection costs resulting from the mobile termination rates reduction) and efficiency measures that helped to offset the commercial effort made to gain higher value customers. In local currency, the year-on-year variation was 2.7%.
- Peru: **OIBDA** reached 943 million euros, up by 11.8% in reported terms mainly due to the exchange rate effect and higher service revenues, which more than offset higher commercial costs resulting from higher competitive pressure in the Peruvian market. In local currency OIBDA decreased by 4.7%.
- Venezuela and Central America: **OIBDA** reached 342 million euros, down by 26.1% in reported terms mainly due to the exchange rate effect and hyperinflation in Venezuela. Excluding these impacts, OIBDA grew 15.8% mainly driven by higher service revenues, which compensated the overall rise in prices, and higher purchases in dollars for services and equipment purchases, which were affected by the currency devaluation in Venezuela.

OIBDA margin reached 30.3% in 2015, with a year-on-year decrease of 0.6 percentage points in reported terms. This margin decrease was driven by lower margins in all countries in the segment except Mexico (which benefitted from higher commercial efforts focused on higher value segments), especially in Argentina and Colombia.

2014/2013 Consolidated results

In this section, we discuss changes in the Group's consolidated income statements for 2014 and 2013. The consolidated income statement data for the years ended December 31, 2014 and 2013 set forth below has been retrospectively revised to show the reclassification of the results attributable to our operations in the United Kingdom as discontinued operations and are not derived from Telefónica, S.A.'s consolidated financial statements originally published for such years, which are not included herein.

The Group's total accesses rose 5.7% during 2014 to 316 million at December 31, 2014, including the additional accesses it gained following the purchase of the E-Plus Group in Telefónica Germany. Excluding the E-Plus Group accesses from 2014 results and accesses from Telefónica Czech Republic and Telefónica Ireland from 2013 results, the increase would have been 1.9%. There was high commercial activity focus on high value customers, which resulted in the growth of the contract mobile segment (smartphones and LTE), fiber and Pay TV. The volume of fiber accesses also grew, reaching 1.8 million at December 31, 2014. Notably, accesses in Telefónica Hispanoamérica (42% of the Group's total) increased by 2.5%, and accesses in Telefónica Brazil (30% of the Group's total) increased by 3.0% in 2014.

The below table shows the evolution of accesses in 2013 and 2014.

ACCESSES

Thousand of accesses	2013	2014	%Reported YoY	%Organic YoY(*)
Fixed telephony accesses (1) (2)	39,130.3	36,602.0	(6.5%)	(3.0%)
Internet and data accesses	19,087.1	18,132.5	(5.0%)	0.4%
Narrowband	510.8	373.1	(27.0%)	(14.4%)
Broadband	18,432.9	17,649.3	(4.3%)	0.8%
Others	143.4	110.1	(23.3%)	(5.4%)
Mobile accesses	231,068.3	249,978.9	8.2%	2.1%
Prepay (3) (4)	154,792.2	164,959.2	6.6%	(0.7%)
Contract	76,276.0	85,019.6	11.5%	7.8%
Pay TV (5)	3,602.2	5,087.2	41.2%	47.6%
Unbundled loops	3,833.4	4,087.3	6.6%	7.9%
Shared ULL	130.6	94.1	(27.9%)	(27.9%)
Full ULL	3,702.9	3,993.3	7.8%	9.2%
Wholesale ADSL	835.3	750.1	(10.2%)	4.4%
Other	1,658.2	1,684.1	1.6%	2.0%
Final Clients Accesses	292,887.9	309,800.5	5.8%	1.8%
Wholesale Accesses	6,327.0	6,521.6	3.1%	5.9%
Total Accesses	299,214.9	316,322.1	5.7%	1.9%

Notes:

Telefónica Spain mobile accesses includes since 2013 the accesses of Tuenti.

(*) Excludes the E-Plus group accesses from 2014 accesses and accesses from Telefónica Czech Republic and Telefónica Ireland from 2013 accesses.

(1) In the first quarter of 2014, 45 thousands inactive "fixed wireless" accesses were disconnected in Mexico.

(2) In the second quarter of 2014, fixed clients includes 50 thousands additional fixed wireless clients in Peru.

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

(4) In the fourth quarter 2014, 1.8 million inactive accesses were disconnected in Central America.

(5) In the second quarter of 2014, Pay TV accesses includes 131 thousand "TV Mini" clients in Spain.

In 2014 the Group's strategy was based on capturing growth in its markets, especially on attracting high-value customers.

Mobile accesses totaled 250.0 million as of December 31, 2014, increasing 8.2% compared to 2013 (a 2.1% increase excluding accesses from the E-Plus Group in 2014 and from Telefónica Czech Republic and

in Telefónica Ireland in 2013), driven by the E-Plus Group acquisition and strong growth in the contract segment (+11.5%), which represented 34% of total mobile accesses as of December 31, 2014 (+1 p.p. year-on-year). Notably, Telefónica Spain increased its contract segment in 2014 in 77 thousand new accesses (excluding the impact of the disconnection of 569 thousand inactive M2M accesses), a positive number for the first time since 2011.

Smartphone accesses maintained a strong growth rate (up 45.4% at December 31, 2014 compared to December 31, 2013), totaling 79.0 million accesses and reaching a penetration rate over total accesses of 34% (+9 p.p. year-on-year), reflecting the Company's strategic focus on the growth of its data services.

Fixed broadband accesses stood at 17.6 million at December 31, 2014, a decrease of 4.3% year-on-year in reported terms (+0.8% excluding accesses from Telefónica Czech Republic in 2013). Fiber accesses stood at 1.8 million at December 31, 2014 (a 111.8% increase compared to December 31, 2013).

TV accesses totaled 5.1 million at December 31, 2014, up 41.2% year-on-year (47.6% excluding accesses from Telefónica Czech Republic in 2013). Net adds, excluding accesses from Telefónica Czech Republic, reached 1.6 million in the year.

Millions of euros	Year ended December 31				Percent Change	
	2013 (*)		2014 (*)		2014 vs 2013	
	Total	% of revenues	Total	% of revenues	Var.	% Var.
Revenues	50,547	100.0%	43,458	100.0%	(7,089)	(14.0%)
Other income	1,491	2.9%	1,521	3.5%	30	2.0%
Supplies	(13,758)	(27.2%)	(11,750)	(27.0%)	2,008	(14.6%)
Personnel expenses	(6,659)	(13.2%)	(6,621)	(15.2%)	38	(0.6%)
Other expenses	(14,144)	(28.0%)	(12,827)	(29.5%)	1,317	(9.3%)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	17,477	34.6%	13,781	31.7%	(3,696)	(21.1%)
Depreciation and amortization	(8,616)	(17.0%)	(7,431)	(17.1%)	1,185	(13.8%)
OPERATING INCOME	8,861	17.5%	6,350	14.6%	(2,511)	(28.3%)
Share of loss of investments accounted for by the equity method	(291)	(0.6%)	(498)	(1.1%)	(207)	70.9%
Net financial expense	(2,842)	(5.6%)	(2,779)	(6.4%)	63	(2.2%)
PROFIT BEFORE TAX	5,728	11.3%	3,073	7.1%	(2,655)	(46.3%)
Corporate income tax	(1,201)	(2.4%)	(260)	(0.6%)	941	(78.3%)
Profit after tax from continuing operations	4,527	9.0%	2,813	6.5%	(1,714)	(37.9%)
Profit after tax from discontinued operations	442	0.9%	439	1.0%	(3)	(0.7%)
PROFIT FOR THE YEAR	4,969	9.8%	3,252	7.5%	(1,717)	(34.6%)
Non-controlling interests	(376)	(0.7%)	(251)	(0.6%)	125	(33.2%)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	4,593	9.1%	3,001	6.9%	(1,592)	(34.7%)

(*) Revised data to reflect the results of Telefónica's operations in the United Kingdom as discontinued operations.

Adjustments made to calculate 2014/2013 organic variations

As stated above, year-on-year changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis. See "—2015/2014 consolidated results—Adjustments made to calculate organic variations".

We have made the following adjustments in order to calculate 2014/2013 variations in organic terms:

- **Foreign exchange effects and the impact of hyperinflationary adjustments in Venezuela:**

We have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates in 2014 and 2013. In particular, we have used the average foreign exchange rates of 2013 for both years.

Foreign exchange rates had a negative impact on our reported 2014 results, mainly due to the depreciation of various Latin American currencies versus the euro, in particular the Argentine peso, the Brazilian real and the Venezuelan bolívar.

We have also excluded the impact of hyperinflationary adjustments in Venezuela by reversing such adjustments.

- **Changes in the scope of consolidation:**

We have excluded the impact of changes in our consolidation perimeter in 2014 and 2013. The main changes in our consolidation perimeter in such years related to the consolidation of E-Plus in Telefónica Germany since October 2014, the sale of Telefónica Ireland in July 2014 and the sale of Telefónica Czech Republic in January 2014.

In order to exclude the impact of these changes in our perimeter, we have:

- excluded E-Plus's results from October 1 to December 31, 2014 from our 2014 results;
- excluded Telefónica Ireland's results from July 1 to December 31, 2013 from our 2013 results; and
- excluded Telefónica Czech Republic's results from January 1 to December 31, 2013 from our 2013 results.

- **Restructuring costs:**

We have excluded the impact of certain restructuring costs in 2014, mainly those related to the simplification initiatives carried out by the Group in order to reach its targets, mainly in Telefónica Germany, Telefónica Hispanoamérica and Telefónica Brazil. In 2014 these costs totaled 409 million euros in Telefónica Germany, 99 million euros in Telefónica Hispanoamérica and 68 million euros in Telefónica Brazil (all impacts on OIBDA).

No restructuring costs were excluded from our 2013 results to calculate organic variations.

- **Impact of sale of companies:**

We have excluded the impact of the sale of certain companies in 2013. In particular we have excluded the results deriving from the sale of Telefónica Ireland (16 million euros loss), Telefónica Czech Republic (176 million euros loss) and Hispasat (21 million euros gain).

- **Results of tower sales:**

The results attributable to the sale of towers in 2014 and 2013 have been excluded in both years.

In 2014 the results from the sale of towers totaled 196 million euros, mainly in Telefónica Spain (191 million euros). In 2013 the results from the sale of towers totaled 111 million euros, mainly in Telefónica Spain (70 million euros), Telefónica Brazil (29 million euros) and Telefónica Hispanoamérica (11 million euros in Mexico, Chile and Colombia).

- **Spectrum acquisition:**

We have excluded the impact of spectrum acquisitions in 2014 and 2013.

In 2014, these acquisitions totaled 1,294 million euros, 889 million euros corresponding to Telefónica Brazil and 405 million euros corresponding to Telefónica Hispanoamérica, with the following distribution by country or region:

- Telefónica Argentina (168 million euros);
- Telefónica Colombia (111 million euros); and
- Telefónica Venezuela and Central America (126 million euros).

In 2013 these acquisitions totaled 505 million euros and related mainly to Telefónica Brazil (185 million euros), Telefónica Hispanoamérica (251 million euros, mainly in Peru and Colombia) and Telefónica Spain (69 million euros).

• **Real Estate Efficiency Plan:**

In 2014 we have excluded the impact of certain urban assets qualification changes in Telefónica Spain and the investment in Telefónica's Barcelona head office, which had an impact on capital expenditures (Capex) of 78 million euros.

The table below shows 2014/2013 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain income statement measures:

TELEFÓNICA 2014	YoY variation	
	% Reported YoY	% Organic YoY
Revenues	(14.0%)	2.9%
Other income	2.0%	7.0%
Supplies	(14.6%)	(0.4%)
Personnel expenses	(0.6%)	7.1%
Other expenses	(9.3%)	8.1%
OIBDA	(21.1%)	(0.1%)
Operating income (OI)	(28.3%)	2.1%
CapEx	8.4%	17.7%
OpCF (OIBDA-CapEx)	(46.2%)	(13.9%)

The below table shows the contribution of each item for which we have adjusted to our reported growth. With respect to each line item, the contribution to reported growth of such line item, expressed in percentage points, is the result of dividing the impact of each item for which we have adjusted by the amount of such line item, on a reported basis, for the prior year.

TELEFÓNICA 2014	Contribution to reported growth (percentage points)							
	Exchange rate effect and hyperinflation	Perimeter change			Result on sale of companies	Towers sales	Spectrum acquisition	Real estate efficiency plan
		E-Plus	Czech Rep., Ireland & Others	Restruc- turing costs				
Revenues	(14.4)	1.5	(3.9)	-	-	-	-	-
Other income	(0.1)	-	(0.1)	-	-	0.2	-	-
Supplies	(11.9)	1.9	(4.3)	-	-	-	-	-
Personnel expenses	(13.5)	1.0	(3.6)	8.7	-	-	-	-
Other expenses	(15.7)	2.4	(3.0)	0.6	(1.4)	-	-	-
OIBDA	(14.8)	0.7	(4.6)	(3.8)	0.9	0.5	-	-
Operating income (OI)	(20.4)	(1.4)	(3.8)	(7.6)	1.8	1.0	-	-
CapEx	(23.2)	2.3	(3.1)	0.5	-	-	15.0	1.0
OpCF (OIBDA-CapEx)	(7.6)	(0.7)	(5.8)	(7.5)	1.7	0.9	(12.7)	(0.8)

Results discussion

Revenues totaled 43,458 million euros in 2014, down 14.0% compared to 2013 in reported terms due mainly to the adverse impact of changes in exchange rates and hyperinflation in Venezuela (which accounted for -14.4 p.p. of the decrease) and the sales of Telefónica Czech Republic and Telefónica Ireland (-3.9 p.p.), partially offset by the impact of the acquisition of E-Plus (+1.5 p.p.). In organic terms, revenues increased 2.9% due mainly to the good performance of Telefónica Hispanoamérica, where revenues from mobile data and digital services increased.

The structure of revenues reflected Telefónica's business diversification. Despite the impact of changes in exchange rates, Telefónica Hispanoamérica was the larger contributor to our revenues in 2014, representing 30.3% (-3.1 p.p. compared to 2013), followed by Telefónica Spain, representing 27.7% (+2.0 p.p. compared to 2013), Telefónica Brazil, representing 25.8% (+1.7 p.p. compared to 2013) and Telefónica Germany, representing 12.7% (+3.0 p.p. compared to 2013).

Mobile data revenues totaled 8,568 million euros in 2014 and decreased by 8.9% in reported terms affected mainly by exchange rate differences and hyperinflation in Venezuela and changes in the consolidation perimeter. Excluding these impacts, these revenues grew by 12.7%, due to the expansion of smartphones and data plans, mainly in Telefónica Hispanoamérica and Telefónica Brazil. These revenues accounted for 37% of mobile service revenues in 2014, up 2.4 percentage points compared to 2013 in reported terms. Revenues from non-SMS data were up 2.8% in reported terms (+25.4% excluding the impact of exchange rate differences, the effect of hyperinflation in Venezuela and changes in the consolidation perimeter), representing 78% of total data revenues in reported terms (+8.9 p.p. year-on-year).

Other income in 2014 mainly included own work capitalized in our fixed assets, profit from the sale of other assets, and the sale of towers of Telefónica Spain, Telefónica Brazil and Telefónica Hispanoamérica, and totaled 1,521 million euros, up 2.0% year-on-year, mainly due to increased sales of towers (which had an impact on OIBDA of 196 million euros, primarily in Telefónica Spain with 191 million euros), and an extraordinary sale of real estate in Telefónica Spain (41 million euros).

Other income in 2013 totaled 1,491 million euros and was attributable in part to the sale of towers of Telefónica Brazil, Telefónica Hispanoamérica and Telefónica Spain (which had an impact of 113 million euros in other income and 111 million euros in OIBDA) and capital gains on the assets sale of Telefónica Germany (76 million euros) and the sale of Hispasat (21 million euros).

Total expenses (which include supply costs, personnel costs and other expenses (principally external services and taxes) but do not include amortization and depreciation expenses), amounted to 31,198 million euros in 2014, down by 9.7% in reported terms year-on-year as a result mainly of the impact of changes in exchange rates and hyperinflation in Venezuela and the sales of Telefónica Czech Republic and Telefónica Ireland. In organic terms, expenses grew by 4.5% year-on-year, mainly due to higher commercial expenditures and outlays on networks and systems. The breakdown of our expenses was as follows:

- **Supplies** amounted to 11,750 million euros in 2014, down 14.6% year-on-year in reported terms, as a result mainly of the impact of changes in exchange rates and hyperinflation in Venezuela and the sales of Telefónica Czech Republic and Telefónica Ireland. In organic terms, supplies fell by 0.4% due to lower mobile interconnection costs, which more than offset the higher equipment costs of handsets and TV content.
- **Personnel expenses** totaled 6,621 million euros in 2014, down 0.6% year-on-year in reported terms, as a result mainly of the impact of changes in exchange rates and hyperinflation in Venezuela and the sales of Telefónica Czech Republic and Telefónica Ireland, which was partially offset by the increased expenditures on the Company's global restructuring program (including the integration costs in Telefónica Germany and costs resulting from the simplification initiatives

that the Group is implementing to meet its targets) and, to a lesser extent, the impact of the acquisition of E-Plus. In organic terms, personnel costs rose by 7.1% in 2014 compared to 2013 due to higher prices in some countries.

The average headcount in 2014 was 112,921 employees, down 6.1% compared to 2013 due mainly to the changes in the scope of consolidation (-2.1% excluding changes to the scope of consolidation). Including Telefónica United Kingdom, the average headcount in 2014 would have been 120,497 employees, down 7.2% compared to 2013 due mainly to the changes in the scope of consolidation.

- **Other expenses** amounted to 12,827 million euros in 2014, down 9.3% year-on-year in reported terms mainly due to exchange rate differences and the effect of hyperinflation in Venezuela, the impact of value adjustments in the sales of Telefónica Ireland and Telefónica Czech Republic, changes to the scope of consolidation and the recognition of integration costs in Telefónica Germany. In organic terms, other expenses increased by 8.1% due to higher commercial costs, higher network costs produced by larger volumes of data traffic and greater outlays on modernization of the network.

