TELEFONICA S A
Form 6-K
July 31, 2014
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of July, 2014

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant s name into English)

Distrito Telefónica, Ronda de la Comunicación s/n,

28050 Madrid, Spain

3491-482-8700

(Address of principal executive offices)

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

Form 20-F x Form 40-F ¨

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

Yes ¨ No x

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

Yes ¨ No x

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

Yes ¨ No x

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

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and Consolidated Interim Management Report

for the six-month period ended

June 30, 2014

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Translation of a report and condensed consolidated interim financial statements originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails (see Note 15)

REPORT ON LIMITED REVIEW OF

THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders of

Telefónica, S. A. at the request of Management

Report on the condensed consolidated interim financial statements

Introduction

We have carried out a limited review of the accompanying condensed consolidated interim financial statements (hereinafter the interim financial statements) of Telefónica, S.A. (hereinafter the Parent Company) and subsidiaries (hereinafter the Group), which comprise the consolidated statement of financial position at June 30, 2014 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows, as well as the condensed explanatory notes, for the six-month period then ended. The Parent Company s directors are responsible for the preparation of said interim financial statements in accordance with the requirements established by International Accounting Standard (IAS) 34, Interim Financial Reporting, adopted by the European Union for the preparation of condensed interim financial reporting as per article 12 of Royal Decree 1362/2007, of October 19. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope

We have performed our limited review in accordance with the International Standard on Review Engagements 2410, Review of Interim Financial Reporting Performed by the Independent Auditor of the Entity. A limited review of interim financial statements consists of making inquiries, primarily of personnel responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit carried out in accordance with regulations on the auditing of accounts in force in Spain and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

During the course of our limited review, which under no circumstances can be considered an audit of financial statements, nothing came to our attention which would lead us to conclude that the accompanying interim financial statements for the six-month period ended June 30, 2014 have not been prepared, in all material respects, in accordance with the requirements established in International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union in conformity with article 12 of Royal Decree 1362/2007 for the preparation of condensed interim financial statements.

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Emphasis paragraph

We draw attention to the matter described in accompanying condensed explanatory Note 2, which indicates that the abovementioned accompanying interim financial statements do not include all the information that would be required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union and therefore, the accompanying interim financial statements should be read in conjunction with the Group s consolidated financial statements for the year ended December 31, 2013. This matter does not modify our conclusion.

Report on other legal and regulatory reporting requirements

The accompanying consolidated interim management report for the six-month period ended June 30, 2014 contains such explanations as the Parent Company s directors consider necessary regarding significant events which occurred during this period and their effect on these interim financial statements, of which it is not an integral part, as well as on the information required in conformity with article 15 of Royal Decree 1362/2007. We have checked that the accounting information included in the abovementioned report agrees with the interim financial statements for the six-month period ended on June 30, 2014. Our work is limited to verifying the consolidated interim management report in accordance with the scope described in this paragraph, and does not include the review of information other than that obtained from the accounting records of Telefónica, S.A. and its subsidiaries.

Paragraph on other matters

This report has been prepared at the request of Management of Telefónica S.A. with regard to the publication of the semi-annual financial report required by article 35 of Securities Market Law 24/1988, of July 28, further developed by Royal Decree 1362/2007.

ERNST & YOUNG, S.L.

Ignacio Viota del Corte

July 30, 2014

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FIRST HALF 2014

TELEFÓNICA GROUP

Condensed consolidated interim financial statements (condensed consolidated annual accounts) and consolidated interim management report for the six-months ended June 30, 2014

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Condensed consolidated interim financial statements
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Telefónica Group

Consolidated statements of financial position

Millions of euros	Note	UNAUDITED 06/30/2014	AUDITED 12/31/2013
A) NON-CURRENT ASSETS		**90,563**	**89,597**
Intangible assets	7	18,339	18,548
Goodwill	7	24,042	23,434
Property, plant and equipment	7	31,065	31,040
Investments accounted for by the equity method	8	2,368	2,424
Non-current financial assets	10	7,930	7,775
Deferred tax assets		6,819	6,376
B) CURRENT ASSETS		**26,876**	**29,265**
Inventories		1,063	985
Trade and other receivables		10,206	9,640
Current financial assets	10	2,869	2,117
Tax receivables		1,540	1,664
Cash and cash equivalents	10	10,131	9,977
Non-current assets held for sale	3	1,067	4,882
TOTAL ASSETS (A+B)		**117,439**	**118,862**
A) EQUITY		**27,736**	**27,482**
Equity attributable to equity holders of the parent and other holders of equity instruments		21,848	21,185
Equity attributable to non-controlling interests		5,888	6,297
B) NON-CURRENT LIABILITIES		**61,683**	**62,236**
Non-current interest-bearing debt	10	50,359	51,172
Non-current trade and other payables		2,019	1,701
Deferred tax liabilities		2,945	3,063
Non-current provisions		6,360	6,300
C) CURRENT LIABILITIES		**28,020**	**29,144**
Current interest-bearing debt	10	9,374	9,527
Current trade and other payables		14,765	15,221
Current tax payables		2,184	2,203
Current provisions		1,512	1,271
Liabilities associated with non-current assets held for sale	3	185	922
TOTAL EQUITY AND LIABILITIES (A+B+C)		**117,439**	**118,862**

The accompanying condensed Notes 1 to 15 and Appendix I are an integral part of these consolidated statements of financial position.

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Telefónica Group

Consolidated income statements

Millions of euros	Note	January-June 2014	January-June 2013
Revenues	5	24,957	28,563
Other income		691	805
Supplies		(7,265)	(8,441)
Personnel expenses		(3,277)	(3,699)
Other expenses		(7,051)	(7,807)
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION (OIBDA)	5	**8,055**	**9,421**
Depreciation and amortization	5 and 7	(4,163)	(5,105)
OPERATING INCOME	5	**3,892**	**4,316**
Share of (loss) profit of investments accounted for by the equity method	8	**(60)**	**28**
Finance income		525	441
Exchange gains		1,410	1,411
Finance costs		(1,724)	(1,778)
Exchange losses		(1,591)	(1,473)
Net financial expense		**(1,380)**	**(1,399)**
PROFIT BEFORE TAX		**2,452**	**2,945**
Corporate income tax		(350)	(751)
PROFIT FOR THE PERIOD		**2,102**	**2,194**
Non-controlling interests		(199)	(138)
PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**1,903**	**2,056**
Basic and diluted earnings per share attributable to equity holders of the parent (euros)		**0.41**	**0.46**

Unaudited data.

The accompanying condensed Notes 1 to 15 and Appendix I are an integral part of these consolidated income statements.

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Condensed consolidated interim financial statements
2014

Telefónica Group

Consolidated statements of comprehensive income

Millions of euros	**January-June 2014**	**January-June 2013**
Profit for the period	**2,102**	**2,194**
Gains (losses) on measurement of available-for-sale investments	31	(30)
Income tax impact	(9)	9
Reclassification of losses included in the income statement		47
Income tax impact		(14)
	22	12
(Losses) gains on hedges	(405)	376
Income tax impact	123	(111)
Reclassification of losses included in the income statement	73	43
Income tax impact	(22)	(13)
	(231)	295
Share of loss recognized directly in equity of associates and others	(7)	(17)
Income tax impact	2	4
Reclassification of losses included in the income statement		
Income tax impact		
	(5)	(13)
Translation differences	(18)	(3,180)
Total other comprehensive loss recognized in the period (Items that may be reclassified subsequently to profit or loss)	**(232)**	**(2,886)**
Actuarial (losses) gains and impact of limit on assets for defined benefit pension plans	(65)	27
Income tax impact	16	(7)
	(49)	20
Total other comprehensive (loss) income recognized in the period (item that will not be reclassified subsequently to profit or loss)	**(49)**	**20**
Total comprehensive income (loss) recognized in the period	**1,821**	**(672)**

Attributable to:		
Equity holders of the parent and other holders of equity instruments	1,365	(499)
Non-controlling interests	456	(173)
	1,821	**(672)**

Unaudited data.

The accompanying condensed Notes 1 to 15 and Appendix I are an integral part of these consolidated statements of comprehensive income.

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Condensed consolidated interim financial statements
2014

Telefónica Group

Consolidated statements of changes in equity

	Attributable to equity holders of the parent and other holders of equity instruments												
Millions of euros	Share capital	Share premium	Treasury shares	Other equity instruments	Legal reserve	Retained earnings	Available-for-sale investments	Hedges	Equity of associates and others	Translation differences	**Total**	**Non-controlling interests**	**Total equity**
Financial position at December 31, 2013	**4,551**	**460**	**(544)**	**2,466**	**984**	**22,517**	**94**	**(37)**	**(31)**	**(9,275)**	**21,185**	**6,297**	**27,482**
Profit for the period						1,903					1,903	199	2,102
Other comprehensive income (loss) for the period						(47)	22	(236)	(5)	(272)	(538)	257	(281)
Total comprehensive income (loss) for the period						**1,856**	**22**	**(236)**	**(5)**	**(272)**	**1,365**	**456**	**1,821**
Dividends paid (Note 9)						(1,790)					(1,790)	(218)	(2,008)
Net movement in treasury shares (Note 9)			(598)			(33)					(631)		(631)
Acquisitions and disposals of non-controlling interests and business combinations (Note 3)												(649)	(649)
Undated Deeply Subordinated Securities (Note 9)				1,750							1,750		1,750
Other movements						(31)					(31)	2	(29)
	4,551	**460**	**(1,142)**	**4,216**	**984**	**22,519**	**116**	**(273)**	**(36)**	**(9,547)**	**21,848**	**5,888**	**27,736**

Financial position at June 30, 2014 (*)

	Attributable to equity holders of the parent and other holders of equity instruments												
Millions of euros	Share capital	Share premium	Treasury shares	Other equity instruments	Legal reserve	Retained earnings	Available-for-sale investments	Hedges	Equity of associates and others	Translation differences	**Total**	**Non-controlling interests**	**Total equity**
Financial position at December 31, 2012	**4,551**	**460**	**(788)**		**984**	**19,569**	**36**	**(715)**	**(7)**	**(3,629)**	**20,461**	**7,200**	**27,661**
Profit for the period						2,056					2,056	138	2,194
Other comprehensive income (loss) for the period						27	12	295	(13)	(2,876)	(2,555)	(311)	(2,866)
Total comprehensive income (loss) for the period						**2,083**	**12**	**295**	**(13)**	**(2,876)**	**(499)**	**(173)**	**(672)**
Dividends paid (Note 9)						(1,585)					(1,585)	(550)	(2,135)
Net movement in treasury shares (Note 9)			326			(87)					239		239
Acquisitions and disposals of non-controlling interests and business combinations (Note 3)													
Other movements						5					5	(19)	(14)
Financial position at June 30, 2013 (*)	**4,551**	**460**	**(462)**		**984**	**19,985**	**48**	**(420)**	**(20)**	**(6,505)**	**18,621**	**6,458**	**25,079**

(*) Unaudited data.

The accompanying condensed Notes 1 to 15 and Appendix I are an integral part of these consolidated statements of changes in equity.

