NETWORK CN INC
Form 10-Q
November 13, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10–Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2015

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _____________

Commission File Number: 000-30264

NETWORK CN INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	90-0370486
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2nd Floor, Goldsland Building, 22-26 Minden Avenue,
Tsim Sha Tsui, Kowloon, Hong Kong

(Address of principal executive offices, Zip Code)

(852) 2833-2186
(Registrant’s telephone number, including area code)

____

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of each of the issuer's classes of common stock, as of November 13, 2015 is as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.001 par value	8,041,995

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PART I

FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

NETWORK CN INC.
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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NETWORK CN INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	Note	As of September 30, 2015	As of December 31, 2014
ASSETS			
Current Assets			
Cash		$ 6,823	$ 22,645
Accounts receivable, net	5		11,926
Prepaid expenses and other current assets, net	6	103,222	151,571
Total Current Assets		110,045	186,142
Equipment, Net		19,867	38,528
TOTAL ASSETS		$ 129,912	$ 224,670
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current Liabilities			
1% convertible promissory note due 2016, net	9	$ 5,000,000	$ -
Accounts payable, accrued expenses and other payables	7	4,605,865	4,524,112
Capital lease obligation	8	12,825	12,144
Total Current Liabilities		9,618,690	4,536,256
Non-Current Liabilities			
1% convertible promissory note due 2016, net	9	-	5,000,000
Capital lease obligation, net of current portion	8	7,900	17,604
Total Non-Current Liabilities		7,900	5,017,604
TOTAL LIABILITIES		9,626,590	9,553,860
COMMITMENTS AND CONTINGENCIES	10		
STOCKHOLDERS' DEFICIT			
Preferred stock, $0.001 par value, 5,000,000 shares authorized None issued and outstanding		-	-
Common stock, $0.001 par value, 26,666,667 shares authorized Shares issued and outstanding: 8,041,995 and 7,718,964 as of September 30, 2015 and December 31, 2014, respectively+		8,042	7,719
Additional paid-in capital		123,667,406	123,268,503
Accumulated deficit		(134,876,160)	(134,308,106)
Accumulated other comprehensive income		1,704,034	1,702,694
TOTAL STOCKHOLDERS' DEFICIT	11	(9,496,678)	(9,329,190)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT		$ 129,912	$ 224,670

The accompanying notes are an integral part of the condensed consolidated financial statements.

+ As restated to give retroactive effect to the 1 for 15 shares reverse stock split which occurred on August 11, 2015.

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NETWORK CN INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(UNAUDITED)

	Note	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
REVENUES					
Advertising services		$ -	$ 204,234	$ -	$ 667,752
COST OF REVENUES					
Cost of advertising services		-	(161,469)	-	(1,032,972)
GROSS GAIN/(LOSS)		-	42,765	-	(365,220)
OPERATING EXPENSES					
Selling and marketing		-	(9,947)	-	(51,339)
General and administrative		(137,343)	(212,282)	(436,176)	(715,296)
Gain from write-off of long-aged payables		-	-	437,749	-
Gain from disposal of subsidiaries		-	-	129,726	-
Stock based compensation for services		(667)	(6,291)	(351,976)	(74,473)
Total Operating Expenses		(138,010)	(228,520)	(220,677)	(841,108)
GAIN/(LOSS) FROM OPERATIONS		(138,010)	(185,755)	(220,677)	(1,206,328)
OTHER INCOME, NET					
Interest income		1	2	3	30
Other income, net		-	1,730	-	6,805
Total Other Income, Net		1	1,732	3	6,835
INTEREST AND OTHER DEBT-RELATED EXPENSES					
Amortization of deferred charges and debt discount	9	-	-	-	(935,588)
Interest expense	7, 8&9	(121,694)	(88,788)	(347,380)	(257,461)
Total Interest and Other Debt–Related Expenses		(121,694)	(88,788)	(347,380)	(1,193,049)
NET LOSS BEFORE INCOME TAXES		(259,703)	(272,811)	(568,054)	(2,392,542)
Income taxes		-	-		-
NET LOSS		$ (259,703)	$ (272,811)	$ (568,054)	$ (2,392,542)

OTHER COMPREHENSIVE INCOME (LOSS)					
Foreign currency translation gain (loss)		(106)	(2,557)	1,340	5,632
Total other comprehensive income (loss)		(106)	(2,557)	1,340	5,632
COMPREHENSIVE LOSS		$ (259,809)	$ (275,368)	$ (566,714)	$ (2,386,910)
NET LOSS PER COMMON SHARE – BASIC AND DILUTED+	13	$ (0.032)	$ (0.035)	$ (0.071)	$ (0.313)
WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED+	13	8,041,881	7,727,964	7,986,272	7,648,731

The accompanying notes are an integral part of the condensed consolidated financial statements.

+ As restated to give retroactive effect to the 1 for 15 shares reverse stock split which occurred on August 11, 2015.

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NETWORK CN INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(UNAUDITED)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(568,054)	$ (2,392,542)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization:		
Equipment	12,749	32,987
Deferred charges and debt discount	-	935,588
Gain from write-off of long-aged payables	(437,749)	-
Gain from disposal of subsidiaries	(129,726)	-
Stock-based compensation for service	351,976	74,473
Loss (Gain) on disposal of equipment	7,441	(17,100)
Changes in operating assets and liabilities:		
Accounts receivable, net	(5)	753,813
Prepaid expenses and other current assets, net	48,349	180,239
Accounts payable, accrued expenses and other payables	361,373	(548,724)
Net cash used in operating activities	(353,646)	(981,266)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(1,535)	(14,268)
Proceeds from sales of equipment	-	30,126
Net cash (used in) provided by investing activities	(1,535)	15,858
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from private placements	-	750,000
Proceeds from short-term loan	348,192	415,726
Repayment of short-term loan	-	(105,874)
Repayment of director's loan	-	(85,244)
Repayment of capital lease obligation	(9,023)	(8,342)
Net cash provided by financing activities	339,169	966,266
EFFECT OF EXCHANGE RATE CHANGES ON CASH	190	5,850
NET DECREASE IN CASH	(15,822)	6,708
CASH, BEGINNING OF PERIOD	22,645	111,889
CASH, END OF PERIOD	$6,823	$ 118,597
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Income taxes	$-	$ -

Interest	$1,362	$ 197,588

The accompanying notes are an integral part of the condensed consolidated financial statements.