OIBDA reached 13,781 million euros, down 21.1% in reported terms, mainly due to exchange rate differences and the effect of hyperinflation in Venezuela, the sales of Telefónica Czech Republic and Telefónica Ireland and the impact of value adjustments relating to such sales and the increased expenditures on the Company's global restructuring program (including the integration costs in Telefónica Germany and costs resulting from the simplification initiatives that the Group is implementing to meet its targets). In organic terms, OIBDA was practically stable (-0.1% year-on-year).

OIBDA margin was 31.7% in 2014, down 2.9 percentage points year-on-year in reported terms.

By segment, Telefónica Spain contributed most to the Group's consolidated OIBDA, accounting for 41.2% of the total (+4.9 p.p. compared to 2013), Telefónica Hispanoamérica accounted for 29.5% (-2.1 p.p. compared to 2013), Telefónica Brazil accounted for 25.7% (+3.2 p.p. compared to 2013), and Telefónica Germany accounted for 5.3% (-2.2 p.p. compared to 2013).

Depreciation and amortization amounted to 7,431 million euros in 2014, a decline of 13.8% year-on-year in reported terms, due to lower depreciation of fixed assets, mainly in Telefónica Brazil. The total depreciation and amortization charges arising from purchase price allocation processes amounted to 574 million euros in 2014 (-21.2% year-on-year).

Operating income (OI) in 2014 totaled 6,350 million euros, down 28.3% compared to 2013, mainly affected by exchange rate differences and the effect of hyperinflation in Venezuela (-20.4 p.p.), recognition in 2014 of expenditure on integrations costs in Telefónica Germany and the global restructuring program, in accordance with the simplification initiatives the Group is implementing to meet its targets (-7.6 p.p.), changes to the scope of consolidation (-5.2 p.p.), due to the sale of Telefónica Czech Republic and Telefónica Ireland and the acquisition of the E-Plus Group, and additionally affected by higher tower sales in 2014 as compared to 2013 (+1.0 p.p.). In organic terms, operating income would have increased by 2.1% year-on-year.

The **share of loss of investments accounted for by the equity method** was a loss of 498 million euros (compared to a loss of 291 million euros in 2013), mainly due to valuation adjustments of Telco, S.p.A. at Telecom Italia, S.p.A. This, along with the contribution to the year's results, had a negative impact of 464 million euros in 2014 (compared to a loss of 267 million euros in 2013).

Net financial expense amounted to 2,779 million euros in 2014 (-2.2% year-on-year in reported terms), and included 290 million euros due to net negative foreign exchange differences primarily as a result of the Company's decision to adopt the SICAD II exchange rate of the Venezuelan bolivar. Excluding this effect, net financial expenses fell 9.0% year-on-year, mainly due to a 9.1% reduction in the average debt,

placing the effective cost of debt in 2014 at 5.31%, one basis point higher than in 2013. The greater weight of debt in Latin America currencies and repayment and maturity of cheap debt in euros increased the average cost by 47 basis points, while the lower rates in Latin America and Europe reduced it by 41 basis points.

Corporate income tax totaled 260 million euros in 2014 on a pre-tax income of 3,073 million euros, implying an effective tax rate of 8.5%, 12.5 percentage points lower year-on-year. This was mainly due to the effect of a review of deferred taxes in Brazil following a change to legislation during the second quarter of 2014, and to a larger recognition of tax credits in Colombia.

Profit after tax from discontinued operations totaled 439 million euros, a decrease of 0.7% compared to 2013 and related exclusively to our operations in the United Kingdom.

The following table provides additional information on our discontinued operations:

	January- December 2014	January- December 2013	% YoY 14/13
Millions of euros			
Revenues	6,919	6,514	6.2%
Other income	187	202	(7.4%)
Supplies	(3,431)	(3,283)	4.5%
Personnel expenses	(477)	(549)	(13.1%)
Other expenses	(1,463)	(1,284)	13.9%
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	1,735	1,600	8.4%
Depreciation and amortization	(1,118)	(1,011)	10.6%
OPERATING INCOME	617	589	4.8%
Share of loss of investments accounted for by the equity method	(12)	(13)	(7.7%)
Net financial expense	(43)	(24)	79.2%
PROFIT BEFORE TAX FROM DISCONTINUED OPERATIONS	562	552	1.8%
Corporate income tax	(123)	(110)	11.8%
PROFIT AFTER TAX FROM DISCONTINUED OPERATIONS	439	442	(0.7%)

Profit attributable to non-controlling interests reduced net profit by 251 million euros in 2014, 33.2% less than in 2013, mainly due to the losses attributed to minority shareholders of Telefónica Germany impacted by the recording of the restructuring expenses mentioned above, partially offset by the effect of the review of deferred taxes in Brazil following a change to legislation in 2014, and to a larger recognition of tax credits.

As a result of the foregoing, **profit for the year attributable to equity holders of the parent** for 2014 was 3,001 million euros (down 34.7% year-on-year).

2014/2013 Segment results

TELEFÓNICA SPAIN

The below table shows the evolution of accesses in Telefónica Spain in 2013 and 2014:

ACCESSES

Thousands of accesses	2013	2014	%YoY
Fixed telephony accesses (1)	11,089.8	10,447.8	(5.8%)
Naked ADSL	22.8	21.3	(6.6%)
Internet and data accesses	5,899.0	5,928.7	0.5%
Narrowband	38.5	30.9	(19.6%)
Broadband (2)	5,846.8	5,885.9	0.7%
Other	13.7	11.9	(13.7%)
Mobile accesses	19,002.1	17,575.4	(7.5%)
Prepay	4,262.7	3,328.1	(21.9%)
Contract (3)	14,739.3	14,247.3	(3.3%)
Pay TV (4)	672.7	1,884.7	180.2%
WLR	525.8	570.6	8.5%
Unbundled loops	3,787.1	4,087.3	7.9%
Shared ULL	130.6	94.1	(27.9%)
Full ULL	3,656.5	3,993.3	9.2%
Wholesale ADSL	676.8	707.8	4.6%
Other	0.4	0.3	(28.5%)
Final Clients Accesses	36,663.6	35,836.7	(2.3%)
Wholesale Accesses	4,990.1	5,366.0	7.5%
Total Accesses	41,653.6	41,202.7	(1.1%)

Notes:

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

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

(3) In the first quarter of 2014, 569 thousand M2M inactive accesses were disconnected.

(4) Since the second quarter of 2014, Pay TV accesses include 131 thousand "TV Mini" customers.

The table below shows the evolution of Telefónica Spain's results in 2013 and 2014:

Millions of euros

TELEFÓNICA SPAIN	2013	2014	%Reported YoY	%Organic YoY (1)
Revenues	12,959	12,023	(7.2%)	(7.2%)
Mobile Business	5,121	4,556	(11.0%)	(11.0%)
Mobile service revenues	4,580	3,888	(15.1%)	(15.1%)
Fixed Business	8,861	8,543	(3.6%)	(3.6%)
Other income	445	635	42.6%	17.7%
Supplies	(2,486)	(2,592)	4.2%	4.2%
Personnel expenses	(2,113)	(2,139)	1.2%	1.2%
Other expenses	(2,465)	(2,256)	(8.5%)	(8.6%)
OIBDA	6,340	5,671	(10.6%)	(12.6%)
OIBDA Margin	48.9%	47.2%	(1.8 p.p.)	(2.8 p.p.)
Depreciation and amortization	(1,903)	(1,805)	(5.1%)	(5.1%)
Operating Income (OI)	4,437	3,866	(12.9%)	(15.8%)
CapEx	1,529	1,732	13.3%	15.2%
OpCF (OIBDA-CapEx)	4,811	3,939	(18.1%)	(21.0%)

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Spain, we have made the following adjustments in order to calculate 2014/2013 variations in organic terms:

- **Results of tower sales:**

The results attributable to the sale of towers in 2014 and 2013 have been excluded in both years. In 2014, the results from the sale of towers totaled 191 million euros. In 2013, the results from the sale of towers totaled 70 million euros.

- **Spectrum acquisition:**

We have excluded the impact of spectrum acquisitions in 2013 which totaled 69 million euros. There was no spectrum acquisition in 2014.

- **Real Estate Efficiency Plan:**

In 2014, we have excluded the impact of certain urban assets qualification changes in Telefónica Spain, totaling 49 million euros.

The table below shows 2014/2013 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain income statement measures, and the contribution of each item for which we have adjusted to our reported growth.

TELEFÓNICA SPAIN 2014	YoY variation		Contribution to reported growth (percentage points)		
	%Reported YoY	%Organic YoY	Towers sale	Spectrum acquisition	Real Estate Efficiency Plan
Revenues	(7.2%)	(7.2%)	--	--	--
Other income	42.6%	17.7%	27.7	--	--
Supplies	4.2%	4.2%	--	--	--
Personnel expenses	1.2%	1.2%	--	--	--
Other expenses	(8.5%)	(8.6%)	0.1	--	--
OIBDA	(10.6%)	(12.6%)	1.9	--	--
CapEx	13.3%	15.2%	--	(4.5)	3.2
OpCF (OIBDA-CapEx)	(18.1%)	(21.0%)	2.5	1.4	(1.0)

Results discussion

Revenues totaled 12,023 million euros in 2014 (-7.2% year-on-year) showing a softer decline than in previous years, due in part to a more favorable macroeconomic and competitive environment.

We consider revenue breakdown to be increasingly less relevant given the high penetration level of our convergent offer, by which we mean the offer of more than a single service for a single price. However, we continue to report revenue breakdown for information purposes. Fixed business revenues fell 3.6% year-on-year in 2014, due to lower access and voice revenues, partially offset by higher broadband and new services revenues, mainly TV and IT. Mobile business revenues fell 11.0% year-on-year in 2014 due to the decline in mobile accesses and the 10.1% drop in ARPU, impacted by lower prices in the new tariff portfolio.

Mobile ARPU is becoming less representative of the Group's business performance, owing to its significant dependence on the allocation of revenue in convergent offers. In 2014 mobile ARPU declined by 10.1% year-on-year, impacted by lower prices in the new tariff portfolio.

TELEFÓNICA SPAIN	2013	2014	%YoY
Voice Traffic (millions of minutes)	34,428	35,600	3.4%
ARPU (EUR) (1)	17.7	15.9	(10.1%)
Prepay	7.3	6.2	(14.5%)
Contract (2)	24.0	20.6	(14.2%)
Data ARPU (EUR) (1)	6.8	7.0	3.6%
% non-SMS over data revenues	92.1%	95.0%	2.8 p.p.

Notes:

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

(2) Excludes M2M.

OIBDA amounted to 5,671 million euros in 2014, down 10.6% year-on-year in reported terms, due mainly to lower revenues and higher supplies expense. In organic terms, OIBDA fell 12.6% year-on-year in 2014, affected by the drop in revenues despite the higher commercial effort by Telefónica Spain to capture the growth and value opportunities in the market and the decrease in total expenses. Total expenses decreased 1.1% year-on-year, reflecting the control of costs and the transformation efficiency initiatives implemented in recent years. However, personnel expenses increased 1.2% year-on-year, primarily due to the end of the redundancy program in 2013 and the Company's contribution to its

pension plan in July 2014, following its temporary freeze from April 2013 to July 2014. This decrease was partially offset by the sale of real estate assets (63 million euros).

OIBDA margin stood at 47.2% in 2014, down 1.8 percentage points year-on-year.

TELEFÓNICA GERMANY

The below table shows the evolution of accesses in Telefónica Germany in 2013 and 2014.

ACCESSES

Thousands of accesses	2013	2014	%Reported YoY	%Organic YoY (1)
Fixed telephony accesses (2)	2,124.9	2,036.4	(4.2%)	(4.2%)
Internet and data accesses	2,516.1	2,387.0	(5.1%)	(5.1%)
Narrowband	271.7	243.2	(10.5%)	(10.5%)
Broadband	2,244.3	2,143.8	(4.5%)	(4.5%)
Mobile accesses	19,401.0	42,124.9	117.1%	1.4%
Prepay	9,114.9	23,350.7	156.2%	(2.8%)
Contract	10,286.1	18,774.1	82.5%	5.1%
Final Clients Accesses	24,042.0	46,548.3	93.6%	0.2%
Wholesale Accesses	1,125.0	1,113.3	(1.0%)	(1.0%)
Total Accesses	25,166.9	47,661.5	89.4%	0.2%

Notes:

(1) In order to calculate organic changes, we have excluded the accesses of E-Plus as of December 31, 2014 to our accesses as of such date.

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

The below table shows the contribution of the acquisition of E-Plus to our accesses in 2014 (compared to 2013) which we have adjusted to our reported growth:

TELEFÓNICA GERMANY 2014	%Reported YoY	%Organic YoY (1)	E-Plus
Mobile accesses	117.1%	1.4%	115.7 p.p.
Prepay	156.2%	(2.8%)	159.0 p.p.
Contract	82.5%	5.1%	77.4 p.p.
Final Clients Accesses	93.6%	0.2%	93.4 p.p.
Total Accesses	89.4%	0.2%	89.2 p.p.

(1) In order to calculate organic changes, we have excluded the accesses of E-Plus as of December 31, 2014 to our accesses as of such date.

The table below shows the evolution of Telefónica Germany's results in 2013 and 2014:

Millions of euros

TELEFÓNICA GERMANY	2013	2014	%Reported YoY	%Organic YoY (1)
Revenues	4,914	5,522	12.4%	(3.5%)
Mobile Business	3,673	4,375	19.1%	(2.2%)
Mobile service revenues	2,989	3,580	19.8%	(2.3%)
Fixed Business	1,235	1,138	(7.8%)	(7.8%)
Other income	169	106	(37.4%)	(44.8%)
Supplies	(1,958)	(2,144)	9.5%	(3.9%)
Personnel expenses	(419)	(828)	97.7%	5.6%
Other expenses	(1,398)	(1,923)	37.5%	6.6%
OIBDA	1,308	733	(44.0%)	(22.1%)
OIBDA Margin	26.6%	13.3%	(13.4 p.p.)	(5.1 p.p.)
Depreciation and amortization	(1,231)	(1,426)	15.7%	(4.9%)
Operating Income (OI)	77	(693)	n.m.	n.m.
CapEx	666	849	27.5%	(6.4%)
OpCF (OIBDA-CapEx)	642	(116)	n.m.	(38.3%)

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Germany, we have made the following adjustments in order to calculate 2014/2013 variations in organic terms:

- Changes in the scope of consolidation:**

We have excluded the impact of changes in our consolidation perimeter in 2014 and 2013. The main change to our Telefónica Germany consolidation perimeter in such years related to the consolidation of E-Plus in Telefónica Germany since October 2014. In order to exclude the impact of this change in our perimeter, we have excluded E-Plus's results from October 1 to December 31, 2014 from our 2014 results.

- Restructuring costs:**

We have excluded the impact of certain restructuring costs associated with certain simplification processes implemented in Telefónica Germany. In 2014, these restructuring costs totaled 409 million euros. In 2013 there were no restructuring costs.

The table below shows 2014/2013 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain income statement measures, and the contribution of each item for which we have adjusted to our reported growth:

	YoY variation		Contribution to reported growth (percentage points)	
	%Reported YoY	%Organic YoY	E-Plus	Restructuring Costs
TELEFÓNICA GERMANY 2014				
Revenues	12.4%	(3.5%)	15.9	--
Other income	(37.4%)	(44.8%)	7.5	--
Supplies	9.5%	(3.9%)	13.4	--
Personnel expenses	97.7%	5.6%	15.3	76.8
Other expenses	37.5%	6.6%	24.7	6.2
OIBDA	(44.0%)	(22.1%)	9.3	(31.2)
CapEx	27.5%	(6.4%)	27.9	6.0
OpCF (OIBDA-CapEx)	n.m.	(38.3%)	(9.9)	(69.9)

Results discussion

Total **revenues** amounted to 5,522 million euros in 2014, up by 12.4% due mainly to the consolidation of the E-Plus Group since October 1, 2014, and offset in part by the lower service revenues during the rest of the year.

- Mobile service revenues totaled 3,580 million euros in 2014, up by 19.8% year-on-year in reported terms, due mainly to the consolidation of the E-Plus Group since October 1, 2014 and offset in part by the lower voice and SMS revenues during the rest of the year. Telefónica Germany continued to focus on data revenues, which increased 24.3% and accounted for 50.1% of mobile service revenues. Non P2P SMS data revenues accounted for 71.2% of the total data revenues (+4.7 p.p. year-on-year), increasing 32.8% year-on-year.
- Fixed telephony revenues fell by 7.8% year-on-year in 2014 to stand at 1,138 million euros. The main reason for this was a decline in fixed broadband customers (partially mitigated by VDSL growth) and transit business revenues, impacting slightly on the margin.

ARPU was negatively affected by the consolidation of the E-Plus Group and decreased by 7.1% year-on-year in 2014, reducing its year-on-year decline compared to 2013, due to the smaller proportional impact of migration to new tariffs, and the various actions undertaken with respect to the Telefónica Germany's customer base in order to boost income and data leverage.

TELEFÓNICA GERMANY	2013	2014	%YoY
Voice Traffic (millions of minutes)	30,152	41,186	36.6%
ARPU (EUR)	12.7	11.8	(7.1%)
Prepay	5.1	5.4	4.5%
Contract (1)	19.6	18.4	(5.9%)
Data ARPU (EUR)	6.2	5.9	(3.9%)
% non-SMS over data revenues	66.5%	71.2%	4.7 p.p.

Notes:

(1) Excludes M2M.

OIBDA was 733 million euros in 2014, falling by 44.0% year-on-year in reported terms, mainly due to the 409 million euros provision relating to the restructuring process resulting from integration of the E-Plus Group, which impact was partially offset by the consolidation of E-Plus. In organic terms, OIBDA decreased 22.1% year-on-year, as a result of higher handset costs of sale, partially offset by lower interconnection costs resulting from less SMS and lower interconnection tariffs.

OIBDA margin stood at 13.3% in 2014, down 13.4 percentage points year-on-year in reported terms, mainly due to the provision relating to the restructuring process resulting from the integration of the E-Plus Group, which impact was partially offset by the consolidation of E-Plus.

