TELEFONICA S A
Form 6-K
February 26, 2016
Table of Contents

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of February, 2016

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant s name into English)

Distrito Telefónica, Ronda de la Comunicación s/n,

28050 Madrid, Spain

3491-482 87 00

(Address of principal executive offices)

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

Form 20-F x Form 40-F ¨

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

Yes ¨ No x

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

Yes ¨ No x

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

Yes ¨ No x

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

Table of Contents

Telefónica, S.A.

TABLE OF CONTENTS

Table of Contents

Telefónica, S.A. hereby submits the Individual Annual Accounts of Telefónica, S.A. and the Consolidated Annual Accounts of Telefónica S.A. and its Group of Subsidiaries for 2015 financial year, that have been filed with the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores - CNMV).

The aforesaid Annual Accounts will be submitted for approval of the next Annual General Shareholders Meeting of the Company, the dates of which will be announced due course.

Madrid, February 26th, 2016

Table of Contents

AUDIT REPORT, ANNUAL FINANCIAL STATEMENTS, AND MANAGEMENT REPORT OF TELEFÓNICA, S.A., ALL FOR THE YEAR ENDED DECEMBER 31, 2015

Table of Contents

Independent Audit Report

TELEFÓNICA, S.A.

Financial Statements and Management Report

for the year ended

December 31, 2015

Table of Contents

Translation of a report and financial statements originally issued in Spanish. In the event of

discrepancy, the Spanish-language version prevails (See Note 24)

INDEPENDENT AUDIT REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders of

Telefónica, S.A.

Report on the financial statements

We have audited the accompanying financial statements of Telefónica, S.A., which comprise the balance sheet at December 31, 2015, and the income statement, the statement of changes in equity, the cash flow statement, and the notes thereto for the year then ended.

Directors responsibility for the financial statements

The Directors are responsible for the preparation of the accompanying financial statements so that they give a true and fair view of the equity and financial position and the results of Telefónica, S.A., in accordance with the regulatory framework for financial information applicable to the Entity in Spain, identified in Note 2.a to the accompanying financial statements, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor s responsibility

Our responsibility is to express an opinion on the accompanying financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of financial statements by the Directors of the Company in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Domicilio Social: PI. Pablo Ruiz Picasso. 1. 28020 Madrid - Inscrita en el Registro Mercantil de Madrid al Tomo 12749, Libro 0, Folio 215, Sección 8ª, Hoja M-23123, Inscripción 116. C.I.F. B-78970506. A member firm of Ernst & Young Global Limited.

Table of Contents

Opinion

In our opinion, the accompanying financial statements give a true and fair view, in all material respects, of the equity and financial position of Telefónica, S.A. at December 31, 2015, and its results and cash flow for the year then ended, in accordance with the applicable regulatory framework for financial information in Spain, and specifically the accounting principles and criteria contained therein.

Report on other legal and regulatory requirements

The accompanying 2015 management report contains such explanations as the Directors consider appropriate concerning the situation of the Company, the evolution of its business and other matters; however, it is not an integral part of the financial statements. We have checked that the accounting information included in the aforementioned management report agrees with the 2015 financial statements. Our work as auditors is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the Company s accounting records.

ERNST & YOUNG, S.L.

/s/ Ignacio Viota del Corte
Ignacio Viota del Corte

February 26, 2016

A member firm of Ernst & Young Global Limited

Table of Contents

2015

TELEFÓNICA, S.A.

Annual financial statements and management report for the year ended December 31, 2015

Index

Table of Contents

Table of Contents

Financial Statements

Telefónica, S.A.

Balance sheet at December 31

Millions of euros

	Notes	2015	2014
ASSETS			
NON-CURRENT ASSETS		**62,204**	**73,065**
Intangible assets	5	**55**	**58**
Software		8	13
Other intangible assets		47	45
Property, plant and equipment	6	**222**	**225**
Land and buildings		143	142
Plant and other PP&E items		62	76
Property, plant and equipment under construction and prepayments		17	7
Investment property	7	**401**	**417**
Land		94	94
Buildings		307	323
Non-current investments in Group companies and associates	8	**50,300**	**62,367**
Equity instruments		47,971	59,123
Loans to Group companies and associates		2,313	3,227
Other financial assets		16	17
Financial investments	9	**5,073**	**5,709**
Equity instruments		384	483
Loans to third parties		41	217
Derivatives	16	4,638	4,998
Other financial assets	9	10	11
Deferred tax assets	17	**6,153**	**4,289**
CURRENT ASSETS		**22,809**	**12,782**
Net assets held for sale	8	**12,508**	
Trade and other receivables	10	**594**	**1,081**
Current investments in Group companies and associates	8	**7,504**	**5,168**
Loans to Group companies and associates		7,426	5,031
Derivatives	16	40	105
Other financial assets		38	32
Investments	9	**2,060**	**1,941**
Loans to companies		60	1,399
Derivatives	16	1,996	488
Other financial assets		4	54
Accruals		**33**	**8**
Cash and cash equivalents		**110**	**4,584**