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Condensed consolidated interim financial statements
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Telefónica Group

Consolidated statements of cash flows

Millions of euros	January June 2014	January June 2013
Cash received from customers	30,903	35,203
Cash paid to suppliers and employees	(23,228)	(26,413)
Dividends received	39	37
Net interest and other financial expenses paid	(1,586)	(1,550)
Taxes paid	(546)	(878)
Net cash from operating activities	**5,582**	**6,399**
Proceeds on disposals of property, plant and equipment and intangible assets	122	365
Payments on investments in property, plant and equipment and intangible assets	(4,255)	(5,414)
Proceeds on disposals of companies, net of cash and cash equivalents disposed	1,970	164
Payments on investments in companies, net of cash and cash equivalents acquired	(44)	(17)
Proceeds on financial investments not included under cash equivalents	233	9
Payments on financial investments not included under cash equivalents	(248)	(220)
Proceeds/(Payments) on placements of cash surpluses not included under cash equivalents	217	(209)
Government grants received	15	
Net cash used in investing activities	**(1,990)**	**(5,322)**
Dividends paid	(2,044)	(256)
Transactions with equity holders	(640)	258
Operations with other equity holders	1,750	
Proceeds on issue of debentures and bonds	2,677	4,658
Proceeds on loans, borrowings and promissory notes	3,790	2,413
Cancellation of debentures and bonds	(4,600)	(4,925)
Repayments of loans, borrowings and promissory notes	(3,648)	(4,376)
Payments on financed spectrum licenses	(22)	
Net cash used in financing activities	**(2,737)**	**(2,228)**
Effect of changes in exchange rates	**(701)**	**(935)**
Effect of changes in consolidation methods		**(21)**
Net increase (decrease) in cash and cash equivalents during the period	**154**	**(2,107)**
CASH AND CASH EQUIVALENTS AT JANUARY 1	**9,977**	**9,847**
CASH AND CASH EQUIVALENTS AT JUNE 30	**10,131**	**7,740**
RECONCILIATION OF CASH AND CASH EQUIVALENTS WITH THE STATEMENT OF FINANCIAL POSITION		

BALANCE AT JANUARY 1	**9,977**	**9,847**
Cash on hand and at banks	7,834	7,973
Other cash equivalents	2,143	1,874
BALANCE AT JUNE 30	**10,131**	**7,740**
Cash on hand and at banks	8,244	6,562
Other cash equivalents	1,887	1,178

Unaudited data.

The accompanying condensed Notes 1 to 15 and Appendix I are an integral part of these consolidated statements of cash flows.

Telefónica, S.A. and subsidiaries composing the Telefónica Group

Condensed explanatory notes to the condensed consolidated interim financial statements (condensed annual accounts) for the six-months ended June 30, 2014

Note 1. Introduction and general information

Telefónica, S.A. and its subsidiaries and investees (Telefónica , the Company , the Telefónica Group or the Group) make up an integrated and diversified telecommunications group operating mainly in Europe and Latin America. The Group s activity is centered around services of wireline and wireless telephony, broadband, internet, data traffic, pay TV and other digital services.

The parent company of the Group is Telefónica, S.A., a public limited company incorporated on April 19, 1924 for an indefinite period. Its registered office is at calle Gran Vía 28, Madrid (Spain).

The website www.telefonica.com provides more information about the organizational structure of the Group, the sectors in which it operates and the products it offers.

As a multinational telecommunications company which operates in regulated markets, the Group is subject to different laws and regulations in each of the jurisdictions in which it operates, pursuant to which permits, concessions or licenses must be obtained in certain circumstances to provide the various services.

In addition, certain wireline and wireless telephony services are provided under regulated rate and price systems.

Note 2. Basis of presentation

The condensed consolidated interim financial statements for the six-month period ended June 30, 2014 (hereinafter the interim financial statements) have been prepared in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting and Article 12 of Royal Decree 1362/2007, of October 19. Therefore, they do not contain all the information and disclosures required in complete annual consolidated financial statements and, for adequate interpretation, should be read in conjunction with the consolidated annual financial statements for the year ended December 31, 2013.

The accompanying interim financial statements were approved by the Company s Board of Directors at its meeting of July 30, 2014.

The figures in these interim financial statements are expressed in millions of euros, unless otherwise indicated, and therefore may be rounded.

Note 3. Comparison of information

Comparisons in the accompanying interim financial statements refer to the six-month periods ended June 30, 2014 and 2013, except in the consolidated statement of financial position, which compares information at June 30, 2014 and at December 31, 2013.

The main changes in the consolidation scope are described in Appendix I.

With respect to seasonality, the historical performance of consolidated results does not indicate that the operations of the Group, taken as a whole, are subject to significant variations between the first and second halves of the year.

The main events affecting comparability of the consolidated information for the six months ended June 30, 2014 and 2013 are as follows:

2014

a) Sale of Telefónica Czech Republic, a.s.

On November 5, 2013, Telefónica signed an agreement to sell 65.9% of the share capital of Telefónica Czech Republic, a.s. The transaction was completed on January 28, 2014, once the pertinent regulatory authorisation was obtained, being removed from the consolidation perimeter from January 1, 2014.

As a result of the sale, financial debt was reduced by 2,306 million euros (1,966 million euros collected and 340 million euros deferred payment).

Subsequent to the sale, Telefónica holds a 4.9% stake in this company, classified in the consolidated statement of financial position under Non-current financial assets , as investments available-for-sale (Note 10).

b) Exchange rate regime in Venezuela

On January 24, 2014, Exchange Agreement No. 25 came into force, which regulates the sale of foreign currency in the Republic of Venezuela for certain sectors and items. This Agreement does not amend the exchange rate of 6.30 bolivars per US dollar, which has applied since Exchange Agreement No. 14 was approved on February 8, 2013, except for: (i) cash for travelling abroad and remittances to individuals domiciled abroad; (ii) payment of operations inherent to national civil aviation and the international air transportation public service; (iii) operations inherent to the insurance activity; (iv) leasing and service agreements, agreements for the import of intangible assets, payments of rental contracts for networks, and payments corresponding to the telecommunications sector; and (v) foreign investments and payments of royalties, use and exploitation of patents, trademarks and franchises, as well as technology import and technical assistance agreements.

Requests for the liquidation in US dollars of the aforementioned concepts are settled at the foreign exchange rate resulting from the allocations conducted through the Complementary System for Administration of Foreign Currency (SICAD I). The exchange rate of the latest SICAD I allocation prior to June 30, 2014 was 10.60 bolivars per US dollar. Nonetheless, the said Agreement stipulates that the liquidation of foreign currency operations requested before the Central Bank of Venezuela before Exchange Agreement No. 25 came into force, will be settled at the exchange rate established in the February 8, 2013 Exchange Agreement, i.e. at a rate of 6.30 bolivars per US dollar.

The change to the currency exchange system introduced in the aforesaid Agreement took effect in the Telefónica Group s consolidated financial statements from the moment it came into force, on January 24, 2014. The main impacts are as follows:

The decrease of the Telefónica Group s net assets in Venezuela as a result of the conversion to euros at the new exchange rate with a balancing entry in Group equity of approximately 1,800 million euros, based on the net assets as at December 31, 2013.

As part of the decrease mentioned in the preceding paragraph, the value in euros of the net financial assets denominated in bolivars decreased by approximately 1,200 million euros, as per the balance as of December 31, 2013.

The results and cash flows generated by the Telefónica Group in Venezuela in 2014 are converted at the closing exchange rate resulting from the SICAD I allocations (10.60 bolivars per US dollar for the first half of 2014).

2013

During the six months ended June 30, 2013, there were no events or changes in the consolidation scope affecting comparability of the consolidated information for the six months ended June 30, 2014 and 2013.

Note 4. Accounting policies

The accounting policies applied in the preparation of the interim financial statements for the six months ended June 30, 2014 are consistent with those used in the preparation of the Group s consolidated annual financial statements for the year ended December 31, 2013, except for the adoption, on January 1, 2014, of new standards, amendments to standards and interpretations published by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRIC), and adopted by the European Union for application in Europe, noted below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries (as well as investments in associates and joint ventures) at fair value through profit or loss. This amendment is not relevant to the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

IAS 32 Offsetting Financial Assets and Financial Liabilities-Amendments to IAS 32

These amendments clarify the meaning of currently has a legally enforceable right to set-off and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. The application of these amendments has had no impact on the Group s financial position or results.

IFRIC Interpretation 21 Levies (IFRIC 21)

This interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The adoption of IFRIC 21 did not have a significant impact in these interim financial statements.

Novation of Derivatives and Continuation of Hedge Accounting Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation (that was not contemplated on the original hedging documentation) of a derivative designated as a hedging instrument meets certain criteria: the novation is made pursuant to laws or regulations, a clearing counterparty becomes the new counterparty to each of the original parties and changes to the terms of the derivative are limited to those necessary to change the counterparty. The application of these amendments has had no impact on the Group s financial position or results.

Recoverable Amount Disclosures for Non-Financial Assets Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 Fair Value Measurement on the disclosures required under IAS 36. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed during the period. These amendments did not have impacts in these interim financial statements.

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New standards and amendments to standards issued but not effected as of June 30, 2014

At the date of preparation of the interim financial statements, the following IFRS and amendments had been published, but their application was not mandatory:

Standards and amendments		**Mandatory application: annual periods beginning on or after**
IFRS 9	*Financial Instruments*	To be determined
Amendments to IFRS 7	*Disclosures Transition to IFRS 9*	To be determined
Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*	July 1, 2014
Improvements to IFRSs 2010-2012		July 1, 2014
Improvements to IFRSs 2011-2013		July 1, 2014
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*	January 1, 2016
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*	January 1, 2016
IFRS 15	*Revenues from Contracts with Customers*	January 1, 2017

Based on the analyses made to date, the Group estimates that the adoption of most of these standards, amendments and improvements will not have a significant impact on the consolidated financial statements in the initial period of application. However, IFRS 15 is likely to have an impact in the timing and amount of revenue recognition in connection with certain bundled sales transactions. The Group is currently assessing the impact of the application of this standard. Also, the changes introduced by IFRS 9 will affect financial instruments and transactions with financial instruments carried out on or after the effective date of such standard.

Note 5. Segment information

On February 26, 2014, the Board of Directors of Telefónica, S.A. approved the implementation of a new organizational structure completely focused on clients and which incorporates the digital offering as the main focus for commercial policies. The structure gives greater visibility to local operators, bringing them closer to the corporate decision-making center, simplifying the Group s global structure and strengthening the transverse areas to improve flexibility and agility in decision making.

As a result of this organization, the new structure is made up of the following segments: Telefónica Spain, Telefónica Brazil, Telefónica Germany, Telefónica UK and Telefónica Hispanoamérica (formed by the Group s operators in Argentina, Chile, Peru, Colombia, México, Venezuela and Central America, Ecuador and Uruguay). These segments include all information relating to wireline, wireless, cable, internet and television businesses and other digital services in accordance with each location. Other companies and eliminations includes the companies belonging to the transverse areas as well as other Group companies and eliminations in the consolidation process.

The results of the Group s segments in the first half of 2013 were revised to reflect this new organization.

Segment reporting takes into account the impact of the purchase price allocation to assets acquired and the liabilities assumed from the companies included in each segment. The assets and liabilities presented in each segment are those managed by the heads of each segment, irrespective of their legal structure.