TELEFÓNICA BRAZIL

The below table shows the evolution of accesses in Telefónica Brazil in 2013 and 2014:

ACCESSES

Thousands of accesses	2013	2014	%YoY
Fixed telephony accesses (1)	10,747.8	10,743.4	(0.0%)
Internet and data accesses	4,102.0	4,082.6	(0.5%)
Narrowband	92.1	73.7	(19.9%)
Broadband (2)	3,936.7	3,939.8	0.1%
Other	73.2	69.0	(5.8%)
Mobile accesses	77,240.2	79,932.1	3.5%
Prepay	53,551.9	51,582.4	(3.7%)
Contract	23,688.3	28,349.7	19.7%
Pay TV	640.1	770.6	20.4%
Final Clients Accesses	92,730.0	95,528.6	3.0%
Wholesale Accesses	18.8	25.9	37.5%
Total Accesses	92,748.9	95,554.5	3.0%

Notes:

(1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Digital Access x30. Company's accesses for internal use included. Voice fixed wireless accesses included.

(2) Includes ADSL, optical fiber, cable modem and broadband circuits.

The table below shows the evolution of Telefónica Brazil's results in 2013 and 2014:

Millions of euros

TELEFÓNICA BRAZIL	2013	2014	%Reported YoY	%Organic YoY (1)
Revenues	12,217	11,231	(8.1%)	0.5%
Mobile Business	8,092	7,618	(5.9%)	2.9%
Mobile service revenues	7,608	7,228	(5.0%)	3.8%
Fixed Business	4,125	3,613	(12.4%)	(4.2%)
Other income	299	261	(12.6%)	5.5%
Supplies	(3,128)	(2,680)	(14.3%)	(6.3%)
Personnel expenses	(1,036)	(976)	(5.8%)	(4.2%)
Other expenses	(4,412)	(4,293)	(2.7%)	6.4%
OIBDA	3,940	3,543	(10.1%)	0.9%
OIBDA Margin	32.3%	31.5%	(0.7 p.p.)	0.1 p.p.
Depreciation and amortization	(2,109)	(1,762)	(16.5%)	(8.7%)
Operating Income (OI)	1,831	1,781	(2.7%)	12.1%
CapEx	2,127	2,933	37.9%	15.0%
OpCF (OIBDA-CapEx)	1,813	610	(66.4%)	(13.0%)

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Brazil, we have made the following adjustments in order to calculate 2014/2013 variations in organic terms:

- **Foreign exchange effects:**

We have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates in 2014 and 2013. In particular, we have used the average foreign exchange rate of 2013 for both years. Foreign exchange rates had a negative impact on our reported 2014 Telefónica Brazil results as a result of the depreciation of the Brazilian real.

- **Restructuring costs:**

We have excluded the impact of certain restructuring costs associated with certain simplification processes implemented in Brazil. In 2014, these restructuring costs totaled 68 million euros. No restructuring costs were excluded from our 2013 results to calculate organic variations.

- **Results of tower sales:**

The results attributable to the sale of towers in 2014 and 2013 have been excluded in both years. The results from the sale of towers totaled 1 million euros and 29 million euros in 2014 and 2013, respectively.

- **Spectrum acquisition:**

We have excluded the impact of spectrum acquisitions in 2014 and 2013. In 2014, these acquisitions totaled 889 million euros (and related to a LTE block in the 700 MHz band). In 2013 these acquisitions amounted to 185 million euros.

The table below shows 2014/2013 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain income statement measures, and the contribution of each item for which we have adjusted to our reported growth:

	YoY variation		Contribution to reported growth (percentage points)			
	%Reported YoY	%Organic YoY	Exchange rate effect	Restructuring Costs	Towers sale	Spectrum acquisition
TELEFÓNICA BRAZIL 2014						
Revenues	(8.1%)	0.5%	(8.6)	--	--	--
Other income	(12.6%)	5.5%	(8.1)	--	(9.5)	--
Supplies	(14.3%)	(6.3%)	(8.0)	--	--	--
Personnel expenses	(5.8%)	(4.2%)	(8.8)	7.2	--	--
Other expenses	(2.7%)	6.4%	(9.1)	--	--	--
OIBDA	(10.1%)	0.9%	(8.4)	(1.9)	(0.7)	--
CapEx	37.9%	15.0%	(12.8)	--	--	37.0
OpCF (OIBDA-CapEx)	(66.4%)	(13.0%)	(3.1)	(4.1)	(1.6)	(43.4)

Results discussion

Revenues totaled 11,231 million euros in 2014, down 8.1% in reported terms as a result mainly of the depreciation of the Brazilian real. In local currency, revenues increased by 0.5%, principally due to the good evolution in the mobile business (+2.9% year-on-year in local currency).

- Revenues from the mobile business totaled 7,618 million euros in 2014, falling by 5.9% in reported terms as a result mainly of the depreciation of the Brazilian real. In local currency, revenues from the mobile business increased by 2.9% due to the positive evolution of service revenues (up 3.8% year-on-year in local currency) as a result of the good performance of outbound revenues, which in turn increased as a result of an increase in the customer base and the increased proportion of data revenues. This evolution was partially offset by the decrease in handset revenues (down 11.9% year-on-year in local currency), and the lower inbound revenues affected by lower interconnection tariffs.
- Fixed telephony revenues totaled 3,613 million euros, down by 12.4% in reported terms, as a result mainly of the depreciation of the Brazilian real. In local currency, revenues were down by 4.2%. This decrease was attributable in part to the lower retail fixed-mobile tariff, which reduced fixed revenues despite the stable client base and higher minute bundling plans. This was partially offset by the increase of the broadband and new services revenues (up by 4.0% in local currency) helped by the increase of accesses connected with fiber, with a higher ARPU, and the growth of the Pay TV accesses.

The **mobile ARPU** accounted to 7.3 euros in 2014, down 9.1% in reported terms and 0.6% year-on-year in organic terms, mainly as a consequence of the reduction of the mobile termination rates. We believe that the better quality of the clients' base is reflected in an increase of the outbound ARPU and a 16.0% growth of the data ARPU.

TELEFÓNICA BRAZIL	2013	2014	%YoY	%Local Currency YoY
Voice Traffic (millions of minutes)	115,698	127,412	10.1%	10.1%
ARPU (EUR)	8.0	7.3	(9.1%)	(0.6%)
Prepay	4.5	3.9	(12.4%)	(4.3%)
Contract (1)	18.8	15.7	(16.5%)	(8.7%)
Data ARPU (EUR)	2.5	2.6	6.1%	16.0%
% non-SMS over data revenues	67.0%	77.4%	10.4 p.p.	10.4 p.p.

Notes:

(1) Excludes M2M.

OIBDA was 3,543 million euros in 2014, a fall of 10.1% in reported terms as a result mainly of the depreciation of the Brazilian real and, to a lesser extent, restructuring costs incurred in 2014 and lower proceeds from the sale of towers. In organic terms, OIBDA grew by 0.9%. This growth was attributable in part to the decrease in personnel expenses (-4.2% year-on-year in organic terms) as a result of the various restructuring plans and voluntary redundancy programs carried out in 2013 and the decrease in supplies (-6.3% year-on-year in organic terms). In addition, in 2014 there were lower interconnection costs due to regulatory changes and lower handset consumption.

The OIBDA margin stood at 31.5% in 2014 in reported terms, down 0.7 percentage points compared to 2013.

TELEFÓNICA HISPANOAMÉRICA

The below table shows the evolution of accesses in Telefónica Hispanoamérica in 2013 and 2014.

ACCESSES

Thousands of accesses	2013	2014	%YoY
Fixed telephony accesses (1) (2)	13,778.5	13,374.4	(2.9%)
Internet and data accesses	5,137.7	5,433.8	5.8%
Narrowband	33.4	25.2	(24.5%)
Broadband	5,074.9	5,379.4	6.0%
Other	29.4	29.2	(0.6%)
Mobile accesses	107,266.9	110,346.5	2.9%
Prepay (3) (4)	84,524.1	86,698.0	2.6%
Contract	22,742.7	23,648.5	4.0%
Pay TV	2,133.5	2,431.9	14.0%
Final Clients Accesses	128,316.6	131,586.6	2.5%
Wholesale Accesses	22.7	16.4	(27.6%)
Total Accesses T. Hispanoamérica	128,339.3	131,603.0	2.5%

Notes:

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

(2) In 2014, fixed telephony accesses include 50 thousand "fixed wireless" additional customers in Peru.

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

(4) In the fourth quarter of 2014, 1.8 million inactive accesses were disconnected in Central America.

The table below shows the evolution of Telefónica Hispanoamérica's results in 2013 and 2014:

Millions of euros

TELEFÓNICA HISPANOAMÉRICA	2013	2014	%Reported YoY	%Organic YoY (1)
Revenues	16,855	13,155	(22.0%)	14.6%
Mobile Business	13,020	9,578	(25.7%)	16.5%
Mobile service revenues	11,510	8,454	(25.7%)	17.5%
Fixed Business	4,272	3,604	(10.1%)	8.4%
Other income	238	254	6.8%	32.6%
Supplies	(4,983)	(3,841)	(22.9%)	4.9%
Personnel expenses	(1,746)	(1,525)	(12.7%)	21.1%
Other expenses	(4,833)	(3,975)	(17.7%)	21.1%
OIBDA	5,531	4,068	(26.5%)	16.4%
OIBDA Margin	32.8%	30.9%	(1.9 p.p.)	0.5 p.p.
Depreciation and amortization	(2,524)	(2,034)	(19.4%)	5.3%
Operating Income (OI)	3,007	2,034	(32.4%)	24.8%
CapEx	3,118	2,842	(8.8%)	29.1%
OpCF (OIBDA-CapEx)	2,413	1,226	(49.2%)	2.2%

(1) See adjustments made to calculate organic variation below.

Adjustments made to calculate organic variations

As explained above, year-on-year changes referred to in this document as "organic" or presented in "organic terms" intend to present year-on-year variations on a comparable basis.

With respect to Telefónica Hispanoamérica, we have made the following adjustments in order to calculate 2014/2013 variations in organic terms:

- Foreign exchange effects and the impact of hyperinflationary adjustments in Venezuela:**

We have excluded the impact of changes in exchange rates by assuming constant average foreign exchange rates in 2014 and 2013. In particular, we have used the average foreign exchange rates of 2013 for both years.

Foreign exchange rates had a negative impact on our reported 2014 Telefónica Hispanoamérica results, mainly due to the depreciation of various Latin American currencies versus the euro, in particular the Argentine peso and the Venezuelan bolívar.

We have also excluded the impact of hyperinflationary adjustments in Venezuela by reversing such adjustments.

- Restructuring costs:**

We have excluded the impact of certain restructuring costs associated with certain simplification processes implemented in Telefónica Hispanoamérica. In 2014, restructuring costs totaled 99 million euros. No restructuring costs were excluded from our 2013 results to calculate organic variations.

- Results of tower sales:**

The results attributable to the sale of towers in 2014 and 2013 have been excluded, which totaled 4 million euros in 2014 and 11 million euros in 2013.

- **Spectrum acquisition:**

We have excluded the impact of spectrum acquisitions in 2014 and 2013. In 2014, these acquisitions totaled 405 million euros and related to Telefónica Argentina (168 million euros), Telefónica Colombia (111 million euros) and Telefónica Venezuela and Central America (126 million euros). In 2013 these acquisitions amounted to 251 million euros.

The table below shows 2014/2013 variations in reported and organic terms (the latter, calculated in accordance with the adjustments referred to above) of certain income statement measures, and the contribution of each item for which we have adjusted to our reported growth:

TELEFÓNICA HISPANOAMÉRICA 2014	YoY variation		Contribution to reported growth (percentage points)			
	%Reported YoY	%Organic YoY	Exchange rate effect and Hyperinflation	Restructuring Costs	Towers sale	Spectrum acquisition
Revenues	(22.0%)	14.6%	(36.1)	--	--	--
Other income	6.8%	32.6%	(18.9)	--	(4.5)	--
Supplies	(22.9%)	4.9%	(27.6)	--	--	--
Personnel expenses	(12.7%)	21.1%	(39.5)	6.3	--	--
Other expenses	(17.7%)	21.1%	(38.2)	--	(0.1)	--
OIBDA	(26.5%)	16.4%	(40.1)	(2.0)	(0.1)	0.0
CapEx	(8.8%)	29.1%	(50.6)	--	--	15.5
OpCF (OIBDA-CapEx)	(49.2%)	2.2%	(26.6)	(4.6)	(0.3)	(20.0)

Results discussion

Revenues were 13,155 million euros in 2014, down 22.0% year-on-year in reported terms due mainly to the impact of changes in exchange rates and hyperinflation in Venezuela (which accounted for -36.1 p.p. of the evolution). In organic terms, revenues increased 14.6% year-on-year, due to the good evolution of mobile and fixed data revenues and mobile voice revenues, in both cases mainly due to customer base growth and higher data consumption along with higher data penetration, which offset the negative impact of the lower interconnection rates (which reduced growth by -1.6 p.p. year-on-year).

- **Mobile service revenues** totaled 8,454 million euros in 2014, down 25.7% in reported terms mainly due to the impact of changes in exchange rates and hyperinflation in Venezuela. Excluding these impacts, mobile service revenues increased 17.5% year-on-year. Additional information on the evolution of mobile service revenues, on a by country basis, is provided below:
 - Argentina: mobile services revenues totaled 1,697 million euros, down 19.8% in reported terms due to the foreign exchange effect (which decreased growth by 39.1 p.p.). In local currency, these revenues increased by 19.3% due to the good evolution of voice and data revenues, despite the negative impact of certain changes implemented in our billing (which implies billing on a per second basis once a call's first 30 seconds have elapsed), and higher network usage by customer and data penetration.
 - Peru: mobile service revenues totaled 1,250 million euros, up 7.8% in reported terms mainly due to the higher customer base and data massification (non-SMS data revenues were up 42.7% in 2014) and the launch of LTE which contributed to an increase in average revenues per client, which more than offset the impact of changes in exchange rates (which decreased growth by 5.6 p.p.). In local currency, revenues increased 13.4%.

- Mexico: service revenues totaled 1,413 million euros, up 5.4% in reported terms due to the favorable regulatory interconnection terms which allowed the company to launch new competitive offers which boosted the customer consumption level in both voice and data. This increase was partially offset by the foreign exchange effect (which decreased growth by 4.6 p.p.). In local currency, revenues grew 10.0%.
- Venezuela and Central America: mobile service revenues totaled 1,305 million euros, down 65.1% in reported terms mainly due to the foreign exchange effects and hyperinflation in Venezuela. Excluding the foreign exchange effects and hyperinflation in Venezuela, mobile service revenues were up by 36.8% year-on-year mainly due to a tariffs increase of up to 25% in Venezuela, since July 2014, in all services and a mobile data services expansion driven by non-SMS revenues growth (+43.4% year-on-year excluding the foreign exchange effects and hyperinflation in Venezuela), which represented 74.0% of data revenues (+10.5 p.p. year-on-year excluding the foreign exchange effects and hyperinflation in Venezuela).
- **Data revenues** in the region totaled 2,676 million euros in 2014, down 24.4% in reported terms as a result mainly of the adverse impact of changes in exchange rates and hyperinflation in Venezuela. Excluding the foreign exchange effects and hyperinflation in Venezuela, data revenues were up 23%, mainly driven by non-SMS data revenues (+43.4% excluding the foreign exchange effects and hyperinflation in Venezuela) which represented 74.0% of data revenues (+11 p.p. year-on-year excluding the foreign exchange effects and hyperinflation in Venezuela).
- **Fixed business revenues** totaled 3,604 million euros in 2014, down 10.1% in reported terms as a result mainly of the adverse impact of changes in exchange rates and hyperinflation in Venezuela. Excluding the foreign exchange effects and hyperinflation in Venezuela, these revenues increased 8.4% driven by broadband and new services revenues (+16.2% excluding the foreign exchange effects and hyperinflation in Venezuela). Broadband and new services revenues represented 60.0% of fixed revenues (+5 p.p. year-on-year excluding the foreign exchange effects and hyperinflation in Venezuela). Argentina in particular, experienced an acceleration of the fixed business with strong growth in access and voice revenues (which led to an ARPU increase).

ARPU was up by 10.6% in 2014 excluding the foreign exchange effects and hyperinflation in Venezuela, due to the data ARPU increase (+16.0% year-on-year) resulting from higher volume of minutes per client (+5.4%). Data traffic also increased (+65.3%). This growth was mainly driven by higher smartphones penetration and higher average consumption per access.

OIBDA totaled 4,068 million euros in 2014, down 26.5% in reported terms as a result mainly of the adverse impact of changes in exchange rates and hyperinflation in Venezuela. In organic terms, OIBDA increased by 16.4% as higher revenues registered in 2014 more than offset higher expenses, which were mainly attributable to:

- higher commercial costs, due to higher handset costs as a result of higher high-end handset sales (which more than offset lower interconnection costs resulting from the mobile termination rates reductions in Chile, Colombia, Peru and Mexico);
- higher personnel costs driven by increases in inflation in some countries of the region; and
- higher costs related to commercial campaigns and higher network costs due to the increased voice and data traffic.

Set forth below is additional information on OIBDA on a country basis:

- Argentina: **OIBDA** reached 802 million euros, down by 17.9% in reported terms mainly due to the exchange rate effect. In local currency, OIBDA increased by 22.1% as higher revenues more than offset the higher costs. Higher costs were attributable to the overall prices increase, although Telefónica continued to carry out cost containment plans in order to offset the inflation effect.
- Peru: **OIBDA** reached 844 million euros, down by 3.5% in reported terms mainly due to higher costs, which impact was partially offset by the exchange rate effect. In local currency, OIBDA increased by 1.4% mainly due to higher service revenues, that offset the higher commercial costs resulting from higher competitive pressure in the Peruvian market.
- Venezuela and Central America: **OIBDA** reached 463 million euros, down by 73.4% in reported terms mainly due to the exchange rate effect and the hyperinflation in Venezuela. Excluding these impacts OIBDA grew 21.1% mainly due to higher service revenues that offset the overall rise of prices and the higher purchases in U.S. dollars for services and equipment purchases, both affected by the negative impact of currency devaluation in Venezuela.

OIBDA margin was 30.9% in 2014, decreasing 1.9 percentage points year-on-year in reported terms as a result mainly of the impact of changes in exchange rates and hyperinflation in Venezuela.

Definitions

Below are definitions of certain technical terms used in this report:

"Access" refers to a connection to any of the telecommunications services offered by Telefónica. A single fixed customer may contract for multiple services, and Telefónica believes that it is more useful to count the number of accesses a customer has contracted for, than to merely count the number of Telefónica's customers. For example, a customer that has fixed line telephony service and broadband service is counted as two accesses rather than as one customer.