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NETWORK CN INC.
NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1. INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated financial statements of Network CN Inc., its subsidiaries and variable interest entities (collectively "NCN" or the "Company" "we", "our" or "us") have been prepared in accordance w generally accepted accounting principles in the United States ("GAAP") and the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of our financial position and results of operations.

The unaudited condensed consolidated financial statements for the nine months ended September 30, 2015 and 2014 were not audited. It is management's opinion, however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair presentation of financial statements. The results for the interim period are not necessarily indicative of the results to be expected for the full fiscal year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP.

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014, previously filed with the Securities and Exchange Commission on April 15, 2015.

NOTE 2. ORGANIZATION AND PRINCIPAL ACTIVITIES

Network CN Inc. was originally incorporated on September 10, 1993 in Delaware with headquarters in the Hong Kong Special Administrative Region of the People's Republic of China ("PRC" or "China"). Since August 2006, the Company has been principally engaged in the provision of out-of-home advertising in China through the operation of a network of roadside LED digital video panels, mega-size LED digital video billboards and light boxes in major cities.

Details of the Company's principal subsidiaries and variable interest entities as of September 30, 2015 are described in Note 4 – Subsidiaries and Variable Interest Entities.

Reverse Split

On July 30, 2015, we filed a Certificate of Amendment to our Certificate of Incorporation with the Delaware Secretary of State to effect a 1-for-15 reverse stock split of the Company's outstanding common stock (the "Reverse Split") together with a reduction in the authorized common stock from 400,000,000 to 26,666,667 shares. Our common stock commenced trading on a post-split basis on August 11, 2015.

Shareholders received one new share of common stock in replacement of every fifteen shares held on April 22, 2015, the record date for the Reverse Split. The Reverse Split did not change the aggregate value of any stockholder's shares of common stock or any stockholder's ownership percentage of the common stock, except for minimal changes resulting from the treatment of fractional shares. We did not issue any fractional shares as a result of the Reverse Split. The number of shares issued to each stockholder was rounded up to the nearest whole number if, as a result of the Reverse Split, the number of shares owned by any stockholder would not be a whole number.

The Reverse Split proportionately reduced all issued and outstanding shares of the Company's common stock, as well as common stock underlying stock options, warrants and other common stock based equity grants outstanding and the respective exercise prices were proportionately increased in accordance with the terms of the agreements governing such securities. Shares of common stock reserved for issuance upon the conversion of the Company's convertible notes were also proportionately reduced and the respective conversion prices were proportionately increased. All share and per share amounts in the consolidated financial statements and these notes thereto have been adjusted for all periods presented to give effect to the Reverse Split.

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Going Concern

The Company has experienced recurring net losses of $568,054 and $2,392,542 for the nine months ended September 30, 2015 and 2014, respectively. Additionally, the Company has net cash used in operating activities of $353,646 and $981,266 for the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015 and December 31, 2014, the Company has stockholders' deficits of $9,496,678 and $9,329,190, respectively. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's plans regarding those concerns are addressed in the following paragraph. The unaudited condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty

In response to current financial conditions, the Company has undergone a drastic cost-cutting exercise, including reduction of the Company's workforce, office rentals and other general and administrative expenses. The Company has actively explored new prominent media projects in order to provide a wider range of media and advertising services and improve our financial performance.

The Company recently secured a new media project in China but the Company has not yet started to generate revenue from it. Co-operation agreements were signed for the media project. If the project can start to operate, the Company expects that the project will improve the Company's future financial performance. The Company expects that the new project can generate positive cashflow.

The existing cash and cash equivalents together with highly liquid current assets are insufficient to fund the Company's operations for the next twelve months. The Company will need to rely upon some combination of cash generated from the Company's operations, the proceeds from the potential exercise of the outstanding option held by Keywin Holdings Limited ("Keywin") to purchase $2 million in shares of the Company's common stock, or proceeds from the issuance of the Company's equity and debt securities as well as the exercise of the conversion option by the Company's note holders to convert the notes to the Company's common stock, in order to maintain the Company's operations. Based on the Company's best estimates, the Company believes that there are sufficient financial resources to meet the cash requirements for the coming twelve months and the consolidated financial statements have been prepared on a going concern basis. However, there can be no assurance the Company will be able to continue as a going concern.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) Basis of Presentation and Preparation

The unaudited condensed consolidated financial statements of the Company have been prepared in conformity with GAAP.

These unaudited condensed consolidated financial statements were prepared on a going concern basis. The Company has determined that the going concern basis of preparation is appropriate based on its estimates and judgments of future performance of the Company, future events and projected cash flows. At each balance sheet date, the Company evaluates its estimates and judgments as part of its going concern assessment. Based on its assessment, the Company believes there are sufficient financial and cash resources to finance the Company as a going concern in the next twelve months. Accordingly, management has prepared the unaudited condensed consolidated financial statements on a going concern basis.

(B) Principles of Consolidation

The unaudited condensed consolidated financial statements include the financial statements of Network CN Inc., its subsidiaries and its variable interest entities for which it is the primary beneficiary. A variable interest entity is an entity in which the Company, through contractual arrangements, bears the risks and enjoys the rewards normally associated with ownership of the entity. Upon making this determination, the Company is deemed to be the primary beneficiary of the entity, which is then required to be consolidated for financial reporting purposes. All significant intercompany transactions and balances have been eliminated upon consolidation.