The Group manages borrowing activities and taxes centrally. Therefore, it does not disclose the related assets, liabilities, revenue and expenses by reportable segments. In addition, revenue and expenses arising from intra-group invoicing for the use of the trademark and management services have been eliminated from the operating results of each Group segment. These adjustments have no impact on the Group s consolidated results.

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The following table presents income and capital expenditures information regarding the Group s operating segments for the six months ended June 30, 2014 and 2013:

January-June 2014

Millions of euros	Telefónica Spain	Telefónica UK	Telefónica Germany	Telefónica Brazil	Telefónica Hispanoamérica	Other and eliminations	Total Group
External revenues	5,887	3,322	2,275	5,468	7,003	1,002	24,957
Inter-segment revenues	105	22	9	16	63	(215)	
Other operating income and expenses	(3,247)	(2,539)	(1,769)	(3,752)	(4,799)	(796)	(16,902)
Operating income before depreciation and amortization (OIBDA)	**2,745**	**805**	**515**	**1,732**	**2,267**	**(9)**	**8,055**
Depreciation and amortization	(905)	(554)	(583)	(876)	(1,072)	(173)	(4,163)
Operating income	**1,840**	**251**	**(68)**	**856**	**1,195**	**(182)**	**3,892**
Capital expenditures	**703**	**375**	**266**	**833**	**1,234**	**112**	**3,523**

January-June 2013 (revised)

Millions of euros	Telefónica Spain	Telefónica UK	Telefónica Germany	Telefónica Brazil	Telefónica Hispanoamérica	Other and eliminations	Total Group
External revenues	6,442	3,213	2,428	6,415	8,136	1,929	28,563
Inter-segment revenues	117	21	17	15	59	(229)	
Other operating income and expenses	(3,430)	(2,477)	(1,842)	(4,361)	(5,621)	(1,411)	(19,142)
Operating income before depreciation and amortization (OIBDA)	**3,129**	**757**	**603**	**2,069**	**2,574**	**289**	**9,421**
Depreciation and amortization	(1,023)	(502)	(616)	(1,160)	(1,345)	(459)	(5,105)
Operating income	**2,106**	**255**	**(13)**	**909**	**1,229**	**(170)**	**4,316**
Capital expenditures	**627**	**1,071**	**296**	**742**	**973**	**194**	**3,903**

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The following table compares segment assets, liabilities and investments accounted for by the equity method at June 30, 2014 and December 31, 2013:

June 2014

Millions of euros	Telefónica Spain	Telefónica UK	Telefónica Germany	Telefónica Brazil	Telefónica Hispanoamérica	Other and eliminations	Total Group
Investments accounted for by the equity method	2	3		3	2	2,358	2,368
Fixed assets	13,918	11,045	8,853	22,117	15,387	2,126	73,446
Total allocated assets	18,048	14,169	11,860	29,460	23,518	20,384	117,439
Total allocated liabilities	10,320	4,561	4,022	8,515	14,823	47,462	89,703

December 2013

Millions of euros	Telefónica Spain	Telefónica UK	Telefónica Germany	Telefónica Brazil	Telefónica Hispanoamérica	Other and eliminations	Total Group
Investments accounted for by the equity method	6	11		2	1	2,404	2,424
Fixed assets	14,191	10,781	9,143	20,648	16,071	2,188	73,022
Total allocated assets	18,895	13,144	11,682	27,324	24,432	23,385	118,862
Total allocated liabilities	9,258	4,051	3,213	8,294	16,177	50,387	91,380

Note 6. Business combinations

No material business combinations were finalized within the Group in the six months ended June 30, 2014 and 2013. Changes to the scope of consolidation are detailed in Appendix I.

Note 7. Intangible assets, property, plant and equipment and goodwill

The movements in Intangible assets and Property, plant and equipment in the first half of 2014 are as follows:

Millions of euros	Intangible assets	Property, plant and equipment	Total
Balance at December 31, 2013	**18,548**	**31,040**	**49,588**
Additions	594	2,929	3,523
Depreciation and amortization	(1,500)	(2,663)	(4,163)
Disposals	(4)	(29)	(33)
Translation differences and hyperinflation adjustments	515	(19)	496
Transfers and others	186	(193)	(7)
Balance at June 30, 2014	**18,339**	**31,065**	**49,404**

Additions of intangible assets in the first half of 2014 include investments for the acquisition of spectrum amounting to 189 million euros, in Colombia (110 million euros) and Panama (79 million euros).

The movement in Goodwill in the first half of 2014 is as follows:

Millions of euros	Goodwill
Balance at December 31, 2013	**23,434**
Translation differences and hyperinflation adjustments	607
Additions	1
Balance at June 30, 2014	**24,042**

Note 8. Related parties

Significant shareholders

The main transactions carried out between Group companies and significant shareholders Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) and Caja de Ahorros y Pensiones de Barcelona (La Caixa), including the dependent subsidiaries of their respective consolidated groups and their subsidiaries, are as follows:

Revenues and expenses **Millions of euros**	**January-June 2014**	**January-June 2013**
Finance costs	21	26
Receipt of services	35	43
Other expenses	2	3
EXPENSES	**58**	**72**
Finance income	24	14
Dividends received(1)	8	9
Services rendered	73	53
Sale of goods	2	4
Other income	52	8
REVENUES	**159**	**88**

Other transactions **Millions of euros**	**January-June 2014**	**January-June 2013**
Finance arrangements: loans and capital contributions (borrower)	350	1,577
Guarantees	585	730
Commitments	101	90
Finance arrangements: loans and capital contributions (lender)	5,210	812
Financial lease contracts	4	
Dividends	225	
Factoring operations	108	168
Derivative transactions (nominal value)	19,789	14,797
Other transactions	1	

(1) At June 30, 2014, Telefónica holds a 0.75% stake in the share capital of BBVA.

Other related parties

Certain members of Telefónica, S.A. s Board of Directors are also board members of Abertis Infraestructuras, S.A., the parent company of Abertis. In the first half of 2014, Telefónica Móviles España, S.A.U. transferred 635 mobile phone towers to Abertis pursuant to a framework agreement signed between the two in 2013, generating a gain of 55 million euros recognised under Other income in the accompanying consolidated income statement.

Associates and joint ventures

The breakdown of amounts recognized in the consolidated statements of financial position and income statements related to associates and joint ventures is as follows:

Millions of euros	**06/30/2014**	**12/31/2013**
Investments accounted for by the equity method	2,368	2,424
Loans to associates and joint ventures	1,301	1,281
Receivables from associates and joint ventures for current operations	85	85
Financial debt, associates and joint ventures	22	20
Payables to associates and joint ventures	733	578

Millions of euros	**January-June 2014**	**January-June 2013**
Share of (loss) profit of investments accounted for by the equity method	(60)	28
Revenue from operations with associates and joint ventures	247	293
Expenses from operations with associates and joint ventures	246	340
Financial income with associates and joint ventures	25	17
Financial expenses with associates and joint ventures	9	3

In the first six months of 2014, the Group has entered into factoring agreements through the associate Telefónica Factoring España, S.A. amounting to 110 million euros (311 million euros in the six first months of 2013).

On June 16, 2014 the three Italian shareholders, which together with Telefónica, S.A. form the shareholder structure of Telco, S.p.A., requested that a demerger process be initiated for this company in accordance with that established in the Shareholders Agreement. The implementation of this demerger process, approved at the General Shareholders Meeting of Telco, S.p.A. on July 9, 2014, is subject to prior approval from the competition and telecommunication authorities where necessary (see Note 13).

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Directors and Senior Executives compensation and other information

Pursuant to the disclosures established in *Circular 1/2008, of January 30*, of the *Comisión Nacional del Mercado de Valores* (the Spanish national securities commission, or CNMV), on periodic reporting by issuers, the compensation and benefits paid to members of the Company s Board of Directors in the first six months of 2014 and 2013 are as follows:

Directors

Thousands of euros	**January-June 2014**	**January-June 2013**
Fixed remuneration	5,172	5,385
Variable remuneration (1)	8,722	6,808
Attendance fees	83	97
Other (2)	1,943	1,655
TOTAL	**15,920**	**13,945**

(1) Variable amount linked to the performance or achievement of individual or group objectives (quantitative or qualitative) for a period equal to or up to a year. The bonuses referred to 2013, that were paid during the first quarter of 2014, were as follows: Mr. César Alierta Izuel 3,050,000 euros, Mr. José María Álvarez-Pallete López 2,900,000 euros, Mrs. Eva Castillo Sanz 1,463,712 euros, and Mr. Santiago Fernández Valbuena 4,109,666 Brazilian Real (1,308,160 euros at the exchange rate of June 2014). The increase in the variable compensation is strictly technical and due to the fact that 2014 is first time that the bonus of a Director has been integrated totally and covering the whole year.

(2) Other : Includes, inter alia, amounts received for: (i) medical and dental insurance premiums; (ii) compensation for membership of the various regional advisory committees; and (iii) contributions made by the Telefónica Group to the Pension Plan for Senior Executives (Retirement Plan).

Other benefits for Directors

Thousands of euros	**January-June 2014**	**January-June 2013**
Pension funds and plans: contributions	74	87
Life insurance premiums	50	82
TOTAL	124	169

In addition, the total amounts paid to Senior Executives of the Company, excluding those that are also members of the Board of Directors, for all items in the first six months of 2014 and 2013 are as follows.

Executives

Thousands of euros	**January-June 2014**	**January-June 2013**
Total compensation paid to Directors	8,356	7,858

Note 9. Changes in equity and shareholder remuneration

Dividends and capital increase

Approval was given at the Board of Directors   Meeting of April 25, 2014 to pay a gross 0.4 euros dividend per outstanding share against 2014 profit. This dividend was paid on May 7, 2014 and the total amount paid was 1,790 million euros.

Approval was given at the General Shareholders   Meeting of May 30, 2014 to pay a scrip dividend consisting of the assignment of free allotment rights with an irrevocable purchase commitment by the Company, and a subsequent capital increase by means of the issue of new shares to fulfill said allotments.

For the first half of 2013, approval was given at the General Shareholders   Meeting of May 31, 2013 to pay a gross 0.35 euros dividend per share outstanding with a charge to unrestricted reserves. The dividend was paid on November 6, 2013 and the total amount paid was 1,588 million euros.

Other equity instruments

On March 25, 2014, Telefónica Europe, B.V. issued undated deeply subordinated reset rate guaranteed securities in an aggregate principal amount of 1,750 million euros. This issue entails two tranches: one of them subject to a call option exercisable by Telefónica Europe, B.V. starting on the sixth anniversary of the issuance date in an aggregate principal amount of 750 million euros (the   Sixth-Year Non-Call Securities), and the other subject to a call option exercisable by Telefónica Europe, B.V. starting on the tenth anniversary of the issuance date in an aggregate principal amount of 1,000 million euros (the   Tenth-Year Non-Call Securities). In both tranches there is an early redemption option for the issuer.

The Sixth-Year Non-Call Securities will accrue a fixed coupon at a rate of 5% annually as from the issuance date up to March 31, 2020 (not inclusive). From March 31, 2020 (inclusive) onwards, the Sixth-Year Non-Call Securities will accrue a fixed coupon equal to the applicable 6 year euro swap rate plus a margin of: (i) 3.804% per year as from March 31, 2020 up to March 31, 2024 (not inclusive); (ii) 4.054% per year as from March 31, 2024 up to March 31, 2040 (not inclusive); and (iii) 4.804% per year as from March 31, 2040.