"ARPU" is the average revenues per user per month. ARPU is calculated by dividing total gross service revenues (excluding inbound roaming revenues) from sales to customers for the preceding 12 months by the weighted average number of accesses for the same period, and then dividing by 12.

"Bundles" refer to combination products that combine fixed services (wirelines, broad band and television) and mobile services.

"Churn" is the percentage of disconnections over the average customer base in a given period.

"Cloud computing" is the delivery of computing as a service rather than a product, whereby shared resources, software and information are provided to computers and other devices as a utility over a network (typically the Internet).

"Commercial activity" includes the addition of new lines, replacement of handsets and migrations.

"Data ARPU" is the average data revenues per user per month. Data ARPU is calculated by dividing total data revenues from sources such as Short Message Service (SMS), Multimedia Messaging Services (MMS), other mobile data services such as mobile connectivity and mobile Internet, premium messaging, downloading ringtones and logos, mobile mail and wireless application protocol (WAP) connectivity from sales to customers for the certain period by the weighted average number of accesses for the same period, and then dividing by the certain period.

"Data revenues" include revenues from SMS, MMS, other mobile data services such as mobile connectivity and mobile Internet, premium messaging, downloading ringtones and logos, mobile mail and WAP connectivity from sales to customers.

"Data traffic" includes all traffic from Internet access, messaging (SMS, MMS) and connectivity services that is transported by the networks owned by Telefónica.

"FaasT" is a cybersecurity technology that scans an organization's system 24 hours a day, seven days a week, in order to prevent cybernetic attacks.

"Final client accesses" means accesses provided directly to residential and corporate clients.

"Fixed telephony accesses" includes public switched telephone network, or PSTN, lines (including public use telephony), and integrated services digital network, or ISDN, lines and circuits. For purposes of calculating Telefónica's number of fixed line accesses, Telefónica multiplies its lines in service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, x20 or x10); 2/6 digital accesses (x30).

"Fixed termination rates" is an established fixed network tariff that applies when a customer makes a call to someone in a network operated by another operator.

"FTTx" is a generic term for any broadband network architecture that uses optical fiber to replace all or part of the metal local loop.

"Gross adds" means the gross increase in the customer base measured in terms of accesses in a period.

"HDTV" or **"high definition TV"** has at least twice the resolution of standard definition television (SDTV), allowing it to show much more detail than an analog television or digital versatile disc (DVD).

"Incoming revenues" refers to the interconnection revenues derived from the completion of calls made from outside mobile or fixed carriers into Telefónica's network.

"Interconnection revenues" means revenues received from other operators which use Telefónica's networks to connect or to finish their calls and SMS or connect to their customers.

"Internet and data accesses" include broadband accesses (including retail asymmetrical digital subscriber line "ADSL," very high bit-rate digital subscriber line "VDSL", satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (Internet service through the PSTN lines) and the remaining non-broadband final customer circuits. Internet and data accesses also include "Naked ADSL", which allows customers to subscribe for a broadband connection without a monthly fixed line fee.

"IPTV" (Internet Protocol Television) refers to distribution systems for television subscription signals or video using broadband connections over the IP protocol.

"ISP" means Internet service provider.

"IT", or information technology, is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications.

"Latch", is a cybernetic application, protecting accounts and on-line services.

"Local loop" means the physical circuit connecting the network termination point at the subscriber's premises to the main distribution frame or equivalent facility in the fixed public telephone network.

"LTE" means Long Term Evolution, a 4G mobile access technology.

"M2M", or machine to machine, refers to technologies that allow both mobile and wired systems to communicate with other devices of the same ability.

"Market share" is the percentage ratio of the number of final accesses or operator revenues over the existing total market in an operating area.

"Metashield" is a cybernetic product for protecting metadata (information on data) in digital documents and archives.

"Mobile accesses" includes accesses to the mobile network for voice and/or data services (including connectivity). Mobile accesses are categorized into contract and pre-pay accesses.

"Mobile broadband" includes **Mobile Internet** (Internet access from devices also used to make voice calls such as smartphones), and **Mobile Connectivity** (Internet access from devices that complement fixed broadband, such as PC Cards/dongles, which enable large amounts of data to be downloaded on the move).

"MTR" means mobile termination rate, which is the charge per minute or SMS paid by a telecommunications network operator when a customer makes a call to another network operator.

"MVNO" means mobile virtual network operator, which is a mobile operator that is not entitled to use spectrum for the provision of mobile services. Consequently, an MVNO must subscribe to an access agreement with a mobile network operator in order to provide mobile access to their customers. An MVNO pays a determined tariff to such a mobile network operator for using the infrastructure to facilitate coverage to their customers.

"Net adds" means the number of new accesses in a certain period.

"Non SMS data revenues" means data revenues excluding SMS revenues.

"OTT services" or "over the top services" means services provided through the Internet (such as television).

"Outgoing revenues" refers to mobile voice or data revenues (SMS, MMS) derived from our consumers' consumed service.

"P2P SMS" means person to person short messaging service (usually sent by mobile customers).

"Pay TV" includes cable TV, direct to home satellite TV, or DTH, and Internet Protocol TV, or IPTV.

"Revenues" means net sales and revenues from rendering of services.

"Service revenues" means revenues less revenues from handset sales. Service revenues are mainly related to telecommunications services, especially voice revenues and data revenues (SMS and data traffic download and upload revenues) consumed by Telefónica's customers.

"SIM" means subscriber identity module, a removable intelligent card used in mobile handsets, USB modems, etc. to identify the user in the network.

"Tacyt" is a cybersecurity tool that supervises, stores, analyzes, correlates and classifies mobile applications.

"Unbundled local loop" or "ULL" includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully ULL) or only DSL service (shared unbundled loop, "shared ULL").

"VoiceTraffic" means voice minutes used by Telefónica's customers over a given period, both outbound and inbound.

"VoIP" means voice over Internet protocol.

"Wholesale accesses" means accesses Telefónica provides to its competitors, who then sell services over such accesses to their residential and corporate clients.

"Wholesale ADSL" means accesses of broad band or fiber that we provide to our competitors, who then sell services over such accesses to their residential and corporate clients.

Services and products

Mobile business

Telefónica offers a wide variety of mobile and related services and products to personal and business customers. Although they vary from country to country, Telefónica's principal services and products are as follows:

- **Mobile voice services:** Telefónica's principal service in all of its markets is mobile voice telephony.
- **Value added services:** Customers in most of the markets have access to a range of enhanced mobile calling features, including voice mail, call hold, call waiting, call forwarding and three-way calling.
- **Mobile data and Internet services:** Current data services offered include Short Messaging Services, or SMS, and Multimedia Messaging Services, or MMS, which allow customers to send messages with images, photographs, sound recordings and video recordings. Customers may also receive selected information, such as news, sports scores and stock quotes. Telefónica also provides mobile broadband connectivity and Internet access. Through mobile Internet access, customers are able to send and receive e-mail, browse the Internet, download games, purchase goods and services in m-commerce transactions and use Telefónica's other data and software services.
- **Wholesale services:** Telefónica has signed network usage agreements with several MVNOs in different countries.
- **Corporate services:** Telefónica provides business solutions, including mobile infrastructure in offices, private networking and portals for corporate customers that provide flexible online billing.
- **Roaming:** Roaming agreements allow Telefónica customers to use their mobile handsets when they are outside their service territories, including on an international basis.
- **Fixed wireless:** Telefónica provides fixed voice telephony services through mobile networks in Brazil, Venezuela, Argentina, Peru, Mexico, Ecuador, El Salvador, Guatemala and Nicaragua.
- **Trunking and paging:** Telefónica provides digital mobile services for closed user groups of clients and paging services in Spain and most of its operations in Latin America.

Fixed-line telephony business

The principal services Telefónica offers in its fixed businesses in Europe and Latin America are:

- **Traditional fixed telecommunication services:** Telefónica's principal traditional fixed telecommunication services include PSTN lines; ISDN accesses; public telephone services; local, domestic and international long-distance and fixed-to-mobile communications services; corporate communications services; supplementary value added services (including call waiting, call forwarding, voice and text messaging, advanced voicemail services and conference-call facilities); video telephony; business oriented value-added services; intelligent network services; leasing and sale of handset equipment; and telephony information services.
- **Internet and broadband multimedia services:** The principal Internet and broadband multimedia services include Internet service provider service; portal and network services; retail and wholesale broadband access through ADSL, naked ADSL (broadband connection without the monthly fixed line fee); narrowband switched access to Internet for Universal Service, and other technologies. Telefónica also offers high-speed Internet services through fiber to the home (FTTH) in certain markets (primarily Spain, Brazil and Chile) and VDSL-based services (primarily Spain and Germany). Telefónica also offers VoIP services in some markets.

- **Data and business-solutions services:** the data and business-solutions services principally include leased lines; virtual private network, or VPN, services; fiber optics services; the provision of hosting and application, or ASP, service, including web hosting, managed hosting, content delivery and application, and security services; outsourcing and consultancy services, including network management, or CGP; and desktop services and system integration and professional services.
- **Wholesale services for telecommunication operators:** the wholesale services for telecommunication operators principally include domestic interconnection services; international wholesale services; leased lines for other operators; network deployment; and local loop leasing under the unbundled local loop regulation framework). It also includes bit stream services, bit stream naked, wholesale line rental accesses and leased ducts for other operators' fiber deployment.

Digital services

The main highlights in services developed by Telefónica Digital are:

- **Video/TV services:** IPTV services (Internet protocol), over-the-top network television services, and cable and satellite TV. In certain markets, advanced pay TV services are offered, such as high-definition TV (HDTV), Multiroom (allowing clients to watch different TV channels in different rooms) and Digital Video Recording (DVR).
- **M2M:** The Telefónica M2M Portfolio includes both Horizontal Services where the managed connectivity platforms "Smart M2M" and "Jasper" are the key pillars and end-to-end solutions (including Transport, Connected Car, Utilities, Energy Efficiency, Industry Telemetry, Retail and Smart Cities among others) where Telefónica delivers full solutions "device + connectivity + application".
- **e-Health services or telecare:** Set of services that help to support usual healthcare practice through electronic and communication processes, that lead to healthcare sector costs and time optimization for all agents involved, workers and patients. They include remote chronic patient management, telecare services allowing tele-assistance through connectivity services, emergencies and medical appointments management and Digital Imaging.
- **Financial services and other payment services:** These services allow merchants and financial institutions to make and receive payments.
- **Security services:** A broad set of facilities and services (Managed Security, Cloud and Comms Security, Cybersecurity (threats, vulnerabilities and antifraud platforms)) which aim to protect information stored in different end customers' devices and networks from unauthorized access, use, disclosure, disruption or destruction, and including 11Paths developed services such as Latch, FaasT, Metashield or Tacyt.
- **Cloud computing services:** Telefónica offers a broad set of products and services to large enterprises which are focused on "Managed Services" and aim to build fully managed infrastructure environments and manage the complex tools and applications that run on top of the IT infrastructure, and small and medium-sized businesses including different SaaS bundles services with communications services that aim to expand customer digital presence ("Smarter Selling + Serving") and increase the employees' productivity and collaboration ("Smarter Working").
- **Advertising:** Portfolio of marketing channels that third party brands can use to acquire and engage with customers. Traditional channels such as messaging may be utilized alongside new channels like programmatic display and sponsored connectivity. These are powered by our in-house technologies; SMS, bulk SMS, mobile portals- and fuelled by our customer data.
- **Big Data:** Includes the product "Smart Steps" which helps retailers, municipalities and public security bodies to understand the influx of people. Anonymous mobile data network and aggregates are used to calculate the influx of people in an area. Telefónica also offers B2B opt-in services to the financial

sector (Risk Management) for improving fraud prevention and credit scoring in Brazil, United Kingdom and Chile. Recently a Smart Steps joint venture has been launched with China Unicom based out of Beijing to sell data insights in China.

- **Future Communications:** Includes "TU Go", Movistar's exclusive application that lets clients have the same number on all their devices and communicate among such devices via Wi-Fi.

Share price performance

European equity markets were very volatile in 2015, with the year dividing into two parts. The first part of the year, to August, saw improving macroeconomic indicators and strong performance by exporting sectors, supported by a more competitive euro (as a result of ECB stimulus measures), driving markets upwards. However, uncertainty about economic growth in China and devaluation of the Yuan (increasing volatility for all emerging economy currencies and causing a collapse in commodity prices) and expectations of interest rate increases by the US Federal Reserve (with the first rise since January 2009 taking place on December 16), dragged the markets back from mid-August onwards. Against this backdrop, the performance of European indices varied over the year: CAC-40, +8.5%; DAX, +9.6%; FTSEMIB, +12.7%; EStoxx-50, +3.8%; Ibex-35, -7.2%; and FTSE-100, -4.9%. The Ibex-35 underperformed its peers due to the greater exposure of some of its companies to emerging economies, political uncertainty and the greater weight of exporting sectors in other European indices.

In terms of DJ Stoxx-600 sectors, the gainers in Europe were led by travel and leisure (+19.6%), financial services (+18.7%) and consumer goods (+18.7%), whilst basic materials (-34.9%), energy (-7.8%) and utilities (-3.7%) led the fallers. The telecommunications sector was up 8.5% over the year, 1.7 p.p. higher than the DJ Stoxx-600 (+6.8%), due to operators experiencing a return to revenue growth in general terms and a better outlook for the future, together with announced and expected consolidations.

The Telefónica share ended 2015 at 10.24 euros per share, down 13.2%. This fall is reduced to 7.9% when the dividends distributed in the year (0.40 euros in cash and 0.35 euros in scrip dividend) are included.

In terms of individual shares, there were noteworthy performances by Telecom Italia (+33.2%, driven by consolidation in the domestic market, expectations of corporate actions involving its Brazilian subsidiary TIM, and the entry of significant new shareholders) and Deutsche Telekom (+26.0%, with a positive performance in its domestic market and the possible divestment of its T-Mobile subsidiary). In addition, BT finished the year up 17.5%, Telefónica Deutschland rose by 10.8% and Orange was up 9.4%. On the negative side, Vodafone fell 0.7%, and TeliaSonera was down 16.3%, impacted by corporate governance problems in its investments in Eurasia.

Other leading Spanish companies by stock market capitalization also struggled (Repsol -34.9%, Santander -34.8% and BBVA -14.2%).

At 2015 year end, Telefónica's stock market capitalization stood at 50,921 million euros, the eleventh largest telecommunications company worldwide. The average trading volume in its shares on the Spanish continuous market was 33.7 million shares.

Research, Development and Innovation

Telefónica remains firmly committed to technological innovation as an essential tool for achieving competitive advantages, anticipating market trends and differentiating its products. By introducing new technologies and developing new products and business processes, we seek to become a more effective, efficient and customer-oriented Group.

Telefónica has developed an open innovation model for the management of technological innovation to boost the application of technical research in the development of new commercial products and services. Telefónica focuses on certain applied research and development (R&D) priorities that are aligned with its strategy. Open innovation initiatives driving this model include the creation of a venture capital fund and involvement in business collaboration forums, among others. The model also promotes the use of knowledge developed at technology centers, universities and start-ups, among other sources, and encourages innovation in conjunction with other agents (e.g. customers, universities, public administrations, suppliers, content providers and other companies), making them "technological partners." Within this open innovation strategy, during 2015 the Open Future initiative has been consolidated.

Telefónica believes that in order to differentiate its products from competitors and enhance its market position it cannot rely solely on acquired technology. It is also important to promote R&D in an effort to achieve this differentiation and reinforce Telefónica's commitment to a sustainable business development. The policy of the Group's R & D is aimed at:

- developing new products and services in order to win market share;
- boosting customer loyalty;
- increasing revenue;
- enhancing innovation management;
- improving business practices;
- increasing the quality of infrastructure services to improve customer service and reduce costs;
- promoting global products;
- supporting open innovation; and
- creating value from the technology generated.

In 2015, the technological innovation projects undertaken focused on sustainable innovation, process efficiency, creation of new revenue streams, customer satisfaction, consolidation of presence in new markets and technological leadership.

Technical innovation activities are a key element of Telefónica's strategy to create value through latest-generation network communications and services.

In 2015, projects were undertaken to promote the increase of access to information technology, new services focused on new internet business models, advanced user interfaces, TV distribution, multimedia content and other added-value services leveraging on the potential of the new infrastructures. These initiatives, among others, were undertaken based on our objective of rapidly identifying emerging technologies that could have a relevant impact on our businesses and pilot testing these technologies in relation to our new services, applications and platform prototypes.

Most of our R&D activities are carried out by Telefónica Investigación y Desarrollo, S.A.U. (Telefónica I+D), a wholly-owned subsidiary, which works mainly for the lines of business. In its operations, Telefónica I+D receives the assistance of other companies and universities. Telefónica I+D's mission is centered on enhancing the Company's competitive positioning by leveraging technological innovation and product development. Telefónica I+D undertakes experimental and applied research and new product development with the overriding goal of broadening the range of services offered and reducing operating costs.

Telefónica I+D's technological innovation activities focus on two big areas:

1. Telefónica I+D's works on the development of new networks, primarily in collaboration with Telefónica's Global Resources team. These activities are related to new radio access technologies and fiber; network virtualization technologies, in line with the technology trend known as software defined networks (SDN); and network optimization and zero touch developments making networks more flexible and moldable and able to adapt dynamically to new digital consumer and service requirements.
2. R&D activities to develop new products and services, which are conducted as part of the digital services strategy. These activities are the following:
 - Natural P2P communication of the future, using the Internet and smartphones.
 - Video and multimedia services (combining text, audio, images and video) offering a user experience in all connected devices.
 - Advanced solutions in emerging ITC businesses such as cloud computing, security, financial services or e-health.
 - M2M (machine-to-machine) service management associated with energy efficiency and mobility and with the Internet of Things and their adoption in the urban and industrial scenario, and as a service creation enabler.
 - Making use of user communication profiles to exploit opportunities to operate different products and business models (marketing campaigns, target marketing, contextual services, churn reduction, cross-selling, etc.).

With a view over the medium and long term, Telefónica I+D's also boasts scientific work groups that aim to look into opportunities relating to new networks and services and solutions to the technological challenges that arise.