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(C) Use of Estimates

In preparing unaudited condensed consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates. Differences from those estimates are reported in the period they become known and are disclosed to the extent they are material to the unaudited condensed consolidated financial statements taken as a whole.

(D) Cash and Cash Equivalents

Cash includes cash on hand, cash accounts, and interest bearing savings accounts placed with banks and financial institutions. For the purposes of the statements of cash flows, the Company considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. As of September 30, 2015 and December 31, 2014, the Company had no cash equivalents.

(E) Allowance for Doubtful Debts

Allowance for doubtful debts is made against receivables to the extent they are considered to be doubtful. Receivables in the unaudited condensed consolidated balance sheet are stated net of such allowance. The Company records its allowance for doubtful debts based upon its assessment of various factors. The Company considers historical experience, the age of the receivable balances, the credit quality of its customers, current economic conditions, and other factors that may affect customers' ability to pay to determine the level of allowance required.

(F) Prepayments for Advertising Operating Rights, Net

Prepayments for advertising operating rights are measured at cost less accumulated amortization and impairment losses. Cost includes prepaid expenses directly attributable to the acquisition of advertising operating rights. Such prepaid expenses are, in general, charged to the unaudited condensed consolidated statements of operations on a straight-line basis over the operating period. All the costs expected to be amortized after twelve months of the balance sheet date are classified as non-current assets.

An impairment loss is recognized when the carrying amount of the prepayments for advertising operating rights exceeds the sum of the undiscounted cash flows expected to be generated from the advertising operating right's use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a discounted cash flow analysis.

(G) Equipment, Net

Equipment is stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is provided on a straight-line basis, less estimated residual values over the assets' estimated useful lives. The estimated useful lives are as follows:

Media display equipment	5 - 7 years
Office equipment	3 - 5 years
Furniture and fixtures	3 - 5 years
Motor vehicles	5 years

Leasehold improvements	Over the unexpired lease terms

Construction in progress is carried at cost less impairment losses, if any. It relates to construction of media display equipment. No provision for depreciation is made on construction in progress until the relevant assets are completed and put into use.

When equipment is retired or otherwise disposed of, the related cost, accumulated depreciation and provision for impairment loss, if any are removed from the respective accounts, and any gain or loss is reflected in the unaudited condensed consolidated statements of operations. Repairs and maintenance costs on equipment are expensed as incurred.

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(H) Impairment of Long-Lived Assets

Long-lived assets, such as equipment, are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount of the assets may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to be generated from the asset's use and eventual disposition. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value of the asset calculated using a discounted cash flow analysis.

(I) Convertible Promissory Notes

1) Debt Restructuring and Issuance of 1% Convertible Promissory Note

On April 2, 2009, the Company issued 1% unsecured senior convertible promissory notes to the previous 3% convertible promissory note holders who agreed to cancel these 3% convertible promissory notes in the principal amount of $5,000,000 (including all accrued and unpaid interest thereon), and all of the warrants, in exchange for the 1% unsecured senior convertible promissory notes in the principal amount of $5,000,000. The 1% convertible promissory notes bore interest at 1% per annum, payable semi-annually in arrears, matured on April 1, 2012, and were convertible at any time into shares of the Company's common stock at a fixed conversion price of $1.7445 per share, subject to customary anti-dilution adjustments. Pursuant to ASC Topic 470, Debt, the Company determined that the original convertible notes and the 1% convertible notes were with substantially different terms and hence the exchange was recorded as an extinguishment of original notes and issuance of new notes.

The Company determined the 1% convertible promissory notes to be conventional convertible instruments under ASC Topic 815, Derivatives and Hedging. Its embedded conversion option qualified for equity classification, The embedded beneficial conversion feature was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The debt discount resulting from the allocation of proceeds to the beneficial conversion feature is amortized over the term of the 1% convertible promissory notes from the respective dates of issuance using the effective interest method.

2) Extension of 1% Convertible Promissory Note

The 1% convertible promissory notes matured on April 1, 2012 and on the same date, the Company and the note holders agreed to the following: 1) extension of the maturity date of the 1% convertible promissory notes for a period of two years and 2) modification of the 1% convertible promissory notes to be convertible at any time into shares of the Company's common stock at a conversion price of $1.3956 per share, subject to customary anti-dilution adjustments. In all other respects not specifically mentioned, the terms of the 1% convertible promissory notes remain the same and are fully enforceable in accordance with their terms. Subsequently, the Company issued to the note holders new 1% convertible promissory notes with a maturity date of April 1, 2014. Pursuant to ASC Topic 470, the Company determined that the modification is substantially different and hence the modification was recorded as an extinguishment of notes and issuance of new notes. The Company allocated the amount of the reacquisition price to the repurchased beneficial conversion feature using the intrinsic value of that conversion feature at the extinguishment date and the residual amount was allocated to the convertible security. Thus, the Company recorded a gain on extinguishment of debt. The 1% Convertible Promissory Notes were scheduled to mature on April 1, 2014 and on March 12, 2014, the Company and the respective holders agreed to extend the maturity date of the 1% Convertible Promissory Notes for a period of two years. In all other respects not specifically mentioned, the terms of the 1% Convertible Promissory Notes shall remain the same and shall be fully enforceable in accordance with its terms. Subsequently, the Company issued to the note holders new 1% convertible promissory notes which will mature on April 1, 2016. The Company allocated the amount of the reacquisition price to the repurchased beneficial conversion feature using the intrinsic value of that conversion feature at the extinguishment date and the residual amount was allocated to the convertible security. Thus, the Company recorded no gain or loss on extinguishment of debt.