The Tenth-Year Non-Call Securities will accrue a fixed coupon at a rate of 5.875% annually as from the issuance date up to March 31, 2024 (not inclusive). From March 31, 2024 (inclusive) onwards, the Tenth-Year Non-Call Securities will accrue a fixed coupon equal to the applicable 10 year euro swap rate plus a margin of: (i) 4.301% per year as from March 31, 2024 up to March 31, 2044 (not inclusive); (ii) 5.051% per year as from March 31, 2044.

Translation differences

In the first six months of 2014, the equity attributable to the equity holders of the parent decreased by 272 million euros due to exchange rate movements, mainly the depreciation of the Venezuelan bolivar (see Note 3) and the Argentine peso, partially offset by the appreciation of the Brazilian real and the pound sterling.

Treasury shares

The following transactions involving treasury shares were carried out in the six months ended June 30, 2014 and 2013:

	Number of shares
Treasury shares at December 31, 2013	**29,411,832**
Acquisitions	54,925,679
Disposals	(125,080)
Treasury shares at June 30, 2014	**84,212,431**

	Number of shares
Treasury shares at December 31, 2012	**47,847,810**
Acquisitions	67,016,797
Disposals	(91,688,795)
Treasury shares at June 30, 2013	**23,175,812**

The cost of the acquired treasury shares in the first semester of 2014 was 633 million euros (698 million euros in the same period of 2013).

Treasury shares in portfolio at June 30, 2014 are directly held by Telefónica, S.A. and represent 1.85% of its share capital.

An agreement was reached with qualified and professional investors on March 26, 2013 whereby the Company disposed of all the treasury shares it held (90,067,896 shares) at a price of 10.80 euros per share.

The Group held 110 million and 150 million options on treasury shares, to be settled physically, at June 30, 2014 and 2013, respectively.

The Company also has a derivative financial instrument on approximately 31 million Telefónica shares, subject to net settlement, recognized under Current financial assets of the accompanying consolidated statement of financial position.

On June 30, 2014, the first phase of the Telefónica, S.A. long-term incentive plan called Performance and Investment Plan (PIP) ended, which did not entail the delivery of any shares to Telefónica Group managers.

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Note 10. Financial assets and liabilities

The breakdown of financial assets and liabilities of the Telefónica Group at June 30, 2014 and December 31, 2013 is as follows:

June 30, 2014

	Fair value through profit or loss				Measurement hierarchy			Rest of financial assets			
Millions of euros	**Held for trading**	**Fair value option**	**Available-for-sale**	**Hedges**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Held-to-maturity investments**	**at amortized cost**	**Total carrying amount**	**Total fair value**
Non-current financial assets	**1,947**	**253**	**1,294**	**1,419**	**880**	**4,033**		**149**	**2,868**	**7,930**	**7,930**
Investments			731		605	126				731	731
Long-term credits		253	563		90	726		47	1,730	2,593	2,161
Deposits and guarantees								102	1,570	1,672	1,672
Derivative instruments	1,947			1,419	185	3,181				3,366	3,366
Impairment losses									(432)	(432)	
Current financial assets	**494**	**143**	**60**	**132**	**316**	**513**		**164**	**12,007**	**13,000**	**13,000**
Financial investments	494	143	60	132	316	513		164	1,876	2,869	2,869
Cash and cash equivalents									10,131	10,131	10,131
Total financial assets	**2,441**	**396**	**1,354**	**1,551**	**1,196**	**4,546**		**313**	**14,875**	**20,930**	**20,930**

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Condensed consolidated interim financial statements
2014

June 30, 2014

	Fair value through profit or loss			Measurement hierarchy					
Millions of euros	**Held for trading**	**Fair value option**	**Hedges**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Liabilities at amortized cost**	**Total carrying amount**	**Total Fair value**
Issues							42,306	42,306	46,141
Loans and other payables	2,030		1,337	160	3,207		14,060	17,427	17,536
Total financial liabilities	**2,030**		**1,337**	**160**	**3,207**		**56,366**	**59,733**	**63,677**

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December 31, 2013

	Fair value through profit or loss				Measurement hierarchy						
Millions of euros	**Held for trading**	**Fair value option**	**Available-for-sale**	**Hedges**	**Level 1 (Quoted prices)**	**Level 2 (Other directly observable market inputs)**	**Level 3 (Inputs not based on observable market data)**	**Held-to-maturity investments**	**Rest of financial assets at amortized cost**	**Total carrying amount**	**Total fair value**
Non-current financial assets	**1,462**	**356**	**1,101**	**1,205**	**746**	**3,378**		**36**	**3,615**	**7,775**	**7,775**
Investments			550		433	117				550	550
Long-term credits		356	551		171	736		7	2,562	3,476	3,127
Deposits and guarantees								29	1,403	1,432	1,431
Derivative instruments	1,462			1,205	142	2,525				2,667	2,667
Impairment losses									(350)	(350)	
Current financial assets	**548**	**146**	**54**	**125**	**327**	**546**		**727**	**10,494**	**12,094**	**12,094**
Financial investments	548	146	54	125	327	546		727	517	2,117	2,117
Cash and cash equivalents									9,977	9,977	9,977
Total financial assets	**2,010**	**502**	**1,155**	**1,330**	**1,073**	**3,924**		**763**	**14,109**	**19,869**	**19,869**

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December 31, 2013

Millions of euros	Fair value through profit or loss			Measurement hierarchy					
	Held for trading	Fair value option	Hedges	Level 1 (Quoted prices)	Level 2 (Other directly observable market inputs)	Level 3 (Inputs not based on observable market data)	Liabilities at amortized cost	Total carrying amount	Total Fair value
Issues							43,418	43,418	46,120
Loans and other payables	1,315		1,631	111	2,835		14,335	17,281	17,401
Total financial liabilities	**1,315**		**1,631**	**111**	**2,835**		**57,753**	**60,699**	**63,521**

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The movements in the Group s issues in the six months ended June 30, 2014 and 2013 are as follows:

Millions of euros	Balance at December 31, 2013	Issues	Repurchases or redemptions	Net foreign exchange and other differences	Balance at June 30, 2014
Debt securities issued in an EU member state, which required the registration of a prospectus	27,189	2,248	(4,558)	(27)	24,852
Debt securities issued in an EU member state, which did not require the registration of a prospectus	919	578		1	1,498
Other debt securities issued outside of EU member states	15,310	429	(216)	433	15,956
TOTAL	**43,418**	**3,255**	**(4,774)**	**407**	**42,306**

Millions of euros	Balance at December 31, 2012	Issues	Repurchases or redemptions	Net foreign exchange and other differences	Balance at June 30, 2013
Debt securities issued in an EU member state, which required the registration of a prospectus	28,565	3,700	(2,794)	(613)	28,858
Debt securities issued in an EU member state, which did not require the registration of a prospectus	228			(17)	211
Other debt securities issued outside of EU member states	16,536	2,027	(2,157)	(757)	15,649
TOTAL	**45,329**	**5,727**	**(4,951)**	**(1,387)**	**44,718**

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The description of the main issues or cancellations in the first half of 2014 is as follows (in millions):

suer	ISIN Code	Issue / Redemption	Type of security	Transaction date	Nominal amount (million)	Issue currency	Equivalent (million euros)	Interest Rate	Listing Market
2 Telefónica eutschland nanzierungs, mbh	XS1025752293	Issue	Bond	02/10/14	500	EUR	500	2.375%	Luxembou
elefónica misiones, A.U.	XS1046491657	Issue	Bond	03/26/14	200	EUR	200	Euribor 3m + 65b.p.	London
elefónica misiones, A.U.	XS1053304991	Issue	Bond	04/10/14	200	EUR	200	Euribor 3m + 75b.p.	London
elefónica misiones, A.U.	XS1069430368	Issue	Bond	05/27/14	1,250	EUR	1,250	2.242%	London
elefónica misiones, A.U.	XS1053304991	Issue	Retap Bond	06/04/14	100	EUR	100	Euribor 3m + 75b.p.	London
elefónica misiones, A.U.	US87938WAS26	Issue	Bond	06/23/14	500	USD	366	Libor 3m + 65b.p.	New Yorl
elefónica misiones, A.U.	XS0279928385	Redemption	Bond	01/31/14	(296)	GBP	(360)	5.888%	London
elefónica misiones, A.U.	XS0410258833	Redemption	Bond	02/03/14	(2,000)	EUR	(2,000)	5.431%	London
elefónica misiones, A.U.	XS0284891297	Redemption	Bond	02/07/14	(1,500)	EUR	(1,500)	4.674%	London
elefónica, A.	ES0278430998	Redemption	Bond	05/29/14	(582)	EUR	(582)	4.184%	Madrid
elefónica, A.	Various	Redemption	Promissory Note	Various	(185)	EUR	(185)	1.745%	n/a
elefónica urope, B.V.	Various	Issue	Commercial Paper	Various	2,684	EUR	2,684	0.411%	n/a
elefónica urope, B.V.	Various	Redemption	Commercial Paper	Various	(2,105)	EUR	(2,105)	0.372%	n/a

Telefónica, S.A. has a full and unconditional guarantee on issues made by Telefónica Emisiones, S.A.U. and Telefónica Europe, B.V.

In relation with the issuance of preferred securities of 2,000 million euros made on December 30, 2002 by Telefónica Finance USA, L.L.C., on June 30, 2014 there was a redemption (in the amount of 59 million euros) of the remaining 58,765 preferred securities, face value of 1,000 euros. On June 30, 2014 the issuance was redeemed in full and there were no outstanding preferred securities after this redemption.

Interest-bearing debt arranged in the first half of 2014 includes mainly the following:

Transaction description	Limit 06/30/2014 (millions)	Currency	Outstanding balance 06/30/2014 (million of euros)	Arrangement date	Maturity date	Drawdown (million of euros)	Repayment (million of euros)
Telefónica, S.A.							
Syndicated revolving credit facility Tranche B(1)		EUR		07/28/10	02/18/14		
Syndicated loan Tranche A2(2)	1,113	EUR	1,113	07/28/10	07/28/14		(888)
Bilateral loan(3)		EUR		02/27/12	02/27/15		(200)
Syndicated loan Tranche D2(4)		EUR		03/02/12	12/14/15		(923)
Bilateral loan on supplies (5)		EUR		02/21/13	02/21/16		(206)
Bilateral loan	2,000	EUR	2,000	06/26/14	06/26/17	2,000	
Syndicated revolving credit facility Tranche B(1)	3,000	EUR		02/18/14	02/18/19		
Telefónica Europe, B.V.							
Syndicated loan Tranche D1 (6)		EUR		03/02/12	12/14/15		(801)

(1) On 02/18/14 a syndicated credit revolving facility for 3,000 million euros was signed, entering into effect on 02/25/14, canceling the syndicated credit facility dated on 07/28/10 scheduled to mature originally on 07/28/15.
(2) 1,400 million euros under Tranche A2 were refinanced with forward start facilities (Tranche A2A and A2B) dated 02/22/13 (available from 07/28/14). During the first half of 2014, 888 million euros were canceled of the forward start facilities (Tranche A2A and A2B).
(3) On 02/27/14 an early repayment was made for 200 million euros.
(4) On 02/07/14 an early repayment was made for 923 million euros of the syndicated loan (Tranche D2).
(5) On 06/16/14 an early repayment was made for 206 million euros.
(6) On 02/07/14 an early repayment for 801 million euros of the syndicated loan (Tranche D1).