In 2015, the new Telefónica I+D center in Chile -launched in 2014 in collaboration with the Chilean government- was reinforced with the launch of the first MVP (Minimum Viable Product), in the field of Smart Cities, Smart Industry and Smart Agro.

At December 31, 2015, Telefónica I+D had 654 employees (652 employees in 2014).

The total I+D expense in the Group for 2015 amounted to 1,012 million euros, down 0.9% from the 1,021 million euros incurred in 2014 (959 million euros in 2013). This expense represents 2.1%, 2.3% and 1.9% of the Group's consolidated revenue for 2015, 2014 and 2013, respectively. These figures were calculated using guidelines of the Organization for Economic Co-operation and Development (OECD).

During 2015, Telefónica filed 21 new patent applications, two of them registered through the United State Patent and Trademark Office (USPTO) and 19 through the Spanish Patent and Trademark Office (OEPM), of which 9 are International applications (PCT). Additionally two utility models were filed, also through the OEPM.

Human Resources

Social objectives and policies

At Telefónica people are important and are the core of the business, representing one of the Group's greatest assets. Our aim as HR department is to develop our employees' capacities to the maximum in order to fulfill the compromises agreed with our customers.

Our vision is based on five main pillars:

- Recruit, develop and keep the talented employees to ensure the Company meets its strategic goals.
- Support the business units integration and the transformation process so that the companies are aligned with the business objectives.
- Build a customer-focused organization culture.
- Offer a global HR service for managers and employees based on empowerment and simplification.
- Become a 100% online department with high self-service options in the HR processes and with outsourced resources.

Telefónica faces a great transformation in order to continue as a leader in the new digital environment. Therefore, Human Resources department plays a leading role both in the development of the employees and in its own transformation process. In 2015 the progressive use of SuccessFactors –the new digital, on-line, multi-gadget, cloud based and global tool for HR management- implied all global employees. The highlights of this change are the review and unification of the following global processes such as performance, replacements, recruits and training.

Managing talent

Telefónica's main goals are to develop the talent of its employees, give them the chance to shape their professional and personal lives, and provide them with constant support for their own personal development.

Assessment of talent produces a management talent map of the entire Company, and a structured succession plan.

It is a basic management tool that sets us apart from the rest and implements a culture of meritocracy to facilitate decision-making concerning aspects such as development, organization, compensation etc.

In 2015, a project of talent oriented definition and identification of the profile for the digital transformation of Telefónica was made: first an analysis to understand what capabilities are needed to successfully face the current changes and future changes was developed. The key capabilities identified are the ability to learn, the ability to transform and the ability to quickly adopt new technologies. From there more than 1,300 directors and junior directors from 26 countries were invited to participate in an exercise that has allowed to bring together professionals based on their strengths in 4 profiles that provide us with skills, knowledge and different experiences: Profile Core, core for the development and execution of business; Profile Transformer, able to mobilize the organization; Digital Profile, people who learn experiences where new technologies are key; and Transformer Digital Profile, driving people from the digital transformation within the company.

Employee training

Employee training and learning are an absolute priority for Telefónica as it continues to evolve, since the Company is in a process of very ambitious transformation. In 2015, initiatives to advance the proposal to become a Digital Telco were launched, adapting training programs to the digital world and giving employees more learning capacity through Training Schools, these Training Schools recorded over 50,000 single user accesses entering to different schools: Technical, Commercial, Leadership, Languages, Finance and Teachers. Universitas Telefónica operates on two levels: on-site and virtual. The facilities at the Barcelona campus provided on-site training for 2,046 company executives, and in operations with the concept Telefónica On the Road, for 2,155 middle managers, displacing Universitas teachers to the countries in Latin America and Europe. All this obtaining a rating of 4.7 out of 5. In all cases it was achieved with programs focused on leadership and strategy transformation.

In 2015, over 476,732 training initiatives and 4,229 virtual classrooms were performed, progressing in this digital medium as a learning usual mode. For the company, managing knowledge is a priority. Because of that, in 2015, the total cost of training in the Group amounted to 44 million euros.

Managing diversity

Telefónica understands diversity management as a business opportunity. A team of diverse professionals:

- 1) identifies the needs of our customers, diverse too and provides the service they need;
- 2) generates innovation: different people thinking different;
- 3) diverse teams perform better and more productive results.

Our Business Principles include the basic right to equality:

"We support equal opportunities and treat all persons in a fair and impartial manner, with no prejudices in respect of race, color, nationality, ethnic origin, religion, gender, sexual orientation, marital status, age, disability or family responsibilities".

The concept of diversity, however, reaches well beyond this - it is a fundamental value and intrinsic value to us: Telefónica has professional from more than 24 countries (four of them sit on the Board of Directors) representing more than 100 nationalities.

In terms of the male/female distribution of our total headcount, at December 31, 2015 Telefónica had 129,916 employees. There were 49,159 professional female employees, or 38% of the total, and 80,757 male employees, accounting for the remaining 62%. The percentage of women reaches the 19% in the management level.

For all these reasons Telefónica positions the Diversity project as a strategic project as part of its Responsible Business Plan presented in the Committee on Institutional Affairs headed by Julio Linares and under the Council.

In 2015 there has been a significant raise awareness among the executive committees of local operators. As a result of these meetings, Company executives have become sponsors of the project as to promote diversity on the local level, which in turn are to be grouped around a Global Committee managed by the global sponsor and member of the Group Executive Committee.

Furthermore, the development of the career acceleration program for women (Women in Leadership) during the last year is remarkable. 100 professional women of the Group have passed through this program.

Occupational health and safety

One of Telefónica's priorities is to offer its staff the best possible working conditions at their place of work or when they are on the move.

As per its Business Principles, Telefónica ensures staff work in a safe environment. Appropriate mechanisms are therefore in place to avoid workplace accidents, injuries and illness associated with professional activities by fully complying with prevailing regulations, implementing safe working procedures, providing training and managing occupational risks.

The Occupational Risk Management System ensures worker health and safety is at the heart of all Telefónica's processes and services; offering an end-to-end model for rolling out joint action, procedures and policies. This system enables Telefónica to identify and disseminate practices that are proven to have an impact on staff welfare and therefore on reducing accident rates.

Environment

Environmental policy, control of environmental risks and climate change

Telefónica has an Environmental Policy which is applicable to all of its companies, which sets out the road map for the Company to advance towards a green economy, reducing the environmental impact of its facilities at the same time as developing the potential for digital services to reduce the environmental footprint of other sectors.

Currently over half of the companies in the Group have Environmental Management Systems (EMS) in accordance with Regulation ISO 14001, certified by an external body, which contribute to the proper management of the environmental aspects of the Company and to extending a culture of environmental responsibility across the whole supply chain. Telefónica has set itself the target of certifying 100% of operators under ISO 14001 by 2017.

Telefónica's environmental risks and climate change are controlled and managed under the Company's global risk model. The environmental aspects of the telecommunications operations are mainly focused on the risk of high geographical dispersion and energy consumption, which is controlled by means of environmental management based on uniform processes and a global energy efficiency programme.

Telefónica has a global environmental team made up of experts in environmental management in each of the Group's companies.

Common minimum standards - Responsible Network

Environmental legislation, which is abundant in almost all of the countries where Telefónica operates, applies mainly to our network infrastructures. Among these, it is worth mentioning the need to obtain environmental permits for base stations, waste management, noise control and measuring electromagnetic fields.

Telefónica has common standards for all of its companies, in harmony with the principle of caution, establish minimum guidelines for environmental management with the aim of minimising the impact of infrastructures, these standards go beyond existing legislation. Also, these standards extend to all of our suppliers and contractors.

Among the activities which the Group carries in order out to manage the environmental aspects of its operations, are the design and optimal transmission of new sites for network rollout, promoting shared infrastructure with other operators and the development of adjustments to reduce the visual impact of mobile phone antennas.

Main lines of action

Within the Responsible Business Strategic Plan, the Company has established lines of action regarding the environment. This plan is also grounded in each country in order to be able to focus on the most relevant aspects at a local level. Some of the lines of action are:

- Energy and climate change - by means of the Corporate Climate Change Office the Company promotes energy efficiency and the reduction of Telefónica's carbon footprint. Currently, under a structured corporate management model and an energy management figure in each country, an Energy Efficiency Programme is being carried out in each country, which has managed to make a reduction of 500 GWh in 5 years with almost 300 projects, and avoid the emission of over 140 Kt of CO₂. Telefónica has corporate energy and emissions reduction targets, 30% KWh/access to the network and 10% KWh/used in offices by 2015, the new framework of objectives for 2020 are currently being defined. Also, over 15% of the Company's electrical consumption comes from renewable sources. Thanks to all of this, in 2015 Telefónica has been recognised by the Carbon

Disclosure Project, the best index of investment in climate change on a global level, as one of the leading companies in its sector for managing energy and carbon.

- Circular economy - The Company is committed to promoting a circular economy, in which goods used are returned to the value chain. Thus, waste coming from Telefónica networks and customers, with a particular focus on discarded electrical and electronic devices, are managed by authorised entities, in compliance with environmental legislation and prioritising management in the following order: reduce, reuse, and recycle. All companies in the group have waste management programmes and recycling and/or reuse initiatives for managing customers' devices.
- Green Services- in the current context, in which environmental and climate change challenges affect society as a whole, Telefónica is developing services, mainly Machine to Machine (M2M) and the Internet of Things (IoT), aimed at reducing the consumption of resources and the environmental impact of our customers. Telefónica is making a big play for the IoT, it is estimated that it will generate 11.000 million euros in 2025. According to current forecasts, the IoT could reduce 200 million tonnes of CO2 emissions, approximately 23 % of the target set for 2030 by the European Union. Telefónica wants to position itself therefore as a key actor in the green economy.

These actions have allowed Telefónica to extend its environmental responsibility to residential and business customers and to continuously respond to the demands of responsible environmental management from investors and shareholders.

Other aspects related to corporate social responsibility

Responsible business

Our customers, employees, investors, suppliers and society in general expect us to contribute to the sustainable economic and social development of the countries in which we operate, and in order to respond to these expectations, the aims of economic, social and environmental sustainability go hand in hand with the strategic objectives of the Company itself.

We have made commitments to our different interest groups by means of our principles of Responsible Business, in which we define the basic values which underpin all of our actions (we want to be an open, challenging and reliable Company), the ethical principles which guide our way of doing business and our specific commitments in the different areas for the Company. Compliance with the law at all times, respect for human rights all across our value chain, assuming our fiscal responsibility and commitment to the environment and social development are some of the principles which are reflected in this document.

Our specific sustainability objectives are set out in a Responsible Business Plan, which goes across all Company departments and identifies the big challenges which we are setting ourselves regarding sustainability. It is based on an analysis of the expectations of our customers, employees, investors and suppliers, the regulator and the challenges facing society in general, as well as the Company strategy itself and our risk map. The projects in the Plan include objectives regarding ethical behaviour, customer promises, environmental impact and climate change, sustainable management of the supply chain, digital trust and management of diversity and talent, and sustainable innovation.

Also, through Telefónica Digital Education and the Telefónica Foundations, we are pouring everything we know about education, entrepreneurship and digital skills into a number of social projects aimed at children, teenagers, parents and educators, in order to contribute to reducing the social gaps which surround us.

We have updated our plan and our aims according to the expectations of our interest groups, taking advantage of the many communication channels at our disposal. We have specific channels of communication for employees, suppliers and other interest groups. We use different tools in order to gather the views of our customers and society in general and we proactively promote conversations with our investors.

The Responsible Business Plan has been approved by Telefónica's Administrative Board, along with the strategy for participation and dialogue with our interest groups and the sustainability risk map, and there is a copy in all operators in the group.

The Committee on Institutional Affairs is responsible for following up on the plan and the indicator control panel. Each operator also has a Responsible Business Office, which represent the heads of all of the business departments, which follows up on the plan and supervises the processes which have been implemented to ensure the ethical and responsible conduct of the Company.

The Company's risk map is drawn up by the Company's auditing department and includes both financial and non-financial risks - among others operational, technological, legal, social, environmental, political and reputational - under the direct supervision of the Auditing Commission. The risk map not only identifies and quantifies the relevant risks across the Company, but also the mitigation plans for said risks.

Our commitment to Human Rights

We are committed to the human rights recognised and included in the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the International Labour Organization, the 8 core conventions on fundamental

human rights, the WTO Convention 169 on the Rights of Indigenous Peoples, the UN Convention on the Rights of the Child and the UN Convention on the rights of persons with disabilities. We have incorporated concrete objectives into our Responsible Business Plan around respect for and promotion of human rights in projects such as the sustainable management of our supply chain, diversity, privacy and security, and other projects showing our commitment to the communities in the countries in which we operate.

Our Fiscal Responsibility

Regarding our fiscal responsibility, we adhere to the Code of Good Tax Practices, drawn up by the Forum of Large Companies in conjunction with the Spanish Tax Administration, with the aim of avoiding the use of structures of an opaque nature for tax purposes. To this end, we do not use Company structures in order to cover or reduce the transparency of our activities before the tax authorities, or any other interested party. Nor are we present in any of the jurisdictions included in the list of tax havens established in Spanish regulations.

Liquidity and Capital Resources

Financing

In 2015, Telefónica's financing activity amounted approximately 18,001 million euros, excluding euro commercial paper and short term banking loans, 26% of which were obtained through equity (shares and hybrids) and the remaining amount as financial debt.

The financing activity was mainly focused on financing the GVT acquisition as well as on strengthening the liquidity position, refinancing maturing debt and actively managing the cost of debt, through the extension of the maturity of credit lines and the reduction of credit margins. The capital increases of Telefónica, S.A., for a total of 3,048 million euros, and Telefônica Brasil, S.A. for a total of 16,107 million Brazilian reais, were completed during the second quarter of 2015, and related mainly to the acquisition of GVT. Approximately 25.2% of the capital increase of Telefônica Brasil, S.A. was subscribed by minority shareholders (approximately 1,179 million euros).

The main financing transactions carried out in the bond market in 2015 are as follows:

Item	Date	Maturity Date	Nominal (millions)		Currency of issuance	Coupon
			Currency	Euros		
Telefónica Emisiones, S.A.U.						
Bono EMTN	06/18/15	06/19/17	300	300	EUR	Euribor 3M+0.33%
	09/14/15	09/14/21	1,000	1,000	EUR	1.477%
	12/11/15	12/11/17	100	100	EUR	Euribor 3M+0.53%

The main financing transactions carried out in the bank market in 2015 are as follows:

Item	Limit	Currency	Outstanding balance (millions of euros)	Arrangement Date	Maturity date
Telefónica, S.A.					
Syndicated facility (1)	2,500	EUR	500	02/19/2015	02/19/2020
Bilateral loan	200	EUR	200	06/30/2015	06/30/2020
Syndicated facility	3,000	EUR	-	11/17/2015	02/17/2018
Structured Financing (*)	750	USD	-	12/11/2015	03/11/2026
Structured Financing (*)	500	EUR	-	12/11/2015	03/11/2026
Telefónica del Perú, S.A.A.					
Credit facility	1,050	PEN	-	10/12/2015	08/15/2020

(*) Facility with amortization schedule.

(1) The parties could mutually agree to extend the maturity to as late as 2022.

Availability of funds

As of December 31, 2015, Telefónica's liquidity, amounting to 19,143 million euros, includes: undrawn committed credit facilities arranged with banks for an amount of 13,684 million euros (of which 12,497 million euros maturing in more than 12 months); and cash equivalents and current financial assets.

On February 19, 2015, Telefónica, S.A. signed a 2,500 million euros syndicated credit facility maturing in 2020, even though by mutual agreement between the parties could be extended to a maximum maturity in 2022. On the same date, Telefónica S.A. signed an amendment to its 3,000 million euros syndicated credit facility arranged on February 18, 2014 maturing in 2019 in which was included an option by mutual agreement between the parties to extend the maturity up to 2021. On November 17, 2015, Telefónica, S.A. signed a 3,000 million euros syndicated credit facility maturing in 2018. At December 31, 2015 there was no outstanding amount under this facility. Therefore, with such last deal, in November 2015 the

liquidity has been increased and the company's gross debt maturities are fully covered until the end of 2016 with cash and credit lines available at December 31, 2015 and it is expected to be benefited from other initiatives.

Additional information on sources of liquidity and undrawn lines of credit available to the Company, on liquidity risk management, on the Company's debt levels, and on capital management is provided in Notes 12, 13 and 16 to the consolidated financial statements.

Contractual commitments

Note 18 to the consolidated financial statements provides information on firm commitments giving rise to future cash outflows and associated with purchases and services received in relation to the Company's principal activity, and any operating leases for buildings and assets related to the Company's activity, primarily.

Credit risk management

The Telefónica Group considers commercial credit risk management as a key element to achieve its sustainable business base growth targets in a manner that is consistent with Telefónica Corporate Risk Management Policy. This management approach relies on the active monitoring of the risk-reward balance in the commercial operations and the adequate separation between the risk ownership areas and risk management areas.

Debtors that could cause a material impact on the Group's consolidated financial statements and increased risk profile products – due to customer targets, term, channels or other commercial characteristics - are subject to specific management practices in order to mitigate the exposure to credit risk.

Uniform policies, procedures, delegation of authority and management practices are established in all Group companies, taking into account benchmark risk management techniques but adapted to the local characteristics of each market, including:

- Statistical and expert models for customer acquisition that are used to forecast and to manage the expected probability of default of the transactions.
- Decision tools allowing the implementation of tailored credit strategies depending on products, channels, geographies and types of customer.
- Continuous monitoring of the payment behavior and solvency of the customer portfolio.
- Internal and external collection processes designed to increase recovery through different measures depending on debt age and the customer profile.
- Ongoing controls over the credit risk exposure performed by specific committees.

This commercial credit risk management model is embedded into the Group's decision-making processes, especially from a day-to-day operating perspective, where the credit risk profile guides both the product and services available for the different customers and the collections strategy.

Credit rating

At December 31, 2015, Telefónica, S.A.'s long-term issuer default rating is "BBB+/stable outlook" from Fitch, "Baa2/stable outlook" from Moody's and "BBB/positive outlook" from Standard & Poor's. The most recent updates on these ratings were issued by Fitch on June 26, 2015, Standard and Poor's on May 28, 2015 and Moody's on March 25, 2015. The changes in the long-term issuer default rating and outlook for Telefónica, S.A. during 2015 were that Moody's revised the outlook to "stable" from "negative" on March 25, 2015 and Standard and Poor's revised the outlook to "positive" from "stable" on May 28, 2015.