The Company determined the modified new 1% convertible promissory notes to be conventional convertible instruments under ASC Topic 815. Its embedded conversion option qualified for equity classification. The embedded beneficial conversion feature was recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital. The debt discount resulting from the allocation of proceeds to the beneficial conversion feature is amortized over the term of the new 1% convertible promissory notes from the respective dates of issuance using the effective interest method.

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(J) Revenue Recognition

The Company recognizes revenue in the period when advertisements are either aired or published.

(K) Stock-based Compensation

The Company complies with ASC Topic 718, Compensation – Stock Compensation, using a modified prospective application transition method, which establishes accounting for stock-based awards in exchange for employee services. Under this application, the Company is required to record stock-based compensation expense for all awards granted. It requires that stock-based compensation cost is measured at grant date, based on the fair value of the award, and recognized as expense over the requisite services period.

Common stock, stock options and warrants issued to other than employees or directors in exchange for services are recorded on the basis of their fair value. In accordance with ASC Topic 505, Equity, the non-employee stock options or warrants are measured at their fair value by using the Black-Scholes option pricing model as of the earlier of the date at which a commitment for performance to earn the equity instruments is reached (“performance commitment date”) or the date at which performance is complete (“performance completion date”). The stock-based compensation expenses are recognized on a straight-line basis over the shorter of the period over which services are to be received or the vesting period. Accounting for non-employee stock options or warrants which involve only performance conditions when no performance commitment date or performance completion date has occurred as of the reporting date requires measurement at the equity instruments then-current fair value. Any subsequent changes in the market value of the underlying common stock are reflected in the expense recorded in the subsequent period in which that change occurs.

(L) Income Taxes

The Company accounts for income taxes under ASC Topic 740. Under ASC Topic 740, deferred tax assets and liabilities are provided for the future tax effects attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from items including tax loss carry forwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or reversed. Under ASC Topic 740, the expense or benefit related to adjusting deferred tax assets and liabilities as a result of a change in tax rates is recognized in income or loss in the period that includes the enactment date.

(M) Comprehensive Income (Loss)

The Company follows ASC Topic 220 for the reporting and display of its comprehensive income (loss) and related components in the financial statements and thereby reports a measure of all changes in equity of an enterprise that results from transactions and economic events other than transactions with the shareholders. Items of comprehensive income (loss) are reported in the unaudited condensed consolidated statements of operations and comprehensive loss.

Accumulated other comprehensive income as presented on the condensed consolidated balance sheets consisted of the accumulative foreign currency translation adjustment at period end.

(N) Earnings (Loss) Per Common Share

Basic earnings (loss) per common share are computed in accordance with ASC Topic 260 by dividing the net income (loss) attributable to holders of common stock by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares including the dilutive effect of common share equivalents then outstanding.

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The diluted net loss per share is the same as the basic net loss per share for the nine months ended September 30, 2015 and 2014, as all potential ordinary shares including stock options and warrants are anti-dilutive and are therefore excluded from the computation of diluted net loss per share.

(O) Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases are charged to the unaudited condensed consolidated statements of operations on a straight-line basis over the lease period.

(P) Capital Leases

Leases are classified as capital leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Assets held under capital leases are initially recognized as assets at their fair value or, if lower, the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest elements of the finance cost is charged to the unaudited condensed consolidated statements of operations over the lease period so as to produce a constant rate of interest on the remaining balance of the liability for each period. The equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

(Q) Foreign Currency Translation

The assets and liabilities of the Company’s subsidiaries and variable interest entity denominated in currencies other than U.S. dollars are translated into U.S. dollars using the applicable exchange rates at the balance sheet date. For the unaudited condensed consolidated statements of operations’ items, amounts denominated in currencies other than U.S. dollars were translated into U.S. dollars using the average exchange rate during the period. Equity accounts were translated at their historical exchange rates. Net gains and losses resulting from translation of foreign currency financial statements are included in the statements of stockholders’ equity as accumulated other comprehensive income (loss). Foreign currency transaction gains and losses are reflected in the unaudited condensed consolidated statements of operations.

(R) Fair Value of Financial Instruments

ASC Topic 820 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

ASC Topic 820 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. ASC Topic 820 establishes three levels of inputs that may be used to measure fair value:

Level 1 - Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - Level 2 applies to assets or liabilities for which there are inputs other than quoted prices included within Level 1 that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 - Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

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The carrying value of the Company's financial instruments, which consist of cash, accounts receivable, prepayments for advertising operating rights, prepaid expenses and other current assets, accounts payable, accrued expenses and other payables, and convertible promissory notes approximates fair value due to the short-term maturities.

(S) Concentration of Credit Risk

The Company places its cash with various financial institutions. The Company believes that no significant credit risk exists as these cash investments are made with high-credit-quality financial institutions.

All the revenue of the Company and a significant portion of the Company's assets are generated and located in China. The Company's business activities and accounts receivable are mainly from advertising services. Deposits are usually collected from customers in advance and the Company performs ongoing credit evaluations of its customers. The Company believes that no significant credit risk exists that would give rise to a credit loss.

The Company is engaged in the provision of out-of-home advertising in China. As of September 30, 2015 and December 31, 2014, one customer accounted for approximately nil and 97% of its accounts receivable balances, respectively. Due to the longstanding nature of its relationships with this customer and contractual obligations, the Company is confident that it will recover these amounts. The Company establishes an allowance for doubtful debts accounts upon its assessment of various factors. The Company considers historical experience, the age of the receivable balances, the credit quality of its customers, current economic conditions, and other factors that may affect customers' ability to pay to determine the level of allowance required.

(T) Segmental Reporting

ASC Topic 280 establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as information about geographical areas, business segments and major customers in financial statements. The Company's operating segments are organized internally primarily by the type of services rendered. Accordingly, it is management's view that the services rendered by the Company are of one operating segment: Media Network.