Note 11. Average number of Group employees

The average number of Group employees in the first six months of 2014 and 2013 is as follows:

Average number of employees	June 2014	June 2013
Males	74,291	81,316
Females	45,589	50,566
Total	**119,880**	**131,882**

The average number of employees in the first six months of 2013 included 6,053 employees of Telefónica Czech Republic, which was removed from the consolidation scope on January 1, 2014 (see Note 3).

Note 12. Income tax

The deviation in the first six months of 2014 and 2013 with respect to the income tax expense that would result from applying the statutory tax rates prevailing in each country where the Telefónica Group operates is due to the existence of tax incentives and non-deductible expenses in accordance with the rulings of the various tax authorities, and the recognition of the tax effects identified in the Group s regular evaluation of the recoverability of tax losses.

Thus, comparing the accompanying income statements for the first six months of 2014 and 2013, the main change in the consolidated effective tax rate is due to the impact of the Law 12,973/14, resulting from the conversion of Interim Measure 627/13, published in Brazil on May 13, 2014. This law governs the tax effects arising from the Brazilian adoption of the International Financial Reporting Standards (IFRS) and terminates the Transitional Tax Regime (RTT) established by Law 11,941/09. As a result of the entry into force of this new law, the tax effects were revisited for certain assets arising from the business combination of Telesp and Vivo Participaçoes and, therefore, the Telefónica Group revised the deferred tax assets associated with such assets. The impact led to a reduction in costs under Corporate income tax in the consolidated income statement for the first half of 2014 and amounted to 394 million euros (291 million euros in the Profit for the period attributable to equity holders of the parent).

With regards to the tax litigation currently being pursued by the Telefónica Group companies in Peru, the courts did not hand down any final ruling during the first half of 2014 that would alter the classification given to these lawsuits.

In the case in which Telefónica del Perú, S.A.A. is questioning the legality of the fine imposed by the SUNAT in relation to payments on account for financial year 2000, precautionary measure has been requested, for which a counter-measure (*contracautela*) for the sum of 105 million euros will have to be posted. Further precautionary measures for a combined total of 357 million euros had already been obtained as of December 31, 2013.

Furthermore, Telefónica del Perú, S.A.A. has requested SUNAT to return the amounts it had unduly charged in 2012 and 2013. This request finds support in the rulings of the Peruvian Tax Court (*Tribunal Fiscal*) which, marking an end to the complaint proceedings instituted by Telefónica del Perú, S.A.A., found that the amounts in question did not constitute valid and enforceable tax debts.

At June 30, 2014 the Group has assessed the situation with respect to all tax inspections outstanding, and does not expect that the conclusion thereof would give rise to the need to recognize any material liabilities in the Group s condensed consolidated interim financial statements.

Note 13. Other information

Litigation

With regard to ongoing litigation, the main developments in litigation reported in Note 21.a) to the consolidated annual financial statements for the year ended December 31, 2013 from that date to the date of authorization for issue of these interim financial statements are as follows:

Appeal against the European Commission Ruling of July 4, 2007 against Telefónica de España´s broadband pricing policy

On July 10, 2014 the Court of Justice of the European Union dismissed the appeal, maintaining the fine imposed for abuse of dominant position (margin squeeze) wholesale prices charged by Telefónica, S.A. and Telefónica de España, S.A.U., for broadband access in Spain and ending the appeal.

The related provision, which at December 31, 2013 was recognised under Non-current provisions , was reclassified to Current provisions in the consolidated statement of financial position at June 30, 2014.

Judicial appeals against the decisions by the Conselho Administrativo de Defesa Econômica (CADE) regarding the acquisition by Telefónica, S.A. of stakes in Portugal Telecom and Telco, S.p.A.

On December 4, 2013, the Brazilian Antitrust Regulator, CADE announced, the two following decisions:

1. To approve, with the restrictions mentioned below, the acquisition by Telefónica of the entire participation held by Portugal Telecom, SGPS S.A., and PT Móveis Serviços de Telecomunicações, SGPS, S.A., (the PT Companies) in Brasilcel, N.V., which controlled the Brazilian mobile company, Vivo Participações, S.A.:

   (a) The entry of a new shareholder in Vivo, sharing with Telefónica, S.A. the control of Vivo in conditions identical to those that were applicable to the PT Companies when they had a participation in Brasilcel N.V., or

   (b) That Telefónica, S.A. ceases to have any direct or indirect financial interest in TIM Participações S.A.

2. To impose on Telefónica, S.A. a fine of 15 million Brazilian Reais, for having allegedly breached the spirit and the goal of the agreement signed between Telefónica, S.A. and CADE (as a condition to the approval of Telefónica, S.A.´s original acquisition of an interest in Telecom Italia in 2007), due to the subscription of non-voting shares of Telco, S.p.A. on a recent capital increases. This decision also requires Telefónica, S.A. to divest such non-voting shares of Telco, S.p.A.

The fine imposed by CADE on Telefónica, S.A. relates to the agreement reached on September 24, 2013 between Telefónica and the other shareholders of the Italian company Telco, S.p.A. (which holds a 22.4% stake with voting rights of Telecom Italia, S.p.A.) whereby Telefónica, S.A. subscribed and paid out a share capital increase in Telco, S.p.A., through a cash contribution of 324 million euros, in exchange for shares with voting rights in Telco, S.p.A. As a result of this capital increase, the interest held by Telefónica in the voting share capital of Telco, S.p.A. remains unchanged (i.e. 46.18%), although its interest in the total share capital of Telco, S.p.A. stands at 66%.

On July 9, 2014, Telefónica, S.A. filed a judicial appeal against both decisions, requesting they be overturned citing numerous procedural improprieties (the rulings were issued before Telefónica, S.A. presented its allegations) and a clear lack of legal grounds. At the same time, it requested the decisions be rendered null as CADE has not provided any proof that Telefónica s actions undermine competition or infringe on applicable legislation. In this respect, the decision regarding the acquisition by Telefónica of PT s indirect stake in Vivo Participações, S.A. was issued three years after the deal was approved by the Brazilian telecoms regulator, ANATEL (Agencia Nacional de Telecomunicaciones de Brasil). The transaction was completed prior approval by the CADE was not required at the time- immediately after ANATEL s approval on September 27, 2010.

Commitments

The main developments with regard to commitments and information reported in this connection in Note 21.b) to the consolidated financial statements for the year ended December 31, 2013 from that date to the date of authorization for issue of these interim financial statements are as follows:

Agreement with Telekom Deutschland AG

In connection with the agreement signed between Telefónica Deutschland and Telekom Deutschland in December 2013, on March 13, 2014, the European Commission responded to the notification and raised no serious objections. On March 18, 2014, the Federal Network Agency (Bundesnetzagentur hereinafter, FNA) published its final decision confirming its draft decision from December 2013. With the final FNA decision, the cooperation came into effect on March 18, 2014. A decision by the Federal Cartel Office (Bundeskartellamt hereinafter, FCO) is expected in the second half of 2014. The start of the cooperation is not dependent on the decision of the FCO however If the FCO were to object to the cooperation following its review, renegotiations would be necessary.

The completion of the transition to Telekom Deutschland s NGA platform is expected for 2019.

Agreements for the acquisition of the shares of Distribuidora de Televisión Digital, S.A. (DTS)

On June 2, 2014, Telefónica de Contenidos, S.A.U. (Telefónica de Contenidos) formalized a stock purchase agreement with Promotora de Informaciones, S.A. (PRISA) for the acquisition of 56% of the share capital of Distribuidora de Televisión Digital, S.A. (DTS), for an amount of a 750 million euros. The acquisition of the shareholding by PRISA in DTS is subjected to obtaining the approval of the competition authorities.

Furthermore, on July 4, 2014, Telefónica de Contenidos, S.A.U. acquired 22% of the share capital of DTS owned by Mediaset España Comunicación, S.A. (MEDIASET) for an amount of 295 million euros. Moreover, a payment of an amount of 30 million euros has been agreed as consideration for the waiver of its pre-emptive right relating the stake held by PRISA in DTS, aforementioned in the previous paragraph.

The agreement considers, additionally, that Mediaset will receive an amount of 10 million euros in the event that Telefónica de Contenidos closes the acquisition of the 56% stake of DTS held by PRISA, and, in that case, an amount of up to 30 million euros depending on the evolution of the pay-TV customers in Spain of the Telefónica Group during the 4 years following the closing of the acquisition by Telefónica de Contenidos of the 56% stake of DTS held by PRISA.

Agreement for the sale of the stake in Telefonica Ireland, Ltd.

On July 15, 2014, after obtaining the corresponding regulatory authorizations, Telefónica has concluded the 100% sale of Telefónica Ireland, Ltd. ´s participation to Hutchison Whampoa Group.

The purchasing amount reached 850 million euros, including the initial cash payment of 780 million euros received in the transaction closing date and one postponed additional payment of 70 million euros, which will be paid off according to the compliance of the financial targets settled before.

The closing of the transaction has no impact on the 2014 results.

Agreement for the acquisition of E-Plus

On July 2, 2014 Telefónica Deutschland received the EU Commission s conditional clearance to acquire the E-Plus Group from the Dutch telecommunication corporation KPN.

In connection with such conditional clearance, on June 25, 2014, Telefónica Deutschland signed an agreement with Drillisch Group (Drillisch), according to which Drillisch agreed to acquire, in addition to the capacity necessary to provide services to its existing customers hosted on Telefónica Deutschland s or E-Plus networks, 20% of the capacity of all mobile networks that will be under the control of Telefónica Deutschland following the consummation of the proposed acquisition of E-Plus Group. The 20% will be reached via a glide path mechanism over a period of 5 years. In addition, Drillisch shall have the right to acquire up to 10% additional capacity of those networks.

Telefónica Deutschland will grant Drillisch, via a Mobile Bitstream Access model, access to the future joint network of Telefónica Deutschland and E-Plus, as well as to the existing and future technology developments on that network, which Drillisch may offer to its customers.

As indicated above, through this agreement, some remedies offered by Telefónica Deutschland within the framework of the decision that should be made by the European Union as regards the acquisition process of E-Plus by Telefónica Deutschland will be implemented.

This agreement will only become effective if the European Commission conditionally clears the acquisition of E-Plus and confirms that the agreement with Drillisch complies with the conditions and obligations attached to the approval of the proposed transaction.

Agreement with the shareholders of Telco, S.p.A.

On June 16, 2014 the three Italian shareholders of Telco, S.p.A. requested the initiation of the process of demerger (spin off) of the Company, as provided in the Shareholders Agreement. Implementation of the demerger, approved by the General Meeting of Shareholders of Telco, S.p.A. held on July 9, 2014, is subject to obtaining any required anti-trust and telecommunications approvals (including Brazil and Argentina). Once the aforementioned approvals are obtained, this decision will be implemented by transferring all the current stake of Telco, S.p.A. in Telecom Italia to four newly created companies. The share capital of each of these companies will belong in its entirety to each of the shareholders of Telco, S.p.A. and each of these companies will receive a number of shares of Telecom Italia S.p.A. proportional to the current economic stake in Telco, S.p.A. of its respective shareholder.