In 2015, among the measures taken to help to protect the credit rating, it is noteworthy the financing activity together with a liquidity policy, the implementation of part of the dividend as a scrip dividend (instead of cash only dividend) in the fourth quarter of 2015, a portfolio management through the announced disposal of O2 UK, the rights issue to finance the GVT acquisition and the issuance of undated deeply subordinated securities as a solvency protection measure to mitigate negative impacts on our consolidated financial statements.

Dividend policy

Telefónica, S.A.'s dividend policy is revised yearly based on the Group's earnings, cash generation, solvency, liquidity, flexibility to make strategic investments, and shareholder and investor expectations. In 2015, the Annual General Meeting approved to pay a dividend, via scrip dividend of approximately 0.35 euros per share in November 2015, and the Board announced its intention to take corporate actions to approve another cash dividend of 0.40 euros per share in the second quarter of 2016.

In November 2015, Telefónica launched a scrip dividend issue to allow shareholders to choose to receive new shares in place of a cash dividend (which may be replaced by selling the associated subscription rights to the Company at a pre-established price), while enabling the Company to reduce its debt, depending on the take-up rate of the conversion.

Treasury shares

Telefónica has performed, and may consider performing, transactions with treasury shares and financial instruments or contracts that confer the right to acquire treasury shares or assets whose underlying is Company shares.

Treasury share transactions will always be for legitimate purposes, including:

- Undertaking treasury share acquisitions approved by the Board of Directors or pursuant to General Shareholders' Meeting resolutions.
- Honoring previous legitimate commitments assumed.
- Covering requirements for shares to allocate to employees and management under stock option plans.
- Other purposes in accordance with prevailing legislation. In the past, treasury shares purchased on the stock market were exchanged for other shares-securities (as in the case of preferred capital securities), swapped for stakes in other companies (e.g. China Unicom, Telco S.p.A., or Telefônica Brasil, S.A.), or acquired to reduce the number of shares in circulation (by redeeming the shares acquired), thereby boosting earnings per share.

Treasury share transactions will not be performed in any event based on privileged information or in order to intervene in free price formation. In particular, any of the conduct referred to in Articles 83.ter.1 of the Spanish Securities Market Law and 2 of Royal Decree 1333/2005 of November 11 implementing the Spanish Securities Market Law, with regards to market abuse will be avoided.

At December 31, 2015, 2014 and 2013, Telefónica, S.A. held the following treasury shares:

	Number of shares	Euros per share		Market value*	%
		Acquisition price	Trading price		
Treasury shares at 12/31/15	141,639,159	11.69	10.24	1,450	2.84690%
Treasury shares at 12/31/14	128,227,971	11.68	11.92	1,528	2.75332%
Treasury shares at 12/31/13	29,411,832	11.69	11.84	348	0.64627%

(*) Millions of euros

In 2015, 2014 and 2013 the following transactions involving treasury shares were carried out:

	Number of shares
Treasury shares at 12/31/12	47,847,810
Acquisitions	113,154,549
Disposals	(131,590,527)
Treasury shares at 12/31/13	29,411,832
Acquisitions	100,723,415
Disposals	(129,177)
Employee share option plan	(1,778,099)
Treasury shares at 12/31/14	128,227,971
Acquisitions	138,036,450
Disposals	(47,824,300)
Employee share option plan	(2,724,699)
Capital reduction	(74,076,263)
Treasury shares at 12/31/15	141,639,159

Treasury shares purchases in 2015 amounted to 1,654 million euros (1,176 million euros and 1,216 million euros in 2014 and 2013, respectively).

Treasury shares disposed of in 2015, 2014 and 2013 amounted to 593 million euros, 1 million euros and 1,423 million euros, respectively.

The main sale of treasury shares in 2015 was the exchange with Vivendi, S.A. of 46 million of Telefónica, S.A.'s treasury shares, for 58.4 million preferred shares of Telefónica Brasil, S.A., amounting to 555 million euros (see Note 5).

On June 30, 2015, the second phase of the Telefónica, S.A. long-term incentive plan called "Performance and Investment Plan 2012-2015" ("PIP 2012-2015") ended. According to the level of "Total Shareholder Return" (TSR) achieved, 77%, 2,724,699 shares were delivered (see Note 19).

On July 24, 2015, pursuant to the resolutions adopted in the General Shareholders' Meeting of June 12, 2015, capital was reduced by redeeming 74,076,263 treasury shares, thereby reducing this caption by 886 million euros.

The disposals of treasury shares in 2014 are mainly related to the shares delivered to Group employees when the second phase of the Global Employee Share Plan ("the GESP") matured (see Note 19).

At December 31, 2015, all the contracts of call option on treasury shares subject to physical delivery at a fixed price have reached the maturity date or have been executed (76 million and 134 million options on treasury shares at December 31, 2014 and 2013, respectively), which were presented as a reduction in equity under the caption "Treasury shares". They were valued, in previous periods, at the amount of premium paid, and upon maturity if the call options were exercised the premium was reclassified as treasury shares together with the price paid. If they were not exercised upon maturity their value was recognized directly in equity.

The Company also has at December 31, 2015 a derivative financial instrument subject to net settlement on a notional equivalent to 33.8 million Telefónica shares, recognized under "Current interest-bearing debt" in the accompanying consolidated statement of financial position (32 million and 30 million equivalent shares in 2014 and 2013, respectively, recognized under the same caption).

Risks and uncertainties facing the company

The Telefónica Group's business is conditioned by a series of intrinsic risk factors that affect exclusively the Group, as well as a series of external factors that are common to businesses of the same sector. The main risks and uncertainties facing the Company which could affect its business, financial position, reputation, corporate image and brand and its results of operations, must be considered jointly with the information in the Consolidated Financial Statements, and are as follows:

Group-Related Risks

Worsening of the economic and political environment could negatively affect Telefónica's business.

Telefónica's international presence enables the diversification of its activities across countries and regions, but it exposes Telefónica to various legislations, as well as to the political and economic environments of the countries in which it operates. Any adverse developments or even uncertainties in these countries, including exchange-rate or sovereign-risk fluctuations, may adversely affect the business, financial position, cash flows and/or the performance of some or all of the Group's financial indicators.

Economic conditions may adversely affect the level of demand of existing and prospective customers as they may no longer deem critical the services offered by the Group.

Growth in Europe may be affected by political uncertainty in some European countries (including Spain), a possible revival of the crisis in Greece, restructuring of the banking sector, the impact of steps taken towards a EU banking union and a capital markets union and the referendum to be held in the near future in the United Kingdom, among others. In 2015, the Telefónica Group obtained 26.3% of its revenues in Spain and 16.7% in Germany.

In Latin America, higher exchange rate risks stand out after the large depreciation undergone by most currencies in this region, affected by the fall in commodity prices, the uncertainties about growth in China, and the interest rate evolution in the United States, among other macroeconomic factors. Abrupt exchange rate movements could especially be triggered by scenarios characterized by high inflation and fiscal and external deficits. In this regard, it should be noted that the Venezuelan bolivar exchange rate quoted in SIMADI has remained stable for a year despite the high increase in prices accumulated over this period, increasing the risk of readjustment. In addition, the Argentine peso (which already experienced a sharp depreciation in December 2015) is experiencing some depth constraints in its trading market, and the Brazilian real (which also experienced a depreciation in 2015) has remained volatile at the beginning of 2016. Cash flows from countries in this region could decrease, and financial conditions could become more unfavorable if any of these elements were to worsen in the future.

Some of the most significant macroeconomic risk factors in the region affect Brazil, where there is a combination of high inflation, negative economic growth rates and significant internal and external financing needs. All these elements have led to new downgrades to the country's credit rating.

Moreover, the recent fall in oil prices and other commodity prices is having a negative impact on the external and fiscal accounts in Chile, Peru, Colombia, Mexico, and Ecuador (which has a dollarized economy, and is currently experiencing a lower supply of U.S. dollars).

In Argentina, the new government is focused on resolving Argentina's macroeconomic and financial imbalances and on recovering international confidence. Although reforms taking place may have positive effects in the medium term, short term risks persist.

In Venezuela after the parliamentary elections in which the Democratic Unity Roundtable (an opposition coalition to the ruling United Social Party of Venezuela) claimed the majority of seats in the National Assembly, a new economic emergency decree was announced which could increase state control on private businesses. In addition, there continues to be very limited access to U.S. dollars.

For the year ended December 31, 2015, Telefónica Hispanoamérica and Telefónica Brazil represented 30.5% and 23.4% of the Telefónica Group's revenues, respectively. Moreover, approximately 35.6% of the Group's revenues in the telephony business were generated in countries that do not have investment grade status (in order of importance Brazil, Argentina, Ecuador, Venezuela, Nicaragua, Guatemala, El Salvador and Costa Rica), and other countries are only one notch away from losing this threshold. At December 31, 2015 the percentage of Telefónica's net financial debt in Latin American currencies stood at 13%.

"Country risk" factors include the following, among others:

- unexpected adverse changes in regulation or administrative policies, including changes that modify the terms and conditions of licenses and concessions and their renewal (or delay their approval);
- abrupt exchange rate movements;
- expropriation or nationalization of assets, adverse tax decisions, or other forms of state intervention;
- economic-financial downturns, political instability and civil disturbances; and
- maximum limits on profit margins imposed in order to limit the prices of goods and services through the analysis of cost structures (for example, in Venezuela, a maximum profit margin has been introduced that will be set annually by the Superintendence for Defense of Socioeconomic Rights).

Any of the foregoing may adversely affect the business, financial position, results of operations and cash flows of the Group.

The Group's financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to foreign currency exchange rates, interest rates or financial investment risks.

At December 31, 2015, 49.1% of the Group's net debt was pegged to fixed interest rates for a period greater than one year, while 28% was denominated in a currency other than the euro.

To illustrate the sensitivity of financial expenses to a change in short-term interest rates at December 31, 2015: (i) a 100 basis points increase in interest rates in all currencies in which Telefónica has a financial position at that date would lead to an increase in financial expenses of 245 million euros, (ii) whereas a 100 basis points decrease in interest rates in all currencies except the euro, the U.S. dollar and the pound sterling (these to zero rates in order to avoid negative rates), would lead to a reduction in financial expenses of 75 million euros. These calculations were made assuming a constant currency and a balance position equivalent to the position at that date and bearing in mind the derivative financial instruments arranged.

According to the Group's calculations, the impact on net financial expense by changes in the value of a 10% depreciation of Latin American currencies against the U.S. dollar and a 10% depreciation of the rest of the currencies against the euro would result in exchange losses of 33 million euros, primarily due to the weakening of the Venezuelan bolívar fuerte and the Argentine peso. These calculations were made assuming a constant currency position with an impact on profit or loss at December 31, 2015, including derivative instruments in place. At December 31, 2015, 31.3% of the Telefónica Group's operating income before depreciation and amortization (OIBDA) was concentrated in Telefónica Brazil and 38.2% in Telefónica Hispanoamérica.

The Telefónica Group uses a variety of strategies to manage these risks, mainly through the use of financial derivatives, which themselves also expose us to risk, including counterparty risk. Furthermore, the Group's risk management strategies may not achieve the desired effect, which could adversely affect the Group's business, financial condition, results of operations and cash flows.

Existing or worsening conditions in the financial markets may limit the Group's ability to finance, and consequently, the ability to carry out its business plan.

The performance, expansion and improvement of the Telefónica Group's networks, the development and distribution of the Telefónica Group's services and products, the development and implementation of Telefónica's strategic plan and new technologies, the renewal of licenses or the expansion of the Telefónica Group's business in countries where it operates, may require a substantial amount of financing.

A decrease in the liquidity of the Company, a difficulty in refinancing maturing debt or raising new funds as debt or equity, could force Telefónica to use resources allocated to investments or other commitments to pay its financial debt, which could have a negative effect on the Group's business, financial condition, results of operations or cash flows.

Funding could be more difficult and costly in the event of a significant deterioration of conditions in the international or local financial markets (especially considering the recent volatility resulting from uncertainties regarding China, the decline in commodity prices and the hikes in interest rates approved by the Federal Reserve, all of which impact Latin America), or if there is an eventual deterioration in the solvency or operating performance of the Company, or if Telefónica's divestment of its operations in the United Kingdom were to not be completed, or as a consequence of a credit rating downgrade of Spanish sovereign risk by rating agencies.

At December 31, 2015, gross financial debt scheduled to mature in 2016 amounted to 11,275 million euros (which includes the net position of derivative financial instruments and certain current payables), and gross financial debt scheduled to mature in 2017 amounted to 8,461 million euros.

In accordance with its liquidity policy, the Company has fully covered its gross debt maturities until the end of 2016 with cash and credit lines available at December 31, 2015, including a syndicated credit facility signed in November 2015 with several national and foreign institutions amounting to 3,000 million euros with a maturity of up to 27 months. Our liquidity could be affected if Telefónica's divestment of its operations in the United Kingdom is finally not consummated, or if market conditions make it difficult to renew existing undrawn credit lines, 8.7% of which, at December 31, 2015, were scheduled to mature prior to December 31, 2016.

In addition, given the interrelation between economic growth and financial stability, the materialization of any of the economic, political and exchange rate risks referred to above could lead to a negative impact on the availability and cost of Telefónica's financing and its liquidity strategy; which could have, as well, a negative effect on the Group's business, financial condition, results of operations or cash flows.

Telefónica's divestment of its operations in the United Kingdom may not materialize.

On March 24, 2015, Telefónica and Hutchison signed an agreement for the acquisition by the latter of Telefónica's operations in the UK (O2 UK) for a price (firm value) of 10,250 million pounds sterling in cash (approximately 14,000 million euros at the exchange rate as of the date of the agreement), composed of (i) an initial amount of 9,250 million pounds sterling (approximately 12,640 million euros as of the date of the agreement) which would be paid at closing and (ii) an additional deferred payment of 1,000 million pounds sterling (approximately 1,360 million euros) to be paid once the cumulative cash flow of the combined company in the United Kingdom has reached an agreed threshold.

Completion of the transaction is subject to, among other conditions, the approval of the European Commission and the obtainment of waivers to some contractual provisions affected by the sale, including those related to network alliances, as well as change of control provisions under certain contractual arrangements with third parties. As of the date of the issuance of these Financial Consolidated Statements, such conditions had not been met. The European Commission authorization process is ongoing.

As completion of the share purchase agreement is conditional on the satisfaction (or, if applicable, waiver) of certain conditions, the acquisition may or may not proceed. If the abovementioned divestment

is ultimately not consummated, or it is consummated under conditions other than those initially reported, this could have a material adverse effect on the trading price of Telefónica's ordinary shares, bonds and financial instruments, and its leverage.

Risks Relating to the Group's Industry

The Group operates in a highly regulated industry which requires government concessions for the provision of a large part of its services and the use of spectrum, which is a scarce and costly resource.

The telecommunications sector is subject to laws and regulations in different countries, and additionally, many of the services the Group provides require the granting of a license, concession or official approval, which usually requires certain obligations and investments to be made, such as those relating to spectrum availability. Among the main risks of this nature are those related to spectrum regulation and licenses/concessions, rates, Universal Service regulation, regulated wholesale services over fiber networks, privacy, functional separation of businesses and network neutrality.

Thus, as the Group provides most of its services under licenses, authorizations or concessions, it is vulnerable to administrative bodies' decisions, such as economic fines for serious breaches in the provision of services and, potentially, revocation or failure to renew these licenses, authorizations or concessions, or the granting of new licenses to competitors for the provisions of services in a specific market.

In this regard, the Telefónica Group pursues its license renewals in the terms referred in their respective contractual conditions, though it cannot guarantee that it will always complete this process successfully or under the most beneficial terms for the Group. In many cases complying with certain obligations is required, including, among others, minimum specified quality, service and coverage standards and capital investment. Failure to comply with these obligations could result in the imposition of fines, revision of the contractual terms, or even the revocation of the license, authorization or concession. Additionally, the Telefónica Group could be affected by regulatory actions carried out by the antitrust authorities. These authorities could prohibit certain actions, such as new acquisitions or specific practices, create obligations or lead to heavy fines. Any such measures implemented by the competition authorities could result in economic and/or reputational loss for the Group, in addition to a loss of market share and/or harm to the future growth of certain businesses.

Moreover, the fact that the Group's business is highly regulated both affects its revenues and imposes costs on its operations. For example, regulations fix the rates that Telefónica charges for calls received from other companies' networks, and regulators have progressively lowered these rates in recent years. In addition, and particularly in Spain, regulators have promoted competition in recent years by, for example, adopting policies which allow alternative operators access to Telefónica's networks. This intense competition has exerted downward pressure on Telefónica's tariff structure, adversely affecting revenues, and led to increased commercial expenses, adversely affecting margins.

Regulation of spectrum and government licenses

Further to the European Commission's new "Digital Single Market" (DSM) Strategy, Europe is expected to undergo an important review of its regulatory framework. The new European DSM Strategy comprises a series of policy initiatives to promote the development of the single market of digital services and networks. As a result, the European Commission will initiate legislative processes, which could have significant implications on access to network, spectrum use, auction conditions, duration and renewal of licenses, audiovisual services and platforms, among other various matters.

On May 8, 2015, the European Commission approved a Decision on the harmonization of the 1452 - 1492 MHz frequency band (1500 MHz band), which encourages Member States to designate and to make available this band frequency from November 2015, on a non-exclusive basis. As a result, new spectrum award processes are expected in the short and mid-term all across the EU. Germany and the United Kingdom have already auctioned the band frequency and therefore the Decision will not have a material

impact on Telefónica's cash flow in those markets. In Spain, the Government launched a consultation which ended on June 21, 2015 to evaluate demand for spectrum in the 1500 MHz band. The tender of the 1500 MHz band in Spain may take place during 2016.

Additionally, the main terms of the allocation and use of the 700 MHz band in Europe is expected to be decided in the coming months. This could require new cash outflows from Telefónica between 2018 and 2021 (the period over which it is expected that the spectrum will be available), except in Germany which was the first country in Europe to award spectrum in the 700 MHz band, together with the 1800 MHz, 900 MHz and 1500 MHz bands.