TOTAL ASSETS	**85,013**	**85,847**

The accompanying Notes 1 to 24 and Appendix I and II are an integral part of these balance sheets

Table of Contents

Financial Statements

Millions of euros

	Notes	2015	2014
Equity and liabilities			
EQUITY		**23,163**	**23,168**
CAPITAL AND RESERVES		23,953	24,232
Share capital	11	**4,975**	**4,657**
Share premium	11	**3,227**	**460**
Reserves	11	**18,105**	**18,682**
Legal		984	984
Other reserves		17,121	17,698
Treasury shares and own equity instruments	11	**(1,656)**	**(1,587)**
Profit for the year	3	**8**	**2,604**
Interim dividend	3	**(1,912)**	**(1,790)**
Other equity instruments	11	**1,206**	**1,206**
UNREALIZED GAINS (LOSSES) RESERVE	11	(790)	(1,064)
Available-for-sale financial assets		**11**	**20**
Hedging instruments		**(801)**	**(1,084)**
NON-CURRENT LIABILITIES		**46,255**	**49,351**
Non-current provisions	18	**835**	**267**
Non-current borrowings	12	**8,610**	**8,069**
Bonds and other marketable debt securities	13	800	831
Bank borrowings	14	4,825	4,027
Derivatives	16	2,847	3,122
Other debts		138	89
Non-current borrowings from Group companies and associates	15	**36,683**	**40,728**
Deferred tax liabilities	17	**88**	**179**
Long term deferred revenues		**39**	**108**
CURRENT LIABILITIES		**15,595**	**13,328**
Current provisions	18	**43**	**46**
Current borrowings	12	**1,628**	**1,201**
Bonds and other marketable debt securities	13	85	77
Bank borrowings	14	1,269	759
Derivatives	16	274	365
Current borrowings from Group companies and associates	15	**13,217**	**11,702**
Trade and other payables	18	**619**	**336**
Accruals		**88**	**43**
TOTAL EQUITY AND LIABILITIES		**85,013**	**85,847**

The accompanying Notes 1 to 24 and Appendices I and II are an integral part of these balance sheets

Table of Contents

Telefónica, S.A.

Income statements for the years ended December 31

Millions of euros	**Notes**	**2015**	**2014 (*)**
Revenue	19	**5,900**	**7,388**
Rendering of services to Group companies and associates		563	608
Rendering of services to non-group companies		4	3
Dividends from Group companies and associates		5,171	6,670
Interest income on loans to Group companies and associates		162	107
Impairment and gains (losses) on disposal of financial instruments		**(4,457)**	**(1,175)**
Impairment losses and other losses	8	(4,457)	(1,179)
Gains (losses) on disposal and other gains and losses			4
Other operating income	19	**91**	**94**
Non-core and other current operating revenue - Group companies and associates		22	23
Non-core and other current operating revenue - non-group companies		69	71
Employees benefits expense	19	**(315)**	**(233)**
Wages, salaries and others		(284)	(203)
Social security costs		(31)	(30)
Other operational expense		**(783)**	**(328)**
External services - Group companies and associates	19	(132)	(105)
External services - non-group companies	19	(624)	(198)
Taxes other than income tax		(27)	(25)
Depreciation and amortization	5, 6 and 7	**(43)**	**(64)**
Gains (losses) on disposal of fixed assets		**17**	
OPERATING PROFIT		**410**	**5,682**
Finance revenue	19	**593**	**184**
Finance costs	19	**(2,804)**	**(2,296)**
Change in fair value of financial instruments		**(19)**	**(57)**
Trading portfolio and other securities			(38)
Gain (loss) on available-for-sale financial assets recognized in the period	9 y 11	(19)	(19)
Exchange rate gains (losses)	19	**(102)**	**(103)**
Impairment and gains (losses) on disposal of financial instruments with third-parties	9.3 y 19.9	**426**	**(270)**
NET FINANCIAL EXPENSE		**(1,906)**	**(2,542)**
PROFIT BEFORE TAX	21	**(1,496)**	**3,140**
Income tax	17	**2,102**	**698**
PROFIT FOR THE YEAR CONTINUED OPERATIONS		**606**	**3,838**
Discontinued operations net of taxes	2 y 22	**(598)**	**(1,234)**
PROFIT FOR THE YEAR		**8**	**2,604**

The accompanying Notes 1 to 24 and Appendices I and II are an integral part of these income statements

(*) Revised data see Note 2

Table of Contents

Telefónica, S.A.

Statements of changes in equity for the years ended December 31

A) Statement of recognized income and expense

Millions of euros	Notes	2015	2014
Profit of the period		**8**	**2,604**
Total income and expense recognized directly in equity	11	**580**	**(360)**
From measurement of available-for-sale financial assets		467	(59)
From cash flow hedges		380	(411)
Income tax impact		(267)	110
Total amounts transferred to income statement	11	**(306)**	**127**
From measurement of available-for-sale financial assets		(481)	19
From cash flow hedges		56	163
Income tax impact		119	(55)
TOTAL RECOGNIZED INCOME AND EXPENSE		**282**	**2,371**

The accompanying Notes 1 to 24 and Appendices I and II are an integral part of these statements of changes in equity.