The application process of the aforementioned anti-trust and telecommunications approvals (including Brazil and Argentina) to proceed to the demerger (spin off) of Telco, S.p.A. has already started, once completed in Italy the corresponding corporate documents.

As detailed in the following Note 14, on July 24, 2014, Telefónica, S.A. has issued mandatory exchangeable bonds, on the maturity date, for a maximum ordinary shares of Telecom Italia representing 6.5% of its current voting share capital, for an amount of 750 million euros and maturing on July 24, 2017. The bonds may be exchanged in advance with the transfer of the shares, except under certain circumstances where the Company may opt to redeem the bonds in cash. As a result of this transaction, Telefónica, S.A., after the Telco, S.p.A. demerger and the later transfer of the underlying shares of the bonds, will reduce its stake in Telecom Italia Sp.A., which will be between 8.3% and 9.4% in Telecom Italia S.p.A. current voting share capital.

Note 14. Events after the reporting period

The following events regarding the Group took place between the reporting date and July 30, 2014:

Financing

On July 7, 2014, Telefónica, S.A., made an early repayment for 400 million euros of its syndicated loan (tranche A2) dated July 28, 2010 and scheduled to mature originally on July 28, 2014.

On July 7, 2014, Telefónica, S.A., canceled 513 million euros of its forward start facilities (Tranche A2A and A2B) dated February 22, 2013 and available from July 28, 2014, canceling in full its forward start facilities.

On July 7, 2014, Telefónica, S.A., made an early repayment for 500 million euros of its syndicated loan (tranche A3) dated July 28, 2010 and scheduled to mature originally on July 28, 2016.

On July 14, 2014, Telefónica Finanzas México, S.A. de C.V. redeemed 4,000 million Mexican pesos (equivalent to 226 million euros) of its Certificados Bursátiles , guaranteed by Telefónica S.A., issued on July 19, 2010.

On July 24, 2014, Telefónica, S.A. issued a 750 million euros bond mandatory exchangeable into Telecom Italia ordinary shares and maturing on July 24, 2017. The bonds will accrue a nominal fixed interest rate of 6.0% per annum. The minimum exchange price of the bonds has been set at 0.8600 euros and the maximum exchange price at 1.0320 euros per ordinary share of Telecom Italia, which represents a premium of 20% over said minimum exchange price.

On July 28, 2014, Telefónica, S.A., made an early repayment for 713 million euros of its syndicated loan (tranche A2) dated July 28, 2010 and scheduled to mature originally on July 28, 2014.

On July 30, 2014, Telefónica, S.A., made an early repayment for 1,172 million euros of its syndicated loan (tranche A3) dated July 28, 2010 and scheduled to mature originally on July 28, 2016.

Acquisition of 11.11% of Mediaset Premium

On July 7, 2014, Telefónica S.A. reached an agreement with Reti Televisive Italiane S.p.A. (RTI) for the acquisition by the first of 11.11% stake of the capital of a new created company, which will consolidate the pay-TV business of Mediaset Group in Italy which is currently commercialized under the name of Mediaset Premium . The purchase price of the aforementioned 11.11% stake equals 100 million euros.

Agreement for the sale of the stake in Telefonica Ireland, Ltd.

On July 15, 2014, after obtaining the corresponding regulatory authorizations, Telefónica has concluded the 100% sale of Telefónica Ireland, Ltd. ´s participation to Hutchison Whampoa Group (see Note 13).

Agreement for the acquisition of E-Plus

On July 2, 2014 Telefónica Deutschland has received the EU Commission s conditional clearance to acquire the E-Plus Group from the Dutch telecommunication corporation KPN (see Note 13).

Note 15. Additional note for English translation

These interim financial statements were originally prepared in Spanish. In the event of a discrepancy, the Spanish language prevails.

These interim financial statements are presented on the basis of International Accounting Standards (IAS) 34 Interim Financial Reporting and article 12 of Royal Decree 1362/2007. Consequently, certain accounting practices applied by the Group do not conform with generally accepted principles in other countries.

Appendix I. Changes in the scope of consolidation

The main changes in the consolidation scope taking place in the first half of 2014 were as follows:

Telefónica Czech Republic, a.s.

On November 5, 2013, Telefónica signed an agreement to sell 65.9% of the share capital of Telefónica Czech Republic, a.s. The transaction was completed on January 28, 2014, once the pertinent regulatory authorisation was obtained, being removed from the consolidation perimeter from January 1, 2014. Subsequent to the transaction, Telefónica holds a 4.9% stake in the company. On June 21 Telefónica Czech Republic, a.s. changed its name to O2 Czech Republic, a.s.

Acquisition of eyeOS, S.L.

In March 2014 Telefónica Digital España, S.L.U. acquired the 100% stake of the company eyeOS, S.L. The company has been incorporated in Telefónica s Group financial statements under the full consolidation method.

Acquisition of Axonix Ltd.

In April 2014 Telefónica Digital, Ltd. acquired 30% stake of the company Axonix Ltd. It has control through a shareholder agreement and a majority of seats on the Board of Directors. This company has been incorporated in Telefónica s Group financial statements under the full consolidation method.

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Interim consolidated management report

TELEFONICA GROUP

Consolidated Results

On February 26, 2014, the Board of Directors of Telefónica, S.A. approved the implementation of a new organizational structure completely focused on clients and which incorporates the digital offering as the main focus of commercial policies. The structure gives greater visibility to local operators, bringing them closer to the corporate decision-making center, simplifying the Group s global structure and strengthening the transverse areas to improve flexibility and agility in decision making.

As a result of this organization, the new structure is made up of the following segments: Telefónica Spain, Telefónica Brazil, Telefónica Germany, Telefónica UK and Telefónica Hispanoamérica (formed by the Group s operators in Argentina, Chile, Peru, Colombia, México, Venezuela and Central America, Ecuador and Uruguay). These segments include all information relating to wireline, wireless, cable, internet and television businesses and other digital services in accordance with each location. Other companies and eliminations includes the companies belonging to the transverse areas as well as other Group companies and eliminations in the consolidation process.

Telefónica managed a total of 315.8 million accesses as of June 30, 2014, down 0.5% year-on-year, impacted by the sale of the fixed business s residential assets in the UK and the sale of Telefónica Czech Republic since January 1, 2014. Excluding these effects, total accesses would have increased by 2% year-on-year, driven by the growth of mobile contract customers, especially mobile broadband customers, and pay TV accesses. Of particular note is the progress of Telefónica Hispanoamérica s accesses (41% of total accesses of the Group), which increased by 4% year-on-year and Telefónica Brazil s accesses (30% of total accesses, up 4% year-on-year).

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

Mobile accesses were 249.4 million as of June 30, 2014 showing stability year-on-year in the total mobile accesses and increasing 3.8% in the contract segment, but excluding the effect of the disposal of T. Czech Republic the growth would be of 3% in total and 9% increase in the contract segment. The growth was mainly driven by the increased penetration of smartphones.

The Group s **mobile broadband accesses** stood at 81.3 million as of June 30, 2014, maintaining solid growth of 28% year-on-year, and representing 33% of mobile accesses (+7 p.p. year-on-year). Underpinning this growth was the strong performance of smartphones, which achieved a penetration of 32% over the customer base (+8 p.p. year-on-year), with net additions of 8 million in the first semester of 2014.

Retail fixed broadband accesses totaled 17.6 million, down 3.5% year-on-year affected by the disposal of T. Czech Republic. Without this effect accesses would increase 1% year-on-year.

Pay TV accesses reached 4.2 million as of June 30, 2014, up 26% year-on-year, highlighting the performance of Telefónica Spain and the double-digit year-on-year growth of Telefónica Hispanoamérica and Telefónica Brazil.

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

Accesses

Thousands of accesses	Jan-Jun 2013	Jan-Jun 2014	%Var 13/14
Fixed telephony accesses (1) (2) (3)	39,520.8	37,544.0	(5.0%)
Internet and data accesses	19,023.3	18,168.2	(4.5%)
Narrowband	590.0	411.9	(30.2%)
Broadband (4)	18,287.3	17,642.6	(3.5%)
Other (5)	145.9	113.6	(22.1%)
Mobile accesses	249,460.0	249,428.6	(0.0%)
Prepay (6)	164,550.6	161,299.0	(2.0%)
Contract	84,909.4	88,129.6	3.8%
Pay TV (7)	3,327.1	4,191.9	26.0%
Unbundled loops	3,522.0	3,979.1	13.0%
Shared ULL	157.6	105.5	(33.1%)
Full ULL	3,364.4	3,873.7	15.1%
Wholesale ADSL	857.6	751.3	(12.4%)
Other	1,623.6	1,708.1	5.2%
Final Clients Accesses	**311,331.2**	**309,332.7**	**(0.6%)**
Wholesale Accesses	**6,003.2**	**6,438.6**	**7.3%**
Total Accesses	**317,334.4**	**315,771.3**	**(0.5%)**

Notes:

Access refers to a connection to any of the telecommunications services offered by Telefónica. Because a single fixed customer may contract for multiple services, we count the number of accesses or services a customer has contracted for. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than one.

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 our number of fixed line accesses, we multiply our lines in service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, x20 or x10); 2/6 digital accesses (x30).

Internet and data accesses includes retail broadband accesses (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 other accesses, including the remaining non-broadband final client circuits. **Naked ADSL** allows customer to subscribe for a broadband connection without a monthly fixed line fee.

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

Mobile accesses count each active SIM as an access regardless of the number of services contracted through the SIM. Mobile accesses include accesses to mobile network for voice and/or data services (including connectivity). Mobile accesses are categorized into contract and prepay accesses.

Mobile broadband includes Mobile Internet (internet access from devices also used to make voice calls e.g. 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).

Unbundled/shared 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, **Full ULL**) or only DSL service (shared unbundled loop, Shared ULL).

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

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(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. Includes VoIP and Naked ADSL.
(2) In the first quarter of 2014, 45 thousand fixed wireless inactive accesses were disconnected in Mexico.
(3) Since the second quarter of 2014, fixed telephony accesses include 50 thousand fixed wireless additional customers in Peru.
(4) Includes ADSL, satellite, optical fiber, cable modem and broadband circuits.
(5) Retail circuits other than broadband.
(6) In the first quarter of 2014, 1.9 million inactive accesses were disconnected in Mexico.
(7) Since the second quarter of 2014, Pay TV accesses include 131 thousand TV Mini customers in Spain.

Revenues totaled 24,957 million euros in the first half of 2014, decreasing 12.6% in reported terms, impacted by the exchange rate differences and the effect of hyperinflation in Venezuela which reduced year-on-year growth by 10.9 p.p. Additionally, revenues were negatively affected by changes in the consolidation perimeter (3.1 p.p.), mainly due to the deconsolidation of Telefonica Czech Republic. Excluding all these impacts, revenues in the first half of 2014 would have increased by 1.4% year-on-year.