Further, in Germany, on July 4, 2014 and September 25, 2015, the German Federal Network Agency (BnetzA) adopted decisions concerning the impact of Telefónica Deutschland Holding AG merger with E-Plus Mobilfunk GmbH & Co. KG (E-Plus) on the spectrum held by Telefónica Deutschland (the surviving entity after the merger). BnetzA has required Telefónica Deutschland to terminate by June 30, 2016 (rather than December 31, 2016) some rights of use with respect to spectrum in the 1800 MHz band that was not reacquired by Telefónica Deutschland at the abovementioned auction proceeding. The remaining 1800 MHz spectrum band that was not reacquired in such auction was returned at the end of 2015. The German regulator also announced that it will perform a frequency distribution analysis, and determine whether any additional action is needed, particularly in the area of the 2 GHz spectrum band granted to Telefónica Deutschland.

United Internet and the regional cable operator Airdata have filed complaints against the EU General Court decision allowing the merger between Telefónica Deutschland Holding AG and E-Plus Mobilfunk GmbH & Co. Telefónica Deutschland has been accepted as an interested party in these proceedings.

In the United Kingdom, licenses were amended in January 2015 to introduce a 90% geographic coverage obligation for voice and text services. Separately, on September 24, 2015, the telecommunication regulator (Ofcom) issued a decision to increase the annual fees which mobile operators must pay for the use of 900 MHz and 1800 MHz spectrum. Accordingly, from October 31, 2015, the annual charge that Telefónica UK must pay is 32.2 million pounds sterling (increased from 15.6 million pounds sterling), rising to 48.7 million pounds sterling plus CPI from October 31, 2016. Finally, following consultation, on December 3, 2015 Ofcom published an update stating that it has decided to initiate an auction procedure to award 2.3 GHz and 3.4 GHz spectrum once decisions have been made by the relevant competition authorities, in relation to the proposed merger between Telefónica UK Limited and Hutchison 3G UK Limited.

In Latin America, spectrum auctions are expected to take place implying potential cash outflows to obtain additional spectrum or to meet the coverage requirements associated with these licenses. Specifically, the procedures expected to take place in 2016 are:

- Peru: In August 2015, the government published the conditions for granting licenses in the 700 MHz spectrum band (three blocks of 2x15 MHz have been defined). On November 4, 2015 Telefónica was declared as a prequalified bidder.
- Costa Rica: In December 2015, the Government communicated its intention to auction 40 MHz in the 1800 MHz band and 30 MHz in the 1900/2100 MHz band during 2016.
- Mexico: The Federal Telecommunications Institute (IFT) has proposed to auction spectrum in the 2500 MHz band in 2016. In addition, and in light of the constitutional reform resulting from the "Pact for Mexico" political initiative, a wholesale network offering services in the 700 MHz band will be created under a Public-Private Partnership (PPP). On January 29, 2016, the SCT (*Secretaría de Comunicaciones y Transportes*) published the rules for the International Competitive Tender. The rules state that the contract will be awarded in August 2016 and commercial operations must begin no later than March 31, 2018.
- Panama: On December 4, 2015, the process of reallocation of the AWS band (140 MHz, 1710-1780 / 2110-2180 MHz) was announced. It is expected to start by the end of 2016.

- **Uruguay:** The Government approved a resolution allowing for a spectrum auction for mobile services. The auction will contain 15 + 15 MHz in the "AWS Ext" spectrum band and 45 + 45 MHz in the 700 MHz spectrum band (20 + 20 MHz of the 45 + 45 MHz in 700 MHz were previously reserved for the National Telecommunications Administration, ANTEL). As of the date of this report, this process has been delayed and the bidding rules for spectrum have not yet been published.
- **Colombia:** The regulator has published a consultation document for comment which analyzes alternatives and other considerations regarding the structuring of the allocation process for radio spectrum in the 700 MHz bands (which is part of the "Digital dividend", which is the set of frequencies that have been available to mobile communications services in the frequency bands traditionally used for television broadcast (700 MHz and 800 MHz) due to the migration from analogue TV to digital TV), 900 MHz, 1,900 MHz and 2,500 MHz for mobile services. The first auction is expected to take place in 2016. Colombia has established spectrum caps for lower bands, which are currently set at 30 MHz, and Telefónica has 25 MHz in lower bands.
- **Venezuela:** The regulator has indicated the possibility of awarding spectrum in the 2600 MHz band (20 + 20 MHz) for 4G services, in the 1900 MHz band (5 + 5 MHz) for 3G services and in the 900 MHz band during 2016.

In December 2015, the Brazilian regulatory authority (Agência Nacional de Telecomunicações or ANATEL) auctioned the spectrum lots remaining in the 1800 MHz, 1900 MHz, 2500 MHz and 3500 MHz bands, where Telefónica acquired seven lots of 2.5 GHz frequency band. These lots are associated to six different States, five of them in the capital cities of the States of São Paulo, Rio de Janeiro, Porto Alegre, Florianópolis, and Palmas and one in an interior city of the State of Mato Grosso do Sul. Such frequencies will be used for provision of mobile broadband service on 4G.

Further to the above, certain administrations may not have announced their intention to release new spectrum and may do so during the year. The above does not include processes announced via general statements by administrations, which involve bands not key to Telefónica's needs. Telefónica may also seek to acquire spectrum on the secondary market where opportunities might arise.

Risks relating to concessions and licenses previously granted

In the state of São Paulo, Telefónica Brazil provides local and national long-distance Commuted Fixed Telephony Service ("CFTS") under the public regime, through a concession agreement, which will be in force until 2025. In accordance with current regulations, Telefónica Brazil informed ANATEL that the net value as of December 31, 2015 of assets assigned to the provision of the CFTS (which include, among others, switching and transmission equipment and public use terminals, external network equipment, energy equipment and system and operation support equipment) were estimated to total 7,856 million Brazilian reais. In principle, the assets assigned to the provision of the CFTS are considered reversible assets; the scope of such reversibility is subject to a complex debate at different instances.

On June 27, 2014, as established in the concession agreement, ANATEL issued a public consultation for the revision of the concession agreement. Although definitive conditions (which might deal, among others, with the reversibility of assets, universalization goals and, in general, the obligational regime of the concessionaire) were to be published in 2015, such publication was postponed until April 2016. In addition, current reversibility regulations will be reviewed by ANATEL, which is expected to issue a public consultation in the near future. Definitive regulations might be issued in the second half of 2016. We cannot assure that changes made to the concession terms or to the reversibility regulations will not be detrimental to Telefónica's interests.

In Colombia, the ICT Ministry issued Resolution 597 on March 27, 2014, to renew 850 MHz/1900 MHz licenses for 10 additional years. The reversion of assets (other than radio frequencies, which is clear that must be returned) and its scope, has been discussed in the context of the liquidation of the concession contract, taking into consideration the terms of the contract, and the Constitutional Court's review of Law 422 of 1998, and Law 1341 of 2009. Discussions on the matter concluded on February 16, 2016. The ITC

Ministry has announced that it is going to convene the Arbitral Tribunal, in accordance with what was agreed upon in the concession contract. To date, the content of the claim is unknown.

In Peru, the concessions for the provision of the fixed-line service will remain in force until November 2027. However, the Company filed a partial renewal request for five more years in December 2013. As of the date of this Annual Report, the decision of the Ministry of Transport and Communications (Ministerio de Transportes y Comunicaciones) is still pending.

Telefónica Móviles Chile, S.A. was awarded spectrum on the 700 MHz (2x10 MHz) band in March 2014. The claim brought by a consumer organization against 700 MHz assignments was rejected by the Court of Defense of Free Competition in a judgment of July 24, 2015 and the appeal before the Hon. Supreme Court submitted by the consumer organization is still awaiting resolution.

In El Salvador, the process of renewal of the Group's licenses, which expires in 2018, has been postponed.

In Ecuador, once the Group's concession for mobile services expires in 2023, the renewal of such concession or the granting of a new concession will be subject to negotiation with the Government. If the Group fails to renew such concession or obtain a new concession, assets assigned to the provision of mobile services will revert to the State in exchange for a fee.

The Group's consolidated investment in spectrum acquisitions and renewals in 2015 amounted to 1,585 million euros.

The Group's failure to obtain sufficient or appropriate spectrum capacity in the jurisdictions discussed above or any others in which it operates or its inability to assume the related costs, could have an adverse impact on its ability to launch and provide new services and on Telefónica's ability to maintain the quality of existing services, which may adversely affect the Group's business, financial condition, results of operations and cash flows.

Regulation of wholesale and retail charges

The European Regulation 2015/2120 on Net Neutrality and Roaming was adopted on November 25, 2015. Under this regulation, from April 30, 2016, when its implementation becomes effective, until June 15, 2017 operators may charge users roaming within the EU an additional fee on their domestic prices for roaming calls, SMS and data services, subject to certain regulated limits. In particular, the surcharges allowed during this period are 0.05 euro/minute for calls, 0.02 euro per SMS sent and 0.05 euro per megabits data (excluding VAT). During this period, the sum of the domestic retail price and any such surcharge shall not exceed 0.19 euro/minute for calls, 0.06 euro per SMS sent and 0.20 euro per megabits data. However, surcharges will not be permitted from June 15, 2017 onwards. The impact of this measure is very difficult to quantify because it will depend on the elasticity of traffic to decreases in the rates charged.

The decreases in wholesale mobile network termination rates (MTR) in Europe are also noteworthy. In the United Kingdom, wholesale MTRs have been reduced to 0.680 ppm (pence/minute) from May 1, 2015 (representing a 19.5% reduction compared to the previous rates). Further cuts of 26.3% and 3.1% (in real terms) will come into effect in April 1, 2016, and April 1, 2017, respectively. However, the impact of these decreases in the Group's results will be diminished if the proposed sale of our operations in the United Kingdom to Hutchison is completed on a timely basis.

In Germany, on April 24, 2015, BNetzA adopted its final decisions to reduce MTRs. The new prices will gradually decrease from 0.0172 euro/minute to 0.0166 euro/minute from December 1, 2015 until the end of November 2016. The European Commission had beforehand requested that the German regulator withdraw or amend the proposal of such decision. Because BNetzA did not apply the "Pure LRIC (Long Run Incremental Cost Model)" approach recommended by the European Commission, there is a risk that the Commission will initiate infringement proceedings against Germany, and rates may be further reduced.

In Spain, the Spanish National Markets and Competition Commission (Comisión Nacional de los Mercados y la Competencia or CNMC) has initiated the process of reviewing the prices of mobile termination, with a final decision expected to be adopted in the second half of 2016. Additionally, in May 2015, the CNMC launched a public consultation on the analysis of the market for access and call origination on fixed networks. The CNMC proposes to maintain the obligation of Telefónica to provide a wholesale interconnection offer (RIO) and a wholesale offer of access to the fixed telephone line (WLR), both with cost-oriented prices. The final decision is expected to be issued during the first half of 2016.

In Latin America, it is likely that MTRs are also reduced in the short to medium term. For example, in Mexico, on October 1, 2015, the IFT adopted the MTR for 2016. The MTR was set at 0.1869 Mexican pesos per minute in consistency with the Pure LRIC model. The previous MTR was set at 0.2505 pesos per minute.

Telefónica has appealed this decision as well as other decisions concerning the MTR applicable from 2011 to 2015.

In Brazil, ANATEL has been issuing ex-ante regulations to ensure competition in the wholesale market which includes reductions of the MTR. In this regard, the "Plano Geral de Metas de Competição (PGMC), as amended by Resolution 649/2015, established that mobile termination fees are subject to successive yearly reductions from 2016 until 2019, when the definitive cost-oriented-model fees shall be in force (such Resolution has been challenged in courts without a definitive outcome).

In Argentina, the new legal framework "Argentina Digital" provides the new regulator the possibility to regulate the tariffs and prices of essential public services, wholesale services and those the regulator determines based on reasons of public interest, on which the law does not set parameters. As a result, there may be a negative impact, depending on how the new regulator exercises its powers. In addition, until the Secretary of Communications determines that there is effective competition for telecommunications services, the "dominant" providers in the relevant areas (which include Telefónica de Argentina) must respect the maximum tariffs established in the general tariff structure.

Regulation of Universal Services

In September 2015, as a part of the DSM Strategy, the European Commission issued a public consultation on the review of the regulatory framework for electronic communications, including certain aspects of the Universal Service obligations. Depending on the outcome of this public consultation, the European Commission could initiate a legislative process including both the potential inclusion of certain broadband speeds in its scope and a possible reduction of some of the current Universal Service obligations that are becoming obsolete. Depending on the terms that will be set forth in the new regulation, implementation at a local level could lead to higher costs for both the Universal Service provider and the operators forced to finance the Universal Service.

In Spain, the licenses of Telefónica de España and Telefónica Telecomunicaciones Públicas (which owns public terminals) for the provision of Universal Services will expire on December 31, 2016. As from this date, there will be a new tender for the award of the provision of the Universal Services.

Regulation of fiber networks

On November 18, 2015 the Spanish CNMC adopted a Draft Resolution on the wholesale broadband market regulation, which foresees a geographical segmentation in competitive and non-competitive areas. This draft Resolution was approved by the European Commission on December 18, 2015. The new resulting regulation, which will apply to NGA (Next Generation Access Networks), could be approved in the first quarter of 2016 and will presumably last for at least three years. Its implementation is expected to result in an increase, of the current regulatory obligations of Telefónica in Spain, in terms of its granting of access to other operators to its fiber network and with respect to certain aspects relating specifically to the business segment.

Regulations on privacy

In Europe, a political agreement between the Council and the European Parliament was reached on December 15, 2015, on the new General Data Protection Regulation (GDPR) and the Data Protection Directive. Formal adoption of such regulation by both the Council and the Parliament is expected to take place in spring 2016. The GDPR would become effective two years thereafter, by spring 2018. Some of the critical provisions of this new Regulation will make tougher the launch of new services focused on the processing of personal data. In addition, the GDPR will introduce administrative fines of up to 4% of an undertaking's annual global turnover for breaching the new data protection rules.

In October 2015, the Court of Justice of the European Union declared invalid the Decision of the European Commission¹ of July 26, 2002, known as the "Safe Harbor Agreement", relating to the transfer of personal data from the EU to the United States. Since November 2015, EU and US Authorities have been negotiating a new agreement that ensures a level of protection similar to that provided by the EU. Failure to reach this agreement would create difficulties in the provision of services which involve the flow of EU citizens' personal data to the US.

In Brazil, it is expected, in the near future, that the Personal Data Protection Act will be adopted. This could lead to further obligations and restrictions for operators in relation to the collection of personal data and its treatment. In Peru, on May 8, 2015, the new Personal Data Protection Law came into force. The adoption of secondary legislation is still pending. In Ecuador, the Telecommunications Act (Ley Orgánica de Telecomunicaciones), adopted in February 2015, devotes a whole chapter to regulate the use of personal data.

Regulation of functional separation

The principles established in Europe's common regulatory framework, adopted in 2009 and transposed in the national legislation of each Member State in which Telefónica operates could result in greater regulatory pressure on the local competitive environment. Specifically, this framework supports the possibility of national regulators (in specific cases and under exceptional conditions) forcing operators with significant market power and vertically-integrated operators to separate their wholesale and retail businesses at a functional level. They would therefore be required to offer equal wholesale terms to third-party operators that acquire these products.

Regulation of network neutrality²

As mentioned above, the European Regulation 2015/2120 on Net Neutrality and Roaming was adopted on November 25, 2015. The regulation will enter into force on April 30, 2016. The application of the Regulation could directly affect possible future business models of Telefónica and may affect the network management or differentiation of characteristics and quality of Internet access service.

Telefónica operates in Latin American countries where net neutrality has already been ruled, such as Chile, Colombia, Brazil, Argentina, Mexico and Peru, where Osiptel published on September 8, 2015 the Draft Regulation on Net Neutrality. In Brazil, the Secretariat of Legislative Matters of the Ministry of Justice is concluding a proposal on Net Neutrality Regulation.

If changes to regulation such as those described above, or otherwise, occur in the various jurisdictions where the Telefónica Group operates, it could have a material adverse effect on its business, financial condition, results of operations and cash flows.

¹ Commission Decision 2000/520/EC, of 26 July 2000 pursuant to Directive 95/46/EC of the European Parliament and of the Council on the adequacy of the protection provided by the safe harbour privacy principles and related frequently asked questions issued by the US Department of Commerce.

² In general terms, it is a principle applicable to the field of Internet networks, for which operators may not place restrictions on the terminals that can be connected or the services, applications and content that can be distributed. It also refers to non-discrimination by operators between different types of traffic circulating through their networks.

The Telefónica Group is exposed to risks in relation to compliance with anti-corruption laws and regulations and economic sanctions programs.

The Telefónica Group is required to comply with the laws and regulations of various jurisdictions where it conducts operations. In particular, the Group's international operations are subject to various anti-corruption laws, including the U.S. Foreign Corrupt Practices Act of 1977 and the United Kingdom Bribery Act of 2010, and economic sanction programs, including those administered by the United Nations, the European Union and the United States, including the U.S. Treasury Department's Office of Foreign Assets Control. The anti-corruption laws generally prohibit providing anything of value to government officials for the purposes of obtaining or retaining business or securing any improper business advantage. As part of the Telefónica Group's business, it may deal with entities, the employees of which are considered government officials. In addition, economic sanctions programs restrict the Group's business dealings with certain sanctioned countries, individuals and entities.

Although the Group has internal policies and procedures designed to ensure compliance with applicable anti-corruption laws and sanctions regulations, there can be no assurance that such policies and procedures will be sufficient or that the Group's employees, directors, officers, partners, agents and service providers will not take actions in violation of the Group's policies and procedures (or otherwise in violation of the relevant anti-corruption laws and sanctions regulations) for which the Group or they may be ultimately held responsible. Violations of anti-corruption laws and sanctions regulations could lead to financial penalties, exclusion from government contracts, damage to our reputation and other consequences that could have a material adverse effect on the Group's business, results of operations and financial condition.

As at the date of this report, Telefónica is currently conducting an internal investigation regarding possible violations of applicable anti-corruption laws. Telefónica has been in contact with governmental authorities about this matter and intends to cooperate with those authorities as the investigation continues. It is not possible at this time to predict the scope or duration of this matter or its likely outcome.

Customers' perceptions of services offered by the Company may put it at a disadvantage compared to competitors' offerings.