B) Statements of total changes in equity for the years ended December 31

Millions of euros	Share capital	Share premium and Reserves	Treasury shares	Profit for the year	Interim dividend	Other net equity instruments	Net unrealized gains (losses) reserve	Total
Balance at December 31, 2013	**4,551**	**18,988**	**(545)**	**664**			**(831)**	**22,827**
Total recognized income and expense				2,604			(233)	2,371
Transactions with shareholders and owners	106	(485)	(1,042)		(1,790)	1,206		(2,005)

Dividends paid (Note 11)	106	(348)			(1,790)			(2,032)
Transactions with treasury shares or own equity instruments (net)		(113)	(1,042)					(1,155)
Other transactions with shareholders and owners		(24)				1,206		1,182
Other movements		(25)						(25)
Appropriation of prior year profit (loss)		664		(664)				
Balance at December 31, 2014	**4,657**	**19,142**	**(1,587)**	**2,604**	**(1,790)**	**1,206**	**(1,064)**	**23,168**
Total recognized income and expense				8			274	282
Transactions with shareholders and owners	318	1,374	(69)		(1,912)			(289)
Capital increases (Note 11)	281	2,726						3,007
Capital decreases (Note 11)	(74)	(812)	886					
Dividends paid (Note 11)	111	(448)			(1,912)			(2,249)
Transactions with treasury shares or own equity instruments (net)		(75)	(1,510)					(1,585)
Other transactions with shareholders and owners		(17)	555					538
Other movements		2						2
Appropriation of prior year profit (loss)		814		(2,604)	1,790			
Balance at December 31, 2015	**4,975**	**21,332**	**(1,656)**	**8**	**(1,912)**	**1,206**	**(790)**	**23,163**

The accompanying Notes 1 to 24 and Appendices I and II are an integral part of these statements of changes in equity.

Table of Contents

Financial Statements

Telefónica, S.A.

Cash flow statements for the years ended December 31

Millions of euros	Notes	2015	2014 (*)
A) CASH FLOWS FROM OPERATING ACTIVITIES		**2,421**	**8,418**
Profit before tax		**(1,496)**	**3,140**
Adjustments to profit:		**1,137**	**(3,025)**
Depreciation and amortization	5,6 and 7	43	64
Impairment of investments in Group companies and associates	8	4,457	1,179
Change in long term provisions		81	(29)
Gains on the sale of financial assets		5	(4)
Losses on disposal of property, plant and equipment		(22)	
Dividends from Group companies and associates	19	(5,171)	(6,670)
Interest income on loans to Group companies and associates	19	(162)	(107)
Net financial expense		1,906	2,542
Change in working capital		**370**	**81**
Trade and other receivables		165	73
Other current assets		(26)	(40)
Trade and other payables		222	(49)
Other current liabilities		9	97
Other cash flows from operating activities	21	**2,410**	**8,222**
Net interest paid		(1,831)	(1,872)
Dividends received		3,091	9,750
Income tax receipts		1,150	237
Other payments/proceeds from operating activities			107
B) CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		**(2,848)**	**(3,024)**
Payments on investments	21	(4,915)	(5,704)
Proceeds from disposals	21	2,067	2,680
C) CASH FLOWS USED IN FINANCING ACTIVITIES		**(4,031)**	**(5,524)**
Payments on equity instruments		(1,615)	(21)
Proceeds from financial liabilities	21	(3,227)	(3,502)
Debt issues		8,465	10,038
Repayment and redemption of debt		(11,692)	(13,540)
Capital increase		3,048	
Dividends paid	21	(2,237)	(2,001)
D) NET FOREIGN EXCHANGE DIFFERENCE		**(16)**	**(54)**
E) NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(4,474)**	**(184)**
Cash and cash equivalents at January 1		4,584	4,768
Cash and cash equivalents at December 31		110	4,584

Notes 1 to 24 and Appendices I and II are an integral part of these cash flow statements.

(*) Revised data see Note 2

TELEFÓNICA, S.A.

Annual financial statements for the ended December 31, 2015

Note 1. Introduction and general information

Telefónica, S.A. (Telefónica or the Company) is a public limited company incorporated for an indefinite period on April 19, 1924, under the corporate name of Compañía Telefónica Nacional de España, S.A. It adopted its present name in April 1998.

The Company s registered office is at Gran Vía 28, Madrid (Spain), and its Employer Identification Number (CIF) is A-28/015865.

Telefónica s basic corporate purpose, pursuant to Article 4 of its Bylaws, is the provision of all manner of public or private telecommunications services, including ancillary or complementary telecommunications services or related services. All the business activities that constitute this stated corporate purpose may be performed either in Spain or abroad and wholly or partially by the Company, either through shareholdings or equity interests in other companies or legal entities with an identical or a similar corporate purpose.

In keeping with the above, Telefónica is currently the parent company of a group that offers both fix and mobile telecommunications with the aim to turn the challenges of the new digital business into reality and being one of the most important players. The objective of the Telefonica Group is positioning as a Company with an active role in the digital business taking advantage of the opportunities of its size and industrial and strategic alliances.