The structure of revenues reflects the Group s diversification and despite the above-mentioned foreign exchange rate effects, Telefonica Hispanoamérica accounted for 28.3% of consolidated revenues in the first half of 2014 (-0.4 p.p. compared with the first half of 2013), Telefonica Spain accounted for 24.0% of consolidated revenues (up 1.0 p.p. compared with the first half of 2013), Telefonica Brazil accounted for 22.0% of consolidated revenues (-0.5 p.p. compared with the first half of 2013), Telefonica UK accounted for 13.4% of consolidated revenues (up 2.1 p.p. compared with the first half of 2013) and Telefonica Germany 9.2% of total revenues (+0.6 p.p. compared with the first half of 2013).

Mobile data revenues totaled 5,789 million euros in the first half of 2014, a year-on-year decrease of 5.9% in reported terms, primarily due to foreign exchange rate effects and the impact of hyperinflation in Venezuela. Excluding these impacts, mobile data revenues would have increased by 9.0% and accounted for 40% of mobile service revenues, up 3 p.p. compared with the first half of 2013. Especially noteworthy is the growth in non-SMS data revenues (+7.5% year-on-year in reported terms and +23.8% year-on-year excluding the impact of foreign exchange rate differences and the effect of hyperinflation in Venezuela), which accounted for 72% of total data revenues in the period in reported terms (+9 p.p. year-on-year in reported terms).

Exchange rate fluctuations, in particular the depreciation of the Brazilian real and the Argentine peso along with the implicit devaluation of the Venezuelan bolivar following the introduction of the new exchange rate mechanism (SICAD I), negatively impacted the financial results of the first half of 2014. Thus, in the first half of 2014, exchange rates fluctuations deducted 10.9 p.p. from the year-on-year revenue growth and operating income before depreciation and amortization (OIBDA) growth.

Other income mainly includes own work capitalized in the Group s fixed assets, profit from the sale of other assets, and the disposal of non-strategic towers. Year-on-year variation is mainly due to the impact in 2013 of the capital gain from the disposal of assets relating to the fixed business in the UK (73 million euros) and the capital gain from the sale of Hispasat (21 million euros). It is also affected by the sale of non-strategic towers (55 million euros of impact in OIBDA in 2014, mainly in Spain, compared with 35 million euros in the first half of 2013, mainly in Brazil).

Total consolidated expenses, which include supplies, personnel expenses and other expenses (primarily external services and taxes), amounted to 17,593 million euros in the first half of 2014. This represented an 11.8% year-on-year decrease in reported terms, which was primarily due to:

- Exchange rate differences and the effect of hyperinflation in Venezuela (-10.7 p.p.);
- Changes in the consolidation perimeter caused by the disposal of Telefónica Czech Republic (-2.8 p.p.); and
- Value adjustment of Telefonica Ireland (-0.1 p.p.).

Excluding the aforementioned items, total expenses grew 1.8% in the first half of 2014 compared with the first half of 2013, mainly due to higher commercial, network and systems costs, which could not be offset by savings from the operating model transformation and Telefonica s scale.

- **Supplies** stood at 7,265 million euros in the first half of 2014, falling 13.9% with respect to the same period in 2013, largely impacted by exchange rate differences and the effect of hyperinflation in Venezuela, which reduced this item by 8.7 p.p. Additionally, the year-on-year change is affected by changes in the consolidation perimeter (-3.1 p.p.). Excluding both effects, these expenses fell 2.3%, due to lower mobile interconnection costs, more than offsetting increased handset and TV content consumption.

Personnel expenses totaled 3,277 million euros in the first half of 2014 and fell by 11.4% in reported terms, mainly impacted by exchange rate differences and the effect of hyperinflation in Venezuela (which resulted in a decrease of 10.9 p.p.) and changes in the consolidation perimeter (-3.2 p.p.). Excluding both effects, personnel expenses would have increased by 2.8% mainly reflecting the negative impact of inflation in some countries, which were not fully offset by the savings from the restructuring plans carried out in recent years (mainly in Spain, Brazil and the UK). Non-recurring restructuring expenses amounted to 11 million euros in the first half of 2014 (5 million euros in the UK) compared with 98 million euros in the same period of 2013 primarily in Brazil, Czech Republic and the UK (48 million euros in the last one).

The average headcount was 119.880 employees in the first half of 2014, down 9.1% compared with the first half of 2013, primarily due to the deconsolidation of Telefónica Czech Republic. Excluding this impact, the average headcount would have decreased by 4.7% year-on-year.

Other expenses amounted to 7,051 million euros in the first half of 2014, falling 9.7% mainly due to the impact of exchange rate differences and the effect of hyperinflation in Venezuela (-12.8 p.p.). In addition, other expenses were also affected by changes in the consolidation perimeter (-2.2 p.p.), value adjustment of Telefonica Ireland (-0.2 p.p.) and sale of non-strategic towers (-0.1 p.p.). Excluding these effects, other expenses would have increased by 5.7% mainly as a result of commercial expenses, network costs related to data traffic growth and expenses associated with network modernization.

OIBDA reached 8,055 million euros in the first half of 2014, a decrease of 14.5% against the same period in 2013, as a result of:

- Exchange rate differences and the effect of hyperinflation in Venezuela (-10.9 p.p.);

- The higher amount of non-strategic towers sold in the first half of 2014 mainly in Spain (55 million euros) compared to the first half of 2013 (35 million euros, 30 million euros in Brazil and 5 million euros in Hispanoamérica mainly in Chile and Mexico). This effect represented 0.2 p.p. of the OIBDA growth;

- Changes in the consolidation perimeter mainly caused by the disposal of Telefónica Czech Republic (-3.7 p.p.); and

- First half of 2013 is affected by the value adjustment of Telefonica Ireland (16 million euros, +0.2 p.p.) and the capital gain from the sale of Hispasat (21 million euros; -0.2 p.p.).

Excluding the aforementioned items, OIBDA for the first half of 2014 would be practically in line with the same period of 2013 (-0.1%).

OIBDA margin was 32.3% in the first half of 2014, down 0.7 p.p. year-on-year in reported terms.

By segment, Telefónica Spain contributed the most to consolidated OIBDA, accounting for 34.1% (+0.9 p.p. versus the first half of 2013), Telefónica Hispanoamérica represented 28.1% (+0.8 p.p. versus the first half of 2013) and Telefonica UK accounted 10.0% increasing 1.9 p.p. compared with first half of 2013. By contrast, Telefónica Brazil reduced its contribution to OIBDA by 0.5 p.p. versus the first half of 2013 (accounting for 21.5% of total OIBDA in the first half of 2014).

Depreciation and amortization in the first half of 2014 totaled 4,163 million euros, 18.5% lower year-on-year in reported terms, 11.8% lower than the first half of 2013 excluding exchange rate differences and the effect of hyperinflation in Venezuela. Total depreciation and amortization charges arising from purchase price allocation processes amounted to 318 million euros (-25.1% year-on-year).

Operating income (OI) in the first half of 2014 stood at 3,892 million euros, down 9.8%, highly impacted by exchange rate differences and the effect of hyperinflation in Venezuela (-15.6 p.p.). Additionally the year-on-year change was affected by the higher amount of non-strategic towers sold in the first half of 2014 as compared to the first half of 2013 (+0.5 p.p.), changes in the consolidation perimeter due to the desconsolidation of Telefónica Czech Republic (-2.3 p.p.), the accounting in 2013 of the value adjustment of Telefonica Ireland (+0.4 p.p.) and the capital gain from the sale of Hispasat (-0.5 p.p.). Excluding these impacts, operating income would have increased 7.9% year-on-year.

Share of profit (loss) of investments accounted for by the equity method was a loss of 60 million euros in the first half of 2014, mainly due to losses registered on the Telco, S.p.A. investment.

Net financial expenses amounted to 1,380 million euros in the first half of the year, of which 137 million euros were due to net negative foreign exchange differences primarily as a result of the implicit devaluation of the Venezuelan bolivar. Excluding this effect, net financial expenses fell 8.0% year-on-year due to a 15.3% reduction in average debt and an improvement in credit spreads. The effective cost of debt over the last twelve months was 5.58%, 24 basis points higher than in December 2013, as most of the average debt reduction has been in euros and Czech crowns (with below average costs).

Corporate income tax in the first half of 2014 totaled 350 million euros over an income before taxes of 2,452 million euros, implying an effective tax rate of 14.3%. This is 11.2 p.p. lower year-on-year, mainly due to the impact of the revaluation of deferred taxes in Brazil, following a regulatory change.

Profit attributable to minority interests reduced net income by 199 million euros in the first half of 2014 (-138 million euros in the first six months of 2013) mainly as a result of the higher profit attributed to minority interests in Brazil (affected by the aforementioned revaluation of deferred taxes).

As a result, **consolidated net income** in the first half amounted to 1,903 million euros, 7.5% lower year-on-year, and **basic earnings per share** amounted to 0.41 euros (-11.0% year-on-year).

With regards to investment, the Company continued focused on technological transformation and network modernization, with over 71% of total investment devoted to business transformation and growth. **CapEx** totaled 3,523 million euros, decreasing year-on-year 9.8% in reported terms, to mention that CapEx included 189 million euros relating to spectrum acquisition in the first half of 2014 primarily in Colombia and Central America compared to 834 million euros in the first half of 2013 mainly in UK, Spain, Brazil and Uruguay.

Operating cash flow (OIBDA-CapEx) totaled 4,533 million euros, 17.9% lower year-on-year as compared to the first half of 2013.

Interest payments amounted to 1,547 million euros in the first half of 2014, 2.3% higher year-on-year, due to the greater concentration of coupon payments in the period and non-recurring impacts that offset lower interest payments relating to the 15.3% reduction in average debt.

Payment of taxes totaled 546 million euros, 331 million euros less than in the first half of 2013, mainly due to compensation of losses from previous years and lower advanced payments.

Working capital improved by 767 million euros compared with the first half of 2013 and consumed 472 million euros in the first half of 2014, mainly due to the seasonality of payments for investment in tangible assets. The improvement was mainly due to the increase of deferred income from advanced collections in Germany, lower spectrum acquisition payments versus accruals and working capital management measures, focused on factoring collections from handset sales and maintaining supplier financing.

Operations with minority shareholders totaled 254 million euros in January-June 2014, 35 million euros less than in the same period of 2013, affected by changes in the perimeter of consolidation (sale of Telefónica Czech Republic) and the performance of the Brazilian real on Telefónica Brasil dividend payment.

As a result, the amount available to remunerate Telefónica, S.A. shareholders, to protect solvency levels (financial debt and commitments) and to accommodate strategic flexibility, amounted to 1,664 million euros (1,821 million euros excluding spectrum payments), 14.7% higher year-on-year.

Net financial debt stood at 43,791 million euros at the end of June 2014, down 6,002 million euros year-on-year and 1,590 million euros in the last six months.

Net financial debt reduction was mainly due to the sale of T. Czech Republic for 2,306 million euros (1,966 million euros collected and 340 million euros deferred payment), the placement of Undated Deeply Subordinated Securities in the amount of 1,750 million euros considered as equity instruments and free cash flow generation before spectrum payments of 1,821 million euros. In contrast, factors that increased debt include Telefónica, S.A. dividend payment of 1,790 million euros, the implicit devaluation of the Venezuelan bolivar (1,110 million euros), the payment of labor commitments mainly associated with early retirements (458 million euros), spectrum payments (157 million euros) and other factors that increased debt by 772 million euros, including financial investments and the net purchase of treasury stock.