(U) Recent Accounting Pronouncements

In May 2014, the FASB has issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606 Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (1) Identify the contract(s) with a customer. (2) Identify the performance obligations in the contract. (3) Determine the transaction price. (4) Allocate the transaction price to the performance obligations in the contract. (5) Recognize revenue when (or as) the entity satisfies a performance obligation. For a public entity, the amendments are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. For all other entities, they are effective for annual reporting periods beginning after December 15, 2017 and interim periods within annual periods beginning after December 15, 2018. A nonpublic entity may elect to apply the guidance in this ASU early with certain restrictions. In July 2015, the Financial Accounting Standards Board ("FASB") voted to defer the effective date of the new accounting guidance related to revenue recognition by one year to December 15, 2017 for annual reporting periods beginning after that date and permitted early adoption of the standard, but not before fiscal years beginning after the original effective date of December 15, 2016. In August 2015, the FASB has issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. All other entities may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities also may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in ASU 2014-09. The Company has not determined the effect the adoption of the standard will have on its consolidated financial statements.

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In June 2014, the FASB has issued ASU 2014-12, Compensation – Stock Compensation (Topic 718) - Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The amendments in ASU 2014-12 require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. A reporting entity should apply existing guidance in Topic 718, Compensation – Stock Compensation, as it relates to awards with performance conditions that affect vesting to account for such awards. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. The effective date is the same for both public business entities and all other entities. Entities may apply the amendments in this ASU either: (a) prospectively to all awards granted or modified after the effective date; or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company has not determined the effect the adoption of the standard will have on its consolidated financial statements.

In August 2014, the FASB has issued ASU 2014-13, Consolidation (Topic 810) - Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity. The amendments in ASU 2014-13 provide an alternative to Topic 820, Fair Value Measurement, for measuring the financial assets and the financial liabilities of a consolidated collateralized financing entity to eliminate the difference in the fair value of the financial assets of a collateralized financing entity, as determined under GAAP, when they differ from the fair value of its financial liabilities even when the financial liabilities have recourse only to the financial assets. When the measurement alternative is elected, both the financial assets and the financial liabilities of the collateralized financing entity should be measured using the more observable of the fair value of the financial assets or the fair value of the financial liabilities. The amendments clarify that when the measurement alternative is elected, a reporting entity’s consolidated net income (loss) should reflect the reporting entity’s own economic interests in the collateralized financing entity, including: (1) changes in the fair value of the beneficial interests retained by the reporting entity, and (2) beneficial interests that represent compensation for services. The standard is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. For all other entities, the changes are effective for annual periods ending after December 15, 2016, and interim periods beginning after December 15, 2016. Early adoption is permitted as of the beginning of an annual period. The amendments may be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the annual period of adoption. The amendments may also be applied retrospectively to all relevant prior periods beginning with the annual period in which ASU 2009-17 was initially adopted. The Company has not determined the effect the adoption of the standard will have on its consolidated financial statements..

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In August 2014, the FASB has issued ASU 2014-15, Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. The amendments in ASU 2014-15 are intended to define management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and to provide related footnote disclosures. Under GAAP, financial statements are prepared under the presumption that the reporting organization will continue to operate as a going concern, except in limited circumstances. The going concern basis of accounting is critical to financial reporting because it establishes the fundamental basis for measuring and classifying assets and liabilities. Currently, GAAP lacks guidance about management's responsibility to evaluate whether there is substantial doubt about the organization's ability to continue as a going concern or to provide related footnote disclosures. This ASU provides guidance to an organization's management, with principles and definitions that are intended to reduce diversity in the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The standard is effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early application is permitted for annual or interim reporting periods for which the financial statements have not previously been issued. The Company has not determined the effect the adoption of the standard will have on its consolidated financial statements.

In November 2014, the FASB has issued ASU 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. The amendments in ASU 2014-16 do not change the current criteria in U.S. GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. The amendments clarify how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The amendments in this ASU also clarify that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (i.e., the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. The standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption, including adoption in an interim period, is permitted. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The effects of initially adopting these amendments should be applied on a modified retrospective basis to existing hybrid financial instruments issued in the form of a share as of the beginning of the fiscal year for which the amendments are effective. Retrospective application is permitted to all relevant prior periods. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In January 2015, the FASB has issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The amendments in ASU 2015-01 eliminates from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. A reporting entity may apply the amendments prospectively. A reporting entity also may apply the amendments retrospectively to all prior periods presented in the financial statements. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. An entity that prospectively applies this ASU should disclose both the nature and the amount of an item included in income from continuing operations after adoption that adjusts an extraordinary item previously classified and presented before the date of adoption, if applicable. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

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In February 2015, the FASB has issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, The amendments in ASU 2015-02 are intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification™ and improves current GAAP by: (1) placing more emphasis on risk of loss when determining a controlling financial interest, (2) reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (VIE), (3)-changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. The standard is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. For all other entities, the requirements are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in an interim period. ASU 2015-02 may be applied retrospectively in previously issued financial statements for one or more years with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In April 2015, the FASB has issued ASU 2015-04, Compensation - Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer’s Defined Benefit Obligation and Plan Assets. The amendments in ASU 2015-04 permit an entity with a fiscal year-end that does not coincide with a month-end a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity’s fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be applied consistently to all plans if an entity has more than one plan. Employee benefit plans are not within the scope of the amendments. The standard is effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. Earlier adoption is permitted. The amendments should be applied prospectively. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In May 2015, the FASB has issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The standard is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. A reporting entity should apply the amendments retrospectively to all periods presented. Early adoption is permitted. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In May 2015, the FASB has issued ASU 2015-08, Business Combinations (Topic 805): Pushdown Accounting – Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115. The amendments in ASU 2015-08 amend various SEC paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115, Topic 5: Miscellaneous Accounting, regarding various pushdown accounting issues. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In June 2015, the FASB has issued ASU 2015-10, Technical Corrections and Improvements. The amendments in ASU 2015-10 represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. In addition, some of the amendments are intended to make the Codification easier to understand and easier to apply by eliminating inconsistencies, providing needed clarifications, and improving the presentation of guidance in the Codification. The amendments that require transition guidance are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments will be effective upon issuance. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