The Company is taxed under the general tax regime established by the Spanish State, the Spanish Autonomous Communities and local governments, and files consolidated tax returns with most of the Spanish subsidiaries of its Group under the consolidated tax regime applicable to corporate groups.

Note 2. Basis of presentation

a) True and fair view

These financial statements have been prepared from Telefónica, S.A. s accounting records by the Company s Directors in accordance with the accounting principles and standards contained in the Spanish GAAP in force approved by Royal Decree 1514/2007, on November 16 (PGC 2007), modified by Royal Decree 1159/2010, dated September 17, 2010 and other prevailing legislation at the date of these financial statements, to give a true and fair view of the Company s equity, financial position, results of operations and of the cash flows obtained and applied in 2015.

The accompanying financial statements for the year ended December 31, 2015 were prepared by the Company s Board of Directors at its meeting on February 24, 2016 for submission for approval at the General Shareholders Meeting, which is expected to occur without modification.

The figures in these financial statements are expressed in millions of euros, unless indicated otherwise, and therefore may be rounded. The euro is the Company s functional currency.

b) Comparison of information

In 2014 and 2015 there have not been significant transactions that should be taken into account in order to ensure the comparison of information included in the Annual Financial Statements of both years.

As a consequence of the sale agreement signed on March 24, 2015 between Telefónica, S.A. and Hutchison 3G UK Investment Limited and Hutchison 3G UK Holdings (CI) Limited (together Hutchison) and according to PGC 2007 Valuation Rule Nº 7, 11 caption, the amounts included in 2014 figures of the different captions of the profit and loss accounts referred to transactions with UK affiliates have been revised for comparative purposes as they are significant from a geographical area point of view (see Note 22).

Profit and loss caption (Millions of euros)	Approved 12/31/2014	Revision	Revised 12/31/2014
Rendering of services to Group companies	643	(35)	608
Dividends from Group companies and associates	7,974	(1,304)	6,670
Other operating income Group companies	25	(2)	23
Impairment losses	(3,679)	2,500	(1,179)
Financial expenses Group companies	(104)	(1)	(105)
Exchange rate losses	(96)	(7)	(103)
Income Tax	615	83	698
Discontinuated operations net of taxes (Note 22)		1,234	(1,234)

c) Materiality

These financial statements do not include any information or disclosures that, not requiring presentation due to their qualitative significance, have been determined as immaterial or of no relevance pursuant to the concepts of *materiality* or *relevance* defined in the PGC 2007 conceptual framework.

d) Use of estimates

The financial statements have been prepared using estimates based on historical experience and other factors considered reasonable under the circumstances. The carrying value of assets and liabilities, which is not readily apparent from other sources, was established on the basis of these estimates. The Company periodically reviews these estimates.

A significant change in the facts and circumstances on which these estimates are based could have an impact on the Company s results and financial position.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the financial statements of the following year are discussed below.

Provisions for impairment of investments in Group companies and associates

Investments in group companies, joint ventures and associates are tested for impairment at each year end to determine whether an impairment loss must be recognized in the income statement or a previously recognized impairment loss be reversed. The decision to recognize an impairment loss (or a reversal) involves estimates of the reasons for the potential impairment (or recovery), as well as the timing and amount. In note 8.2 it is assessed the impairment of these investments.

There is a significant element of judgment involved in the estimates required to determine recoverable amount and the assumptions regarding the performance of these investments, since the timing and scope of future changes in the business are difficult to predict.

Deferred taxes

The Company assesses the recoverability of deferred tax assets based on estimates of future earnings. The ability to recover these taxes depends ultimately on the Company s ability to generate taxable earnings over the period for which the deferred tax assets remain deductible. This analysis is based on the estimated schedule for reversing deferred tax liabilities, as well as estimates of taxable earnings, which are sourced from internal projections and are continuously updated to reflect the latest trends.

The appropriate valuation of tax assets and liabilities depends on a series of factors, including estimates as to the timing and realization of deferred tax assets and the projected tax payment schedule. Actual income tax receipts and payments could differ from the estimates made by the Company as a result of changes in tax legislation or unforeseen transactions that could affect tax balances. The information about deferred tax assets and unused tax credits for loss carryforwards, whose effect has been registered when necessary in balance, is included in Note 17.

Table of Contents

Note 3: Proposed appropriation of profit

Telefónica, S.A. obtained 8 million euros of profit in 2015. Accordingly, the Company s Board of Directors will submit the following proposed appropriation of 2015 profit for approval at the Shareholders Meeting:

Millions of euros	
Proposed appropriation:	
Profit for the year	8
Distribution to:	
Goodwill reserve (Note 11.1.c)	2
Legal reserve	1
Interim Dividend	5

At its meeting of April 29, 2015, the Company s Board of Directors resolved to pay an interim dividend against 2015 profit of a fixed gross 0.40 euros for each of the outstanding shares carrying dividend rights. This dividend was paid in full on May 12, 2015. The total amount paid was 1,912 million euros (see Note 11.1.d).