The **leverage ratio (net debt over OIBDA)** for the last 12 months stood at 2.47 times at the end of June 2014.

In the first half of 2014, **Telefónica s financing activity** through bond and loan markets stood at around 9,880 million equivalent euros. This activity was mainly focused on strengthening the liquidity position, actively managing the cost of debt and smoothing the debt maturity profile of Telefónica, S.A. for the following years. Therefore, as of the end of June, the Group maintains a comfortable liquidity position to accommodate the next debt maturities. In Hispanoamérica, Telefónica s subsidiaries tapped financing markets for approximately 151 million equivalent euros in the January-June period. Also noteworthy is the 500 million euros bond placement by T. Deutschland in January.

Telefónica, S.A. and its holding companies have remained active under the various Commercial Paper Programmes (Domestic and European), with an outstanding balance of approximately 1,687 million euros at the end of June.

Telefónica maintains total undrawn committed credit lines with different credit entities for an approximate amount of 12,083 million euros, with around 10,763 million euros maturing in more than 12 months.

Segment Results

Some of the figures in the following tables are compared at a constant exchange rate in order to analyze period-on-period performance excluding the effects of exchange rate variations. For certain of the financial results discussed below, comparisons have been made using the previous year s average exchange rate to convert the figure and by excluding the consideration of Venezuela as a hyperinflationary economy. In these cases, a comment of excluding foreign exchange rate effects or excluding foreign exchange rate effects and the consideration of Venezuela as a hyperinflationary economy (or similar wording) has been indicated.

Some figures discussed further below have been compared in local currency (LC), taking the financial magnitudes in the relevant local currency as they were registered in the corresponding periods.

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TELEFÓNICA SPAIN

ACCESSES

Thousands of accesses	January-June 2013	January-June 2014	%Var 13/14
Fixed telephony accesses (1)	11,420.3	10,715.4	(6.2%)
Naked ADSL	22.5	21.9	(2.9%)
Internet and data accesses	5,860.5	5,913.8	0.9%
Narrowband	50.2	39.0	(22.3%)
Broadband (2)	5,795.6	5,862.0	1.1%
Other (3)	14.7	12.8	(12.9%)
Mobile accesses	19,782.3	17,863.6	(9.7%)
Prepay	4,769.5	3,767.8	(21.0%)
Contract	15,012.8	14,095.8	(6.1%)
Pay TV (4)	632.5	1,209.5	91.2%
WLR (5)	488.6	556.0	13.8%
Unbundled loops	3,475.3	3,979.1	14.5%
Shared ULL	157.6	105.5	(33.1%)
Full ULL (6)	3,317.6	3,873.7	16.8%
Wholesale ADSL	662.2	702.5	6.1%
Other (7)	0.4	0.3	(25.6%)
Final Clients Accesses	**37,695.5**	**35,702.4**	**(5.3%)**
Wholesale Accesses	**4,626.5**	**5,238.0**	**13.2%**
Total Accesses	**42,322.0**	**40,940.4**	**(3.3%)**

Note:

(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) Leased lines.
(4) Since the second quarter of 2014, Pay TV accesses include 131 thousand TV Mini customers.
(5) Wholesale Line Rental.
(6) Includes naked shared loops.
(7) Wholesale circuits.

In a market environment with an increasing preference from customers for higher quality services, the focus on fiber and the introduction of TV in all Movistar Fusión offers, have fostered the acquisition of new customers and driven churn reduction across services (mobile contract, fixed broadband, pay TV and fixed telephony accesses).

On the other hand, it is worth to note that the additional value included in the new Movistar Fusión TV portfolio is attracting new and existing customers to the higher ARPU offers. Accordingly, the weight of convergent gross additions in Movistar Fusión TV packages priced at 60 euros/month or more continued to increase. In addition, the existing Fusión customers repositioned in the new offer also have higher ARPU than before the repositioning in June.

Telefónica España managed 40.9 million accesses at the end of June 2014, down 3% year-on-year, impacted by the disconnection of 569 thousand inactive M2M mobile contract accesses in the first half of 2014 and the booking of TV Mini customers (+131 thousand TV accesses).

It is worth to note that there has been a significant increase in the installation backlog due to the high number of requests for the new Movistar Fusión TV offer.

Movistar Fusión , with a customer base of 3.4 million and 1.3 million additional mobile lines, maintained solid year-on-year growth (+55% and +51% respectively), representing 67% of fixed broadband customers and 52% of mobile contract customers in the residential segment. Once again, the percentage of new customers and customers contracting additional services increased accounting for 73% of net additions until June.

Retail fixed telephony accesses (-6% year-on-year) posted a net loss of 374 thousand accesses until June.

Retail broadband accesses (5.9 million at the end of June) grew by 1% year-on-year, with net additions of 15 thousand accesses until June due to the increase of fiber accesses and the gradual reduction of churn (1.6% in the first half of 2014; -0.1 p.p. year-on-year).

Fiber customers continued posting strong growth reaching 861 thousand accesses at the end of June (including 70 thousand customers of fiber 10 Mb), almost double the figure in June 2013 after recording 267 thousand net additions in the first half of the year. Fiber customers (100 Mb) net additions amounted to 197 thousand accesses in the semester, 66% higher year-on-year.

At the end of June 2014, fiber coverage stood at 7.4 million premises (5.0 million households), almost double the figure in June 2013. The year-end target is approximately 10 million premises, which will further extend the reach of the Company s differential offer.

It is also noteworthy that fiber (100 Mb) customers have higher ARPU (currently, a 10 euros price premium) and lower churn (0.6 times) than ADSL customers.

Pay TV accesses almost doubled June 2013 figures reaching 1.2 million, driven by the success of the new convergent offer, with Movistar TV as the key differentiation lever in terms of quality, user experience and content.

131 thousand TV Mini customers were included in the total access base (IP TV package with seven free channels included in the convergent fiber offer launched in September 2013). Excluding these customers, Pay TV net additions totaled 406 thousand in the first half of the year versus negative net additions totaled 78 thousand in the same period in 2013. Also noteworthy is the year-on-year reduction in churn (2.4%; -1.4 p.p. year-on-year).

Total mobile accesses stood at 17.9 million, down 10% compared with June 2013, impacted by the disconnection of inactive M2M mobile contract accesses mentioned above. The contract segment continued to increase its weight over the total to 79% (+3 p.p. year-on-year).

It should also be underlined that 70% of contract mobile customers in the residential segment have already migrated to Fusión or the new mobile tariffs launched in 2013.

Smartphone penetration grew to 56% (+10 p.p. year-on-year) and drove a ramp-up in data traffic growth to 11% year-on-year. LTE coverage reached 47% of the population at the end of June.

RESULTS

Millions of euros

Telefónica Spain	**January-June 2013**	**January-June 2014**	**%Var 13/14**
Revenues	6,559	5,992	(8.6%)
Wireless business	**2,634**	**2,299**	**(12.7%)**
Mobile service revenues	2,373	1,982	(16.5%)
Wireline business	**4,428**	**4,184**	**(5.5%)**
OIBDA	3,129	2,745	(12.3%)
OIBDA Margin	47.7%	45.8%	(1.9 p.p)
Depreciation and Amortization	(1,023)	(905)	(11.5%)
Operating income (OI)	2,106	1,840	(12.7%)
CapEx	627	703	12.1%
OpCF (OIBDA CapEx)	2,502	2,042	(18.4%)

Note: OIBDA and OI before management and brand fees.

Revenues totaled 5,992 million euros in the first half of 2014, down 8.6% year-on-year, with the pace of decline continuing to stabilise on the back of the improved commercial activity, the lower impact of customer repositioning, and the growth in revenues from handset sales; without yet reflecting the impact of the change in commercial trend in the second quarter.

Excluding handset sales and regulatory impacts (interconnection and roaming), revenues would decline 7.7% year-on-year in the first half of the year.

The breakdown of revenue by business, as well as the ARPU, is becoming less relevant given the high penetration level of the convergent offer:

Fixed business revenues (4,184 million euros) fell 5.5% year-on-year in the first half of 2014.

Mobile business revenues (2,299 million euros) declined 12.7% year-on-year in the first half of 2014. Mobile service revenues declined 16.5% year-on-year in the first half.

Mobile ARPU is becoming less representative as Movistar Fusión penetration increases owing to the allocation of revenue between the fixed and mobile businesses. In the first half of 2014 mobile ARPU declined by 13.3% year-on-year, impacted by the termination rate cut in July 2013 (-60%).

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Telefónica Spain	**January-June 2013**	**January-June 2014**	**%Var 13/14**
Traffic (million minutes)	17,012.1	17,575.5	3.3%
ARPU (EUR) (1)	**18.4**	**16.0**	**(13.3%)**
Prepay	7.5	6.1	(18.1%)
Contract (2)	25.1	20.9	(16.8%)
Data ARPU (1)	**6.7**	**6.9**	**3.3%**
% rev. non-SMS over data revenues	91.2%	95.1%	3.9 p.p.

Notes:

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

Total expenses amounted to 3,481 million euros in the first half, down 3.5% year-on-year, as a result of strict cost control and efficiencies achieved. Breakdown by component:

Supplies (1,236 million euros) fell by 3.2% year-on-year in the first half of 2014, as a consequence of lower mobile interconnection costs.

Personnel expenses (1,057 million euros) declined 2.4% year-on-year in the first half of the year on the back of the savings related to the redundancy programme ended in 2013 (64 million euros) and the temporary removal of the Company s contribution to the pension plan (28 million euros). At the end of June of 2014, Telefónica Spain s headcount totaled 29,781 employees (-1.6% year-on-year).

Other expenses (1,188 million euros) fell 4.8% year-on-year in the first half, mainly reflecting efficiencies resulting from process simplification, redefinition of distribution channels and insourcing of activities, and despite the increased commercial focus on advertising and handset sales.

OIBDA amounted to 2,745 million euros in the first six months, 12.3% down on the same period of the previous year, with an OIBDA margin of 45.8% (-1.9 p.p. year-on-year; -2.8 p.p. excluding the sale of non-strategic towers), despite the pressure on revenues.

Excluding the sale of non-strategic towers for 54 million euros in the first half, OIBDA declined 14.0% in the first half, impacted by the Company s increased commercial efforts to capture the value observed in the market, in a macro environment showing clear signs of improvement and despite the highly competitive market conditions.

CapEx amounted to 703 million euros in the first half of 2014 (+12.1% year-on-year), affected by the booking of 65 million euros in the first half of 2013 for the extension of the spectrum license for the 900 MHz. Excluding this impact, CapEx rose 24.9% year-on-year in the first half of 2014, reflecting the faster pace of connection of fiber and TV customers and the rapid rollout of fiber and LTE, key levers to maintain leadership in quality and access speed and to foster growth businesses in the sector.

TELEFÓNICA UK

ACCESSES

Thousands of accesses	January-June 2013	January-June 2014	%Var 13/14
Fixed telephony accesses (1)	192.7	217.9	13.1%