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In July 2015, the FASB has issued ASU 2015-12, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), and Health and Welfare Benefit Plans (Topic 965) - I. Fully Benefit-Responsive Investment Contracts, II. Plan Investment Disclosures, and III. Measurement Date Practical Expedient. The amendments are in 3 parts. Among other things: Part 1 amendments designate contract value as the only required measure for fully benefit-responsive investment contracts; Part II amendments eliminate the requirement that plans disclose: (a) individual investments that represent 5 percent or more of net assets available for benefits; and (b) the net appreciation or depreciation for investments by general type requirements for both participant-directed investments and nonparticipant-directed investments. Part III amendments provide a practical expedient to permit plans to measure investments and investment-related accounts (e.g., a liability for a pending trade with a broker) as of a month-end date that is closest to the plan's fiscal year-end, when the fiscal period does not coincide with month-end. Parts I and II are effective on a retrospective basis, and Part III is effective on a prospective basis, for fiscal years beginning after December 15, 2015. Early adoption is permitted. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In August 2015, the FASB has issued ASU 2015-15 Interest—Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting). On April 7, 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The guidance in ASU 2015-03 (see paragraph 835-30-45-1A) does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff stated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-15 adds these SEC comments to the "S" section of the Codification. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

In September 2015, the FASB has issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. It is effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company does not believe the adoption of this standard will have a material effect on its consolidated financial statements.

NOTE 4. SUBSIDIARIES AND VARIABLE INTEREST ENTITIES

Details of the Company's principal subsidiaries and variable interest entities as of September 30, 2015 were as follows:

Name	Place of Incorporation	Ownership/Control interest	Principal activities

		attributable to the Company	
NCN Group Limited	BVI	100%	Investment holding
NCN Media Services Limited	BVI	100%	Investment holding
Business Boom Investments Limited	BVI	100%	Investment holding
Cityhorizon Limited	Hong Kong	100%	Investment holding
NCN Group Management Limited	Hong Kong	100%	Provision of administrative and management services
Crown Eagle Investment Limited	Hong Kong	100%	Dormant
Crown Winner International Limited	Hong Kong	100%	Investment holding
NCN Group (HK) Limited	Hong Kong	100%	Provision of advertising services
NCN Huamin Management Consultancy (Beijing) Company Limited	PRC	100%	Dormant
Huizhong Lianhe Media Technology Co., Ltd.	PRC	100%	Provision of high-tech services
Beijing Huizhong Bona Media Advertising Co., Ltd.	PRC	100% (1)	Provision of advertising services
Xingpin Shanghai Advertising Limited	PRC	100% (1)	Provision of advertising services
Chuanghua Shanghai Advertising Limited	PRC	100%	Provision of advertising services
Jiahe Shanghai Advertising Limited	PRC	100%	Provision of advertising services

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Remarks:

1) Variable interest entity which the Company exerted 100% control through a set of commercial arrangements.
2) During the nine months ended September 30, 2015, the Company's subsidiary, NCN Media Services Limited, disposed of its entire 100% equity interests of Linkrich Enterprise Advertising and Investment Limited, a Hong Kong investment holding company and Yi Gao Shanghai Advertising Limited, a PRC advertising company which has maintained minimal operation since October 2014, to an individual at $1 consideration. Accordingly, the Company recorded a gain from disposal of subsidiaries of $129,726 for the nine months ended September 30, 2015.

NOTE 5. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net as of September 30, 2015 and December 31, 2014 were as follows:

	As of September 30, 2015	As of December 31, 2014
Accounts receivable	$ -	$ 25,514
Less: allowance for doubtful debts	-	(13,588)
Total	$ -	$ 11,926

The Company recorded no allowance for doubtful debts for accounts receivables for the three and nine months ended September 30, 2015 and 2014.

NOTE 6. PREPAID EXPENSES AND OTHER CURRENT ASSETS, NET

Prepaid expenses and other current assets, net as of September 30, 2015 and December 31, 2014 were as follows:

	As of September 30, 2015	As of December 31, 2014
Payments from customers withheld by a third party	$ -	$ 1,568,151
Prepaid expenses	103,020	103,748
Rental and other deposits	202	45,449
Other receivables	-	4,525
Sub-total	103,222	1,721,873
Less: allowance for doubtful debts	-	(1,570,302)
Total	$ 103,222	$ 151,571

The Company recorded no allowance for doubtful debts for prepaid expenses and other current assets for the three and nine months ended September 30, 2015 and 2014.

NOTE 7. ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER PAYABLES

Accounts payable, accrued expenses and other payables as of September 30, 2015 and December 31, 2014 were as follows:

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	As of September 30, 2015	As of December 31, 2014
Accrued advertising operating rights	$ -	$ 525,790
Accrued staff benefit and related fees	1,222,702	1,237,128
Accrued professional fees	137,711	139,276
Accrued interest expenses	754,493	408,474
Other accrued expenses	40,831	79,077
Short-term loans 1)	2,442,146	2,093,953
Receipts in advance	-	10,834
Other payables	7,982	29,580
Total	$ 4,605,865	$ 4,524,112

1) As of September 30, 2015, the Company recorded an aggregated amount of $2,442,146 of short-term loans. Those loans were borrowed from an unrelated individual. Those loans are unsecured, bear a monthly interest of 1.5% and shall be repayable in one month. However, according to the agreement, the Company shall have the option to shorten or extend the life of those short-term loans if the need arises and the Company has agreed with the lender to extend the short-term loans on due date. As of the date of this report, those loans have not yet been repaid.