In accordance with Article 277 of the Spanish Companies Law, the following table shows the provisional statement issued by the Directors to substantiate that the Company had sufficient liquidity at that time to distribute this dividend.

Millions of euros	
Liquidity statement	
Income from January 1 through March 31, 2015	2,201
Mandatory appropriation to reserves	
Distributable income	2,201
Proposed interim dividend (maximum amount)	(1,975)
Cash position	
Funds available for distribution	
Cash and cash equivalents	3
Unused credit facilities	9,314
Proposed interim dividend (maximum amount)	(1,975)

Telefónica, S.A. s Board of Directors also proposes for approval at the Shareholders Meeting that the difference between the distributable profit of year 2015 and interim dividend is registered against voluntary reserves in the amount of 1,907 million euros.

Note 4. Recognition and measurement accounting policies

As stated in Note 2, the Company s financial statements have been prepared in accordance with the accounting principles and standards contained in the Código de Comercio, which are further developed in the Plan General de Contabilidad currently in force (PGC 2007), as well as any commercial regulation in force at the reporting date.

Accordingly, only the most significant accounting policies used in preparing the accompanying financial statements are set out below, in light of the nature of the Company s activities as a holding.

a) Intangible assets

Intangible assets are stated at acquisition or production cost, less any accumulated amortization or any accumulated impairment losses.

Intangible assets are amortized on a straight-line basis over their useful lives. The most significant items included in this caption are computer software licenses, which are generally amortized on a straight-line basis over three years.

b) Property, plant and equipment and investment property

Property, plant and equipment is stated at cost, net of accumulated depreciation and any accumulated impairment in value.

The Company depreciates its property, plant and equipment once the assets are in full working conditions using the straight-line method based on the assets estimated useful lives, calculated in accordance with technical studies which are revised periodically based on technological advances and the rate of dismantling, as follows:

Estimated useful life	Years
Buildings	40
Plant and machinery	3 - 25
Other plant or equipment, furniture and fixtures	10
Other items of property, plant and equipment	4 - 10

Investment property is measured and depreciated using the same criteria described for land and buildings for own use.

c) Impairment of non-current assets

Non-current assets are assessed at each reporting date for indicators of impairment. Where such indicators exist, or in the case of assets which are subject to an annual impairment test, the Company estimates the asset s recoverable amount as the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows deriving from the use of the asset or its cash generating unit, as applicable, are discounted to their present value, using a discount rate reflecting current market assessments of the time value of money and the risks specific to the asset.

Telefónica bases the calculation of impairment on the business plans of the various companies approved by the Board of Directors of Telefónica, S.A to which the assets are allocated. The projected cash flows, based on strategic business plans, cover a period of five years not including the present year when the analysis is calculated. Starting with the sixth year, an expected constant growth rate is applied.

d) Financial assets and liabilities

Financial investments

All regular way purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

Investments in group companies, joint ventures and associates are classified into a category of the same name and are shown at cost less any impairment loss (see Note 4.c). Group companies are those over which the Company exercises control, either by exercising effective control or by virtue of agreements with the other shareholders. Joint ventures are companies which are jointly controlled with third parties. Associates are companies in which there is significant influence, but not control or joint control with third parties. Telefónica assesses the existence of significant influence not only in terms of percentage ownership but also in qualitative terms such as presence on the board of directors, involvement in decision-making, the exchange of management personnel, and access to technical information.

Financial investments which the Company intends to hold for an unspecified period of time and could be sold at any time to meet specific liquidity requirements or in response to interest rate movements and which have not been included in the other categories of financial assets defined in the PGC 2007 are classified as available-for-sale. These investments are recorded under Non-current assets, unless it is probable and feasible that they will be sold within 12 months.

Derivative financial instruments and hedge accounting

When Telefónica chooses not to apply hedge accounting criteria but economic hedging, gains or losses resulting from changes in the fair value of derivatives are taken directly to the income statement.

e) Revenue and expenses

Revenue and expenses are recognized on the income statement based on an accruals basis; i.e. when the goods or services represented by them take place, regardless of when actual payment or collection occurs.

The income obtained by the Company in dividends received from Group companies and associates, and from the interest accrued on loans and credits given to them, are included in revenue in compliance with the provisions of consultation No. 2 of BOICAC 79, published on September 30, 2009.

f) Related party transactions

In mergers and spin-offs of businesses involving the parent company and its direct or indirect subsidiary, in cases of non-monetary contributions of businesses between Group companies, and in cases of dividends, the contributed assets are valued, in general, at their pre-transaction carrying amount in the individual financial statements, given that the Telefónica Group does not prepare its consolidated financial statements in accordance with the Standards on Preparing Consolidated Financial Statements (Spanish NOFCAC).

In these same operations, companies may also opt to use the consolidated values under International Financial Reporting Standards (IFRS) as adopted by the European Union, providing that the consolidated figures do not differ from those obtained under the NOFCAC. Lastly, the Company may also opt to use the values resulting from a reconciliation to the NOFCAC. Any accounting difference is taken to reserves.

g) Financial guarantees

The Company has provided guarantees to a number of subsidiaries to secure their transactions with third parties (see Note 20.a). Where financial guarantees provided have a counterguarantee on the Company s balance sheet, the value of the counterguarantee is estimated to be equal to the guarantee given, with no additional liability recognized as a result.