Customers' perceptions of the assistance and services offered are critical to operating in highly-competitive markets. The ability to predict and respond to the changing needs and demands of customers affects the Company's competitive position relative to other technology sector companies, and its ability to extract the value generated during this process of transformation. Failure to do so adequately could have an adverse impact on the Group's business, financial condition, results of operations and cash flows.

The Company may not be able to adequately foresee and respond to technological changes and sector trends.

In a sector characterized by rapid technological change, it is essential to be able to offer the products and services demanded by the market and consider the impacts of changes in the life cycle of technical assets, secure margins and select the right investments to make.

The Telefónica Group operates in markets that are highly competitive and subject to constant technological development. Therefore, as a consequence of both of these characteristics, it is subject to the effects of actions by competitors in these markets and to its ability to anticipate and adapt, in a timely manner, to constant technological changes, changes in customer preferences that are taking place in the industry, as well as economic, political and social circumstances.

Failure to do so adequately could have an adverse impact on the Group's business, financial condition, results of operations and cash flows.

New products and technologies arise constantly, and their development can render obsolete the products and services the Telefónica Group offers and the technology it uses. This means that Telefónica must

invest in the development of new products, technology and services so it can continue to compete effectively with current or future competitors, which may result in the decrease of the Group's profits and revenue margins. In this respect, margins from traditional voice and data business are shrinking, while new sources of revenues are deriving from mobile Internet and connectivity services that are being launched. Research and development costs amounted to 1,012 million euros in 2015, representing a decrease of 0.9% from 1,021 million euros in 2014 (959 million euros in 2013). These expenses represented 2.1%, 2.3% and 1.9% of the Group's consolidated revenues in 2015, 2014 and 2013, respectively. These figures have been calculated using the guidelines established in the Organization for Economic Cooperation and Development (OECD) manual. One technology that telecommunications operators, including Telefónica (in Spain and Latin America), are focused on is the new FTTx-type network, which offers broadband access using optical fiber with superior services, such as Internet speed of up to 100MB or HD television services. However, substantial investment is required to deploy these networks, which entails fully or partially substituting copper loop access with optic fiber. While an increasing demand for the capabilities offered by these new networks to end users exists, the high level of the investments requires a continuous analysis of the return on investment.

The explosion of the digital market and entry of new players in the communications market, such as MVNOs, Internet companies or device manufacturers, may cause the loss of value of certain assets, and affect the Group's ability to generate income. Therefore, it is necessary to update the business model, encouraging the pursuit of incomes and additional efficiencies to those followed traditionally. Failure to do so adequately could have an adverse impact on the Group's business, financial condition, results of operations and cash flows.

In addition, the ability of the Telefónica Group's IT systems (operational and backup) to respond the Company's operating requirements is a key factor to be taken into account with respect to the commercial development, customer satisfaction and business efficiency.

The Company depends on its suppliers.

The existence of critical suppliers in the supply chain, especially in areas such as network infrastructure, information systems or handsets, with a high concentration in a small number of suppliers, poses risks that may affect the Company's operations, and may cause legal contingencies or damages to the Company's image in the event that inappropriate practices are produced by a participant in the supply chain.

As of December 31, 2015, the Telefónica Group depended on five handset suppliers and 13 network infrastructure suppliers, which together accounted for 80% of the awarded contracts for the year then ended. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own stock shortfalls and business requirements.

If these suppliers fail to deliver products and services to the Telefónica Group on a timely basis, it could jeopardize network deployment and expansion plans, which in some cases could adversely affect the Telefónica Group's ability to satisfy its license terms and requirements, or otherwise have an adverse impact on the Group's business, financial condition, results of operations and cash flows.

Unanticipated network interruptions can lead to quality loss or the interruption of the service.

Unanticipated network interruptions as a result of system failures, including those due to network, hardware or software, stealing of infrastructure elements or cyber-attacks, which affect the quality of or cause an interruption in the Telefónica Group's service, could lead to customer dissatisfaction, reduced revenues and traffic, costly repairs, penalties or other measures imposed by regulatory authorities and could harm the Telefónica Group's image and reputation.

Telecommunications companies worldwide face increasing cybersecurity threats as businesses become increasingly dependent on telecommunications and computer networks and adopt cloud computing technologies. Cybersecurity threats include gaining unauthorized access to our systems or inserting computer viruses or malicious software in our systems to misappropriate consumer data and other

sensitive information, corrupt our data or disrupt our operations. Unauthorized access may also be gained through traditional means such as the theft of laptop computers, portable data devices and mobile phones and intelligence gathering on employees with access.

Telefónica attempts to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and other physical and logical security. However, these measures are not always effective. Although the Telefónica Group has insurance policies to cover these types of incidents, and the claims and loss in revenue caused by service interruptions to date have been covered by these policies, these policies may not be sufficient to cover all possible monetary losses.

The telecommunications industry may be affected by the possible effects that electromagnetic fields, emitted by mobile devices and base stations, may have on human health.

In some countries, there is a concern regarding potential effects of electromagnetic fields, emitted by mobile devices and base stations, on human health. This public concern has caused certain governments and administrations to take measures that have hindered the deployment of the infrastructures necessary to ensure quality of service, and affected the deployment criteria of new networks and digital services such as smart meters development.

There is a consensus between certain expert groups and public health agencies, including the World Health Organization (WHO), that states that currently there are no established risks associated with exposure to low frequency signals in mobile communications. However, the scientific community is still investigating this issue especially with respect to mobile devices. Exposure limits for radio frequency suggested in the guidelines of the Protection of Non-Ionizing Radiation Protection Committee (ICNIRP) have been internationally recognized. The mobile industry has adopted these exposure limits and works to request authorities worldwide to adopt these standards.

Worries about radio frequency emissions may discourage the use of mobile devices and new digital services, which could cause the public authorities to implement measures restricting where transmitters and cell sites can be located, how they operate, the use of mobile telephones and the massive deployment of smart meters and other products using mobile technology. This could lead to the Company being unable to expand or improve its mobile network.

The adoption of new measures by governments or administrations or other regulatory interventions in this respect, and any future assessment on the adverse impact of electromagnetic fields on health, may negatively affect the business, financial conditions, results of operations and cash flows of the Telefónica Group.

Possible regulatory, business, economic or political changes could lead to asset impairment.

The Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the value of assets and cash-generating units, to assess whether their carrying values can be supported by the future expected cash flows, including, in some cases synergies allowed for in acquisition costs. Potential changes in the regulatory, business, economic or political environment may result in the need to introduce changes to estimates made and to recognize impairment in goodwill, intangible assets or fixed assets. Although the recognition of impairments of property, plant and equipment, intangible assets and financial assets results in a non-cash charge on the income statement, it could adversely affect the results of the Telefónica Group's operations. In this respect, the Telefónica Group has experienced impairments on certain of its investments, affecting its results of operations in the year in which they were experienced. For example, with respect to the investment in Telco, S.p.A. (Telco), value adjustments were made in 2014 with a negative impact of 464 million euros.

The Telefónica Group's networks carry and store large volumes of confidential, personal and corporate data, and its Internet access and hosting services may lead to claims for illegal or illicit use of the Internet.

The Telefónica Group's networks carry and store large volumes of confidential, personal and business data, through both voice and data traffic. The Telefónica Group stores increasing quantities and types of

customer data in both business and consumer segments. Despite its best efforts to prevent it, the Telefónica Group may be found liable for any loss, transfer, or inappropriate modification of the customer data or general public data stored on its servers or transmitted through its networks, any of which could involve many people and have an impact on the Group's reputation, or lead to legal claims and liabilities that are difficult to measure in advance.

In addition, the Telefónica Group's Internet access and hosting servers could lead to claims for illegal or unlawful use of the Internet. Telefónica, like other telecommunications providers, may be held liable for any loss, transfer or inappropriate modification of the customer data stored on its servers or carried by its networks.

In most countries in which the Telefónica Group operates, the provision of its Internet access and hosting services (including the operation of websites with shelf-generated content) are regulated under a limited liability regime applicable to the content that it makes available to the public as a technical service provider, particularly content protected by copyright or similar laws. However, regulatory changes have been introduced imposing additional obligations on access providers (such as blocking access to a website) as part of the struggle against some illegal or illicit uses of the Internet, notably in Europe.

Any of the foregoing could have an adverse impact on the business, financial position, results of operations and cash flows of the Group.

Telefónica and Telefónica Group companies are party to lawsuits, tax claims and other legal proceedings.

Telefónica and Telefónica Group companies are party to lawsuits, tax claims and other legal proceedings in the ordinary course of their businesses, the financial outcome of which is unpredictable. An adverse outcome or settlement in these or other proceedings could result in significant costs and may have a material adverse effect on the Group's business, financial condition, results of operations, reputation and cash flows. In particular, the Telefónica Group is party to certain judicial tax proceedings in Peru concerning the clearance of certain previous years' income tax, in respect of which a contentious-administrative appeal is currently pending and to certain tax proceedings in Brazil, primarily relating to the CIMS (a Brazilian tax on telecommunication services). Further details on these matters are provided in Notes 17 and 21 of the Consolidated Financial Statements.

Trend evolution

Telefónica is one of the world's leading mobile and fixed communications services providers, with a strategy focused on becoming a leader in digital communications to support future growth.

In 2015, Telefónica made progress towards long-term profitable and sustainable growth, improving its competitive position in key markets, increasing efficiencies and capturing synergies from the integrated approach of its business, processes and technologies. During recent years, the Company has taken several steps designed to transform its business, which have affected 2015 results:

- First, Telefónica has developed new business models based on mobile data centric proposals, bundled services, including converged fixed and mobile services, and digital capacities as part of a group-wide digital transformation drive to address changing consumption habits. A key component of this effort has been the increased investments in fiber and Long Term Evolution technology, which Telefónica believes will allow it to further monetize data and digital services. In this regard, Telefónica has significantly increased its number of data-driven accesses, including 78.0 million new smartphone accesses, 4.9 million new Pay TV accesses and 5.7 million new fiber accesses during the 2013-2015 period, to more than offset declining revenues and thereby increased average revenue per access year-on-year by 1.9% over the period.
- Second, changing consumption habits have resulted in reduced demand for fixed voice and mobile voice services and increased demand for mobile data services, such as watching videos and internet browsing on a smartphone, which finally in 2015 has been at a sufficient pace to offset in most of our markets the decline in fixed and mobile voice revenues (excluding declines due to changes in regulation) and start to show a positive trend.
- Third, Telefónica has strengthened its competitive position through a strategy of active portfolio management and in-market consolidation in key markets like Germany (with the acquisition of the E-Plus Group), Brazil (with the acquisition of GVT) and Spain (with the acquisition of DTS). These strategic acquisitions in core markets, coupled with recent divestments in non-core markets, have already allowed Telefónica to capture significant synergies.
- Finally, Telefónica has launched a simplification program designed to enable growth and transformation across its businesses; capture Group-wide synergies; simplify its commercial offerings (as it has done with the launch of "Movistar Fusión" bundle packages in Spain); modernize its information technology ("IT") network and global processes (through increased IT investment and commercial and customer care cost-reduction efforts); and improve its channels by increasing back-office efficiency. As part of this program, Telefónica has also sought to boost efficiency by increasing its outsourcing of support functions.

Telefónica has taken these steps against a backdrop of several broad trends and developments affecting Telefónica in recent years which have contributed to a downward trend in certain key performance indicators during the 2013-2015 period.

- First, changes in foreign exchange rates, particularly during 2014 and 2015 with the depreciation of the Brazilian real against the euro and the effects of the depreciation of the Venezuelan bolivar, have affected Telefónica's revenue growth.
- Second, inflation rates have increased Telefónica's expenses in many of our markets and we have not been able to increase our revenues at the same pace.
- Third, after a period of significant expansion, Telefónica has generally reduced the scope of its activities and exited certain countries in recent years to reduce its level of indebtedness and strengthen Telefónica's capacity for future growth.

- Fourth, Telefónica's business is highly regulated, which affects its revenues and imposes costs on its operations. For example, regulation sets the fixed rates that Telefónica charges for calls received from other companies' networks, and regulators have progressively lowered these rates in recent years.
- In addition, weak economic conditions in Europe generally, and in Spain in particular, have been a key driver of revenue trends in recent years, leading to a reduced demand for many of Telefónica's products and services, and the same trend is beginning to emerge in Latin America.

These trends and developments have contributed to a general downward trend in certain of Telefónica's key performance indicators during the 2013-2015 period, with revenues decreasing by 6.6% to 47,219 million euros for the year ended December 31, 2015 from 50,547 million euros for the year ended December 31, 2013 and operating income, profit for the year and net cash from operating activities decreasing during this period by 67.6%, 40.2% and 5.1%, respectively.

Nevertheless, we believe that Telefónica is positioned to benefit from the return to GDP growth in Europe, which began in 2014, as well as the potential implementation of the European Commission's recently announced Digital Single Market package of legislative measures, as we believe Telefónica is prepared to thrive in a policy environment that supports innovation and investment for the benefits of end users.

Other information

Group companies with non-controlling interests

Non-controlling interests in the Telefónica Group companies can be divided into two groups. Firstly, subsidiaries listed in a regulated market: Telefónica Brasil and Telefónica Deutschland, where minority shareholdings are widely dispersed and in respect of which Telefónica protects minority interests by complying with the regulations of the related market. Secondly, subsidiaries with a main minority shareholder, with whom agreements are entered into in order to guarantee the protection of such shareholder's rights and, in certain cases (such as Colombia Telecomunicaciones) where there are also specific commitments resulting from corporate transactions (see Note 21.b).

Average payment period of the Spanish companies

The Telefónica Group's Spanish companies have adapted their internal processes and payment schedules to the provisions of Law 15/2010 (amended by Law 31/2014) and Royal Decree-Law 4/2013, amending Law 3/2004, which establishes measures against late payment in commercial transactions. Engagement conditions with commercial suppliers in 2015 included payment periods of up to 60 days, according to the terms agreed between the parties.

For efficiency purposes, the Telefónica Group's companies in Spain have agreed payment schedules with suppliers, whereby payments are made on set days of each month. Payments to Spanish suppliers in 2015 surpassing the established legal limit were the result of circumstances or incidents beyond the payment policies, mainly the delay in issuing invoices (legal obligation of the supplier), the closing of agreements with suppliers over the delivery of goods or the rendering of services, or occasional processing issues. The average payment period to suppliers of the Telefónica Group's companies in Spain in 2015, calculated in accordance with the only additional provision of the Resolution of the Instituto de Contabilidad y Auditoría de Cuentas (Spanish Accounting and Audit Institute) dated January 29, 2016, amounted to 49 days.

Governance system

The Company has a governance system, which applies to Telefónica's entire structure. Pursuant to the Company's commitment to its shareholders, the Board of Directors, supported by its Committees, manages the Company's business in accordance with the corporate governance rules laid down primarily in the Corporate By-laws, in the Regulation of the General Shareholders' Meeting, and in the Regulation of the Board of Directors.

Telefónica's Board of Directors consists of 18 directors and is responsible for overseeing and controlling the Company's activity. It has sole powers regarding general strategy and policies on corporate governance, corporate social responsibility, remuneration of the Board and senior management, shareholder remuneration, and strategic investments.

In order to strengthen the corporate governance of the Company, the Board of Directors of Telefónica, S.A. has eight committees (including the Executive Commission) which are charged with examining and overseeing areas of particular relevance. Pursuant to its regulation, the Board also confers responsibility for day-to-day management of the businesses to Telefónica's executive bodies (primarily through the Executive Committee) and management team.

Events after the reporting period

The following events regarding the Telefónica Group took place between December 31, 2015 and the date of authorization for issue of the accompanying consolidated financial statements:

Financing

- On February 2, 2016, Telefónica Emisiones, S.A.U. redeemed 1,750 million euros of its notes, issued on February 2, 2006. The notes were guaranteed by Telefónica, S.A.
- On February 3, 2016, Telefónica Emisiones, S.A.U. redeemed 802 million euros of its notes, issued on November 3, 2011 for an amount of 1,000 million euros. The notes were guaranteed by Telefónica, S.A.
- On February 10, 2016, Telefónica del Perú, S.A.A. signed an amendment to its long-term credit facility arranged on October 12, 2015 modifying, mainly, the limit from 1,050 million Peruvian Nuevos Soles (equivalent to 283 million euros) to 780 million Peruvian Nuevos Soles (equivalent to 210 million euros).
- On February 16, 2016, Telefónica Emisiones, S.A.U. redeemed 1,250 million U.S. dollars of its notes, issued on February 16, 2011. The notes were guaranteed by Telefónica, S.A.
- Telefónica, S.A. agreed to execute their 12 months' extension options on the 2,500 million euros syndicated credit facility dated February 19, 2015 up to 2021 and on the 3,000 million euros syndicated credit facility dated February 18, 2014 up to 2020. This arrangement entered into effect on February 19, 2016.

Agreements for the broadcasting of the Spanish National League Championship First Division and the Copa de S.M. el Rey, and of the "UEFA Champions League" and "UEFA Europa League" competitions

In January 2016, DTS, Distribuidora de Television Digital, S.A.U. ("DTS") and Mediaproducción, S.L.U. ("Mediapro") reached an agreement for the broadcasting of the thematic pay TV channel called "beIN Sports LaLiga" with contents of the Spanish National League Championship First Division and the Copa del S.M. el Rey, corresponding to the three seasons 2016/17, 2017/18 and 2018/19.

Also, DTS and Mediapro reached an agreement for the broadcasting of the thematic pay TV channel called "beIN Sports" containing, among others, matches of the "UEFA Champions League" and "UEFA Europa League" competitions corresponding to the three seasons 2015/16 (from January 12, 2016), 2016/17 and 2017/18.

The total value of the agreements relating to those channels amounts to a maximum of 2,400 million euros.

With this agreement, Movistar+ fulfills its commitment to provide to its entire customer base a comprehensive offer with all the best sports contents.

Creation of a global telecommunications infrastructures company

On February 10, 2016, Telefónica announced the creation of Telxius, a company which will bring together certain infrastructure assets of the Group, which will enable the management of the Telefónica Group's infrastructure on a global scale with a more specialised and focused approach, with the aim of increasing the services provided to other operators, improving the return on capital invested and allowing Telxius to participate more actively in the growth opportunities that exist in the industry, including the possibility of incorporating third party assets.