The interest expenses of the short-term loans for the three months ended September 30, 2015 and 2014 were $108,694 and $75,562, while for the nine months ended September 30, 2015 and 2014 amounted to $308,621 and $218,295, respectively.

NOTE 8. CAPITAL LEASE OBLIGATION

As of September 30, 2015, the gross amount of the motor vehicle under capital leases was $57,692. The following is a schedule by years of future minimum lease payment under capital leases together with the present value of the net minimum lease payment as of September 30, 2015.

Fiscal years ending December 31,	
2015	$ 3,462
2016	13,846
2017	4,615
Total minimum lease payments	21,923
Less: Amount representing interest	(1,198)
Present value of net minimum lease payment	20,725
Less: Current portion	(12,825)
Non-current portion	$ 7,900

NOTE 9. CONVERTIBLE PROMISSORY NOTES AND WARRANTS

(1) Debt Restructuring and Issuance of 1% Convertible Promissory Notes

On November 19, 2007, the Company entered into a Note and Warrant Purchase Agreement, as amended (the "Purchase Agreement") with Shanghai Quo Advertising Co. Ltd and affiliated investment funds of Och-Ziff Capital Management Group (the "Investors") pursuant to which it agreed to issue in three tranches, 3% Senior Secured Convertible Promissory Notes due June 30, 2011, in the aggregate principal amount of up to $50,000,000 (the "3% Convertible Promissory Notes") and warrants to acquire an aggregate amount of 457,143 shares of the Company's Common Stock (the "Warrants"). Between November 19 - 28, 2007, the Company issued 3% Convertible Promissory

Notes in the aggregate principal amount of $15,000,000, Warrants to purchase shares of the Company's common stock at $187.5 per share and Warrants to purchase shares of the Company's common stock at $262.5 per share. On January 31, 2008, the Company amended and restated the previously issued 3% Convertible Promissory Notes and issued to the Investors 3% Convertible Promissory Notes in the aggregate principal amount of $50,000,000 (the "Amended and Restated Notes"), Warrants to purchase shares of the Company's common stock at $187.5 per share and Warrants to purchase shares of the Company's common stock at $262.5 per share. In connection with the Amended and Restated Notes, the Company entered into a Security Agreement, dated as of January 31, 2008 (the "Security Agreement"), pursuant to which the Company granted to the collateral agent for the benefit of the Investors, a first-priority security interest in certain of the Company's assets, and 66% of the equity interest in the Company.

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On April 2, 2009, the Company entered into a new financing arrangement with the previous holders of the Amended and Restated Notes (the "Note Holders"), and Keywin.

Pursuant to a note exchange and option agreement, dated April 2, 2009 (the "Note Exchange and Option Agreement"), between the Company and Keywin, Keywin exchanged its Amended and Restated Note in the principal amount of $45,000,000, and all accrued and unpaid interest thereon, for 4,093,806 shares of the Company's common stock and an option to purchase an aggregate of 2,020,202 shares of the Company's common stock, for an aggregate purchase price of $2,000,000 (the "Keywin Option"). The Keywin Option was originally exercisable for a three-month period which commenced on April 2, 2009, but pursuant to several subsequent amendments, the exercise period has been extended to an eighty-one--month period ending on January 1, 2016, subject to the Company's right to unilaterally terminate the exercise period upon 30 days' written notice. As of September 30, 2015, the Keywin Option has not been exercised.

Pursuant to a note exchange agreement, dated April 2, 2009, among the Company and the Note Holders, the parties agreed to cancel their Amended and Restated Notes in the principal amount of $5,000,000 (including all accrued and unpaid interest thereon), and all of the warrants, in exchange for the Company's issuance of the 1% unsecured senior convertible promissory notes due 2012 in the principal amount of $5,000,000 (the "1% Convertible Promissory Notes"). The 1% Convertible Promissory Notes bear interest at 1% per annum, are payable semi-annually in arrears, mature on April 1, 2012, and are convertible at any time by the holder into shares of the Company's common stock at an initial conversion price of $1.7445 per share, subject to customary anti-dilution adjustments. In addition, in the event of a default, the holders will have the right to redeem the 1% Convertible Promissory Notes at 110% of the principal amount, plus any accrued and unpaid interest. The parties also agreed to terminate the Security Agreement and release all security interests arising out of the Purchase Agreement and the Amended and Restated Notes.

2) Extension of 1% Convertible Promissory Notes and Issuance of New 1% Convertible Promissory Notes in 2012

The 1% Convertible Promissory Notes matured on April 1, 2012 and on the same date, the Company and the Note Holders agreed to the following: (1) extension of the maturity date of the 1% Convertible Promissory Notes for a period of two years and (2) modification of the 1% Convertible Promissory Notes to be convertible at any time into shares of the Company's common stock at a conversion price of $0.4652 per share, subject to customary anti-dilution adjustments. In all other respects not specifically mentioned, the terms of the 1% Convertible Promissory Notes shall remain the same and shall be fully enforceable in accordance with its terms. Subsequently, the Company issued new 1% convertible promissory notes (the "New 1% Convertible Promissory Notes") to the Note Holders. The New 1% Convertible Promissory Notes bear interest at 1% per annum, are payable semi-annually in arrears, mature on April 1, 2014, and are convertible at any time by the Note Holders into shares of the Company's common stock at an initial conversion price of $0.4652 per share, subject to customary anti-dilution adjustments. In addition, in the event of a default, the Note Holders will have the right to redeem the New 1% Convertible Promissory Notes at 110% of the principal amount, plus any accrued and unpaid interest.