Guarantees provided for which there is no item on the Company s balance sheet acting as a counterguarantee are initially measured at fair value which, unless there is evidence to the contrary, is the same as the premium received plus the present value of any premiums receivable. After initial recognition, these are subsequently measured at the higher of:

i) The amount resulting from the application of the rules for measuring provisions and contingencies.

Table of Contents

ii) The amount initially recognized less, when applicable, any amounts take to the income statement corresponding to accrued income.

h) Consolidated data

As required under prevailing legislation, the Company has prepared separate consolidated annual financial statements, drawn up in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The balances of the main headings of the Telefónica Group s consolidated financial statements for 2015 and 2014 are as follows:

Millions of euros

Item	**2015**	**2014**
Total assets	122,974	122,348
Equity:		
Attributable to equity holders of the parent	17,891	21,135
Attributable to minority interests	9,665	9,186
Revenue from operations	47,219	43,458
Profit for the year:		
Attributable to equity holders of the parent	2,745	3,001
Attributable to minority interests	135	251

Table of Contents

Note 5. Intangible assets

The movements in the items composing intangible assets and the related accumulated amortization in 2015 and 2014 are as follows:

2015

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	**274**	**8**	**(30)**	**2**	**254**
Software	129	2		1	132
Other intangible assets	145	6	(30)	1	122
ACCUMULATED AMORTIZATION	**(216)**	**(13)**	**30**		**(199)**
Software	(116)	(8)			(124)
Other intangible assets	(100)	(5)	30		(75)
Net carrying amount	**58**	**(5)**		**2**	**55**

2014

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INTANGIBLE ASSETS, GROSS	**261**	**10**		**3**	**274**
Software	120	5		4	129
Other intangible assets	141	5		(1)	145
ACCUMULATED AMORTIZATION	**(203)**	**(13)**			**(216)**
Software	(108)	(8)			(116)
Other intangible assets	(95)	(5)			(100)
Net carrying amount	**58**	**(3)**		**3**	**58**

At December 31, 2015 and 2014 commitments exist to acquire intangible assets amounting to 0.2 and 0.7 million euros, respectively.

At December 31, 2015 and 2014, the Company had 164 million euros and 175 million euros, respectively, of fully amortized intangible assets.

Table of Contents

Note 6. Property, plant and equipment

The movements in the items composing property, plant and equipment and the related accumulated depreciation in 2015 and 2014 are as follows:

2015

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	**557**	**24**	**(7)**	**(2)**	**572**
Land and buildings	228	8	(4)		232
Plant and other PP&E items	322	3	(2)		323
Property, plant and equipment under construction and prepayments	7	13	(1)	(2)	17
ACCUMULATED DEPRECIATION	**(332)**	**(20)**	**2**		**(350)**
Buildings	(86)	(3)			(89)
Plant and other PP&E items	(246)	(17)	2		(261)
Net carrying amount	**225**	**4**	**(5)**	**(2)**	**222**

2014

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
PROPERTY, PLANT AND EQUIPMENT, GROSS	**567**	**6**	**(13)**	**(3)**	**557**
Land and buildings	228				228
Plant and other PP&E items	313	3		6	322
Property, plant and equipment under construction and prepayments	26	3	(13)	(9)	7
ACCUMULATED DEPRECIATION	**(305)**	**(40)**	**13**		**(332)**
Buildings	(82)	(17)	13		(86)
Plant and other PP&E items	(223)	(23)			(246)
Net carrying amount	**262**	**(34)**		**(3)**	**225**

Firm commitments to acquire property, plant and equipment at December 31, 2015 and 2014 amounted to 1 million euros and 3 million euros, respectively. At December 31, 2015 and 2014, the Company had 178 million euros and 139 million euros, respectively, of fully depreciated items of property, plant and equipment.

Telefónica, S.A. has taken out insurance policies with appropriate limits to cover the potential risks which could affect its property, plant and equipment.

Property, plant and equipment includes the net carrying amount of the land and buildings occupied by Telefónica, S.A. at its Distrito Telefónica headquarters, amounting to 68 million euros and 74 million euros at the 2015 and 2014 year-ends, respectively. Also included is the net carrying amount of the remaining assets (mainly plant and property) of 37 and 48 million euros at December 31, 2015 and 2014, respectively. The land and buildings rented to other Group Companies have been included as Investment properties in Note 7.

Table of Contents

Note 7. Investment properties

The movements in the items composing investment properties in 2015 and 2014 and the related accumulated depreciation are as follows:

2015

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	**499**		**(13)**		**486**
Land	94				94
Buildings	405		(13)		392
ACCUMULATED DEPRECIATION	**(82)**	**(10)**	**7**		**(85)**
Buildings	(82)	(10)	7		(85)
Net carrying amount	**417**	**(10)**	**(6)**		**401**

2014

Millions of euros	Opening balance	Additions and allowances	Disposals	Transfers	Closing balance
INVESTMENT PROPERTIES, GROSS	**470**	**29**			**499**
Land	65	29			94
Buildings	405				405
ACCUMULATED DEPRECIATION	**(71)**	**(11)**			**(82)**
Buildings	(71)	(11)			(82)
Net carrying amount	**399**	**18**			**417**

As of September 4th, 2014 the Company exerted its pre-emptive rights and acquired the building of its headquarters in Barcelona, known as Diagonal 00 , for 107 million euros plus transaction taxes. Until the purchase moment, the building was registered as an asset in financial leasing and the liability associated with this transaction amounted to 79.5 million euros. Having examined it, the Company estimated that the additional investment corresponded only to a higher value of land, so the difference between liability and purchase cost was booked as addition under the Land caption.

In addition to the Diagonal 00 building mentioned above, Investment properties mainly includes the value of land and buildings leased by Telefónica, S.A. to other Group companies at the Distrito Telefónica head offices in Madrid.

In October 2015 the sale of the building addressed in Don Ramón de la Cruz street (Madrid) was completed. This building had been rented as a whole to other Group companies. The profit from the sale of the asset amounting to 22 million euros has been booked as Profit from the sale of fixed assets in the profit and loss account.

In 2015, the Company has buildings with a total area of 328,314 square meters leased to several Telefónica Group and other companies, equivalent to an occupancy rate of 93.27% of the buildings it has earmarked for lease. In 2014, it had a total of 322,039 square meters leased, equivalent to an occupancy rate of 92.81% of the buildings earmarked for lease.

Table of Contents

Total income from leased buildings in 2015 (see Note 19.1) amounted to 48 million euros (49 million euros in 2014). Future minimum rentals receivable under non-cancellable leases are as follows:

Millions of euros	2015 Future minimum recoveries	2014 Future minimum recoveries
Up to one year	44	48
Between two and five years	9	17
Over 5 years	1	1
Total	**54**	**66**

The most significant lease contracts held with subsidiaries occupying Distrito Telefónica have been renewed in 2015 for a non-cancellable period of 12 months. The figures also include non-cancellable lease revenue from Diagonal 00, the contracts for which expire in July 2016.

The main contracts of operating leases in which Telefónica, S.A. acts as lessee and there is no sub-lease are described in Note 19.5.

Table of Contents

Note 8. Investments in group companies and associates

8.1. The movements in the items composing investments in Group companies, joint ventures and associates in 2015 and 2014 are as follows:

2015

Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange losses	Dividends	Hedges of a net investment	Closing balance	Fair value
Equity instruments (Net) (1)	59,123	2,354	(340)	(13,166)				47,971	110,470
Equity instruments (Cost)	82,005	6,811	(340)	(26,294)				62,182	
Impairment losses	(22,882)	(4,457)		13,128				(14,211)	
Loans to Group companies and associates	3,227	124	(202)	(795)	(41)			2,313	2,337
Other financial assets	17	18		(19)				16	16
Total non-current investment in Group companies and associates	**62,367**	**2,496**	**(542)**	**(13,980)**	**(41)**			**50,300**	**112,823**
Loans to Group companies and associates	5,031	4,779	(3,108)	795	(71)			7,426	7,438
Derivates	105	40	(105)					40	40
Other financial assets	32	19	(32)	19				38	38
Total current investments in Group companies and associates	**5,168**	**4,838**	**(3,245)**	**814**	**(71)**			**7,504**	**7,516**

(1) Fair value at December 31, 2015 of Group companies and associates quoted in an active market (Telefônica Brasil, S.A.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities business plans.

2014

Millions of euros	Opening balance	Additions	Disposals	Transfers	Exchange losses	Dividends	Hedges of a net investment	Closing balance	Fair value
Equity instruments (Net) (1)	58,155	3,549		(2,727)		(2)	148	59,123	131,415
Equity instruments (Cost)	80,107	4,728		(2,976)		(2)	148	82,005	
Impairment losses	(21,952)	(1,179)		249				(22,882)	
Loans to Group companies and associates	4,205	801	(12)	(1,789)	22			3,227	3,335
Other financial assets	20	14		(17)				17	17
Total non-current investment in Group companies and associates	**62,380**	**4,364**	**(12)**	**(4,533)**	**22**	**(2)**	**148**	**62,367**	**134,767**
Loans to Group companies and associates	5,956	4,302	(5,723)	482	14			5,031	5,031
Derivates	10	311	(216)					105	105
Other financial assets	26	19	(30)	17				32	32
Total current investments in Group companies and associates	**5,992**	**4,632**	**(5,969)**	**499**	**14**			**5,168**	**5,168**

(1) Fair value at December 31, 2014 of Group companies and associates quoted in an active market (Telefônica Brasil, S.A.) was calculated taking the listing of the investments on the last day of the year; the rest of the shareholdings are stated at the value of discounted cash flows based on those entities business plans.

The most significant transactions occurred in 2015 and 2014 as well as their accounting impacts are described below:

2015

On March 24, 2015 Telefónica, S.A. signed an agreement with Hutchison to acquire Telefónica s operations in the UK. As detailed in Notes 2 and 22, since the agreement date, the net carrying amount of the investment in Telefónica Europe, plc. subject to the transaction (13,189 million euros) was reclassified under Non-current assets held for sale . The investment write off in 2015 has been included under the same balance sheet caption amounting to 852 million euros (note 22). The write off adjustment in the income statements ended December 31, 2015 have been recognized under Profit after tax from discontinued operations . 2014 figure amounting to 2,500 million euros has been accordingly reclassified to the same caption.

Once the pertinent regulatory authorizations were obtained on April 27, 2015, and with the aim of raising the funds needed to complete the acquisition of Global Village Telecom, S.A. and its parent company GVT Participaçoes, S.A. the General Shareholdings Meeting of Telefônica Brasil, S.A. launched a capital increase of 15,812 million reales. Telefónica, S.A. subscribed 3,995 million reales (equivalent to 1.262 million euros). On the same date, and with the object of subscribing the above mentioned capital increase, SP Telecomunicaçoes Participaoes, Ltda approved a capital increase of 3,223 million reales. Telefónica, S.A. paid 1,270 million reales (equivalente to 401 million euros).

On June 24, 2015 and in compliance with the undertakings assumed in the agreement entered into for the acquisition of Global Village Telecom, S.A. (GVT), it has, through its 100% subsidiary Telco TE S.p.A., delivered 1,110 million ordinary shares of Telecom Italia S.p.A. (representing 8.2% of its ordinary shares) to Vivendi, S.A. and has received from Vivendi, S.A. all the ordinary shares and part of the preferred shares of Telefônica Brasil S.A. that Vivendi S.A. received as consideration for the sale of GVT, which together represent 4.5% of the total share capital of Telefônica Brasil S.A. The fair value of Telecom Italia shares contributed to Vivendi has been calculated using the quoted price at the approval date amounting to 1,264 million euros. This same amount has been used to value the 4.5% additional investment in Telefônica Brasil, S.A.

On July 29, 2015, Telefónica, S.A. entered into an agreement with Vivendi, S.A. through which Telefónica has committed to deliver 46 million of its treasury shares in exchange for 58.4 million of Telefônica Brasil, S.A. shares, representing approximately 3.5% of the share capital of Telefónica Brasil, S.A. The execution of the agreement was performed on September 16, 2015 and valued at the quoted price of Telefónica s shares at that date, 538 million euros.

As a consequence of the aforementioned transactions, the direct stake of Telefónica, S.A. in Telefônica Brasil, S.A. was increased to 29.77% and the stake at SP Telecommunicaçoes Participaçoes, Ltda is 39.4% of its capital.

On June 18, 2015 the public deed of Telco, S.p.A. s spin off transaction was filed to the Companies Register. As a result of the process, Telecom Italia, S.p.A. ordinary shares owned by Telco, S.p.A. (equivalent to a 22.3% of the company s share capital) were transferred to its stakeholders. Therefore, Telefónica, S.A. through a 100% owned newly incorporated subsidiary, Telco TE, S.p.A. received ordinary shares representing 14.72% of Telecom Italia s share capital. In this same spin off process, Telco TE, S.p.A. registered the part of the liability that Telco, S.p.A. owed its stakeholders, pro-rata their percentage of ownership. The net book value of assets and liabilities registered was 603 million euros and it is included as additions in the table of movements above (Note 9.3).

On the other hand, Telco TE S.p.A. entered into a purchase agreement with a financing institution for the sale of 872 million ordinary shares of Telecom Italia S.p.A., representing 6.5% of the ordinary shares of this company, for an amount of 1,025 million euros.

Likewise, Telefónica has arranged several hedging instruments which will allow Telefónica to repurchase the shares of Telecom Italia S.p.A. that are necessary to meet its exchange obligations under the mandatory exchangeable bonds for shares of Telecom Italia S.p.A., issued by Telefónica, S.A. in July 2014.

Telefónica, S.A. has therefore ended the divesting process of its indirect stake at Telecom Italia, S.p.A., in accordance with the regulatory and competence requirements.

2014

On January 28th, 2014 Telefónica announced that after obtaining the relevant regulatory approval, the sale transaction of the 65.9% of the capital share of Telefónica Czech Republic, a.s. to PPF Group N.V.I. was completed. This concept was registered in 2013 balance under caption Non-current assets held for sale for an amount of 2,302 million euros.

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, was approved in 2015 by anti-trust and telecommunications authorities (including Brazil and Argentina).

At a meeting on December 22, 2014, the Brazilian telecommunications regulator (ANATEL) approved the demerger on condition of suspension of Telefónica s voting rights in Telecom Italia, S.p.A. and its subsidiaries, among certain other measures. Telefónica agreed with the aforementioned suspension of voting rights and offered the presentation of a formal statement to ANATEL in this regard. Therefore, on the same date Telefónica ceased to have significant influence through its indirect holding in Telecom Italia, S.p.A. and reclassified this investment as an available-for-sale financial asset (see Note 9).