Gain on extinguishment of debt

Pursuant to ASC Topic 470-20-40-3, the Company allocated the amount of the reacquisition price to the repurchased beneficial conversion feature using the intrinsic value of that conversion feature at the extinguishment date and the residual amount was allocated to the convertible security. Thus, the Company recognized a gain on extinguishment of debt of $1,877,594 at the date of extinguishment and included in the statements of operations for the year ended December 31, 2012.

3) Extension of 1% Convertible Promissory Notes and Issuance of New 1% Convertible Promissory Notes in 2014

The 1% Convertible Promissory Notes matured on April 1, 2014 and on March 12, 2014, the Company and the respective holders agreed to extend the maturity date of the 1% Convertible Promissory Notes for a period of two years until April 1, 2016. In all other respects not specifically mentioned, the terms of the 1% Convertible Promissory Notes shall remain the same and shall be fully enforceable in accordance with its terms.

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Pursuant to ASC Topic 470-50 and ASC Topic 470-50-40, the Company determined that the original convertible notes and the modified convertible notes had substantially different terms and hence the fair value of the embedded beneficial conversion feature of the modified convertible notes, which would be recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to additional paid-in capital and any debt discount will be amortized over the term of the modified convertible notes from the effective date of the new agreement using the effective interest method. As of April 1, 2014, the Company determined the fair value of the embedded beneficial conversion feature of the modified convertible notes is $nil.

No gain or loss on extinguishment of debt

Pursuant to ASC Topic 470-20-40-3, the Company allocated the amount of the reacquisition price to the repurchased beneficial conversion feature using the intrinsic value of that conversion feature at the extinguishment date and the residual amount was allocated to the convertible security. Thus, the Company recognized no gain or loss on extinguishment of debt at the date of extinguishment for the year ended December 31, 2014.

Convertible promissory notes, net as of September 30, 2015 and December 31, 2014 were as follows:

	As of September 30, 2015	As of December 31, 2014
Gross carrying value	$ 5,000,000	$ 5,000,000
Less: Allocated intrinsic value of beneficial conversion feature	-	-
Add: Accumulated amortization of debt discount	-	-
	5,000,000	5,000,000
Less: Current portion	(5,000,000)	-
Non-current portion	$ -	$ 5,000,000

The amortization of deferred charges and debt discount for the three and nine months ended September 30, 2015 and 2014 were as follows:

	Three Months Ended		Nine Months Ended				
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014			
Conversion Features	$ -	$ -	11,000.0	11,502.3	12,268.2	13,389.8	25.4
Contract (4)	6,618.7	6,604.0	6,742.1	6,845.5	6,941.3	4.9	
Wholesale Accesses	14.1	14.1	13.8	14.7	13.9	(1.6)	
Total Accesses	23,588.6	24,136.0	24,795.2	25,721.1	26,999.4	14.5	
CHILE							
Final Clients Accesses	12,849.9	13,142.1	13,330.8	13,497.8	13,447.4	4.6	
Fixed telephony accesses (1)	1,757.5	1,737.9	1,715.0	1,696.2	1,674.5	(4.7)	
Internet and data accesses	934.3	940.1	945.0	960.0	972.5	4.1	
Narrowband	5.6	5.5	10.2	5.3	5.2	(6.5)	

Broadband (2)	926.0	932.0	932.3	952.2	964.9	4.2
Other (3)	2.7	2.5	2.5	2.5	2.4	(8.9)
Mobile accesses	9,750.0	10,040.1	10,229.0	10,377.1	10,319.8	5.8
Prepay	7,007.5	7,385.0	7,624.9	7,722.9	7,656.1	9.3
Contract	2,742.5	2,655.1	2,604.1	2,654.2	2,663.8	(2.9)
Pay TV	408.1	424.0	441.8	464.5	480.5	17.7
Wholesale Accesses	4.8	4.9	4.8	4.8	4.8	0.4
Total Accesses	12,854.7	13,147.0	13,335.6	13,502.6	13,452.2	4.6

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

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

(3) *Retail circuits other than broadband.*

(4) *Includes the reclassification in the fourth quarter of 2012 of 157 thousand fixed wireless accesses previously recognized as mobile accesses of the contract segment.*

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TELEFÓNICA LATINOAMÉRICA

ACCESSES BY COUNTRY (II)

Unaudited figures (Thousands)

	2012		2013			
	September	December	March	June	September	% Chg
PERU						
Final Clients Accesses	19,870.2	20,299.5	20,268.0	20,548.6	20,896.9	5.2
Fixed telephony accesses (1)	2,899.0	2,883.4	2,874.0	2,872.6	2,844.2	(1.9)
Fixed wireless	602.8	580.3	346.4	339.4	328.8	(45.4)
Internet and data accesses	1,287.8	1,317.6	1,359.8	1,397.4	1,425.5	10.7
Narrowband	8.3	8.2	5.5	5.5	5.4	(35.2)
Broadband (2)	1,258.6	1,288.3	1,333.7	1,371.3	1,399.2	11.2
Other (3)	20.8	21.0	20.5	20.7	20.8	0.0
Mobile accesses	14,798.4	15,196.9	15,126.4	15,366.1	15,722.4	6.2
Prepay	11,380.7	11,555.3	11,303.9	11,310.7	11,385.5	0.0
Contract	3,417.7	3,641.6	3,822.5	4,055.4	4,336.8	26.9
Pay TV	885.0	901.6	907.8	912.5	904.8	2.2
Wholesale Accesses	0.4	0.4	0.4	0.4	0.4	(8.6)
Total Accesses	19,870.6	20,299.9	20,268.4	20,549.0	20,897.2	5.2
COLOMBIA						
Final Clients Accesses	14,394.9	14,122.8	14,001.6	14,227.4	14,247.6	(1.0)
Fixed telephony accesses (1)	1,431.0	1,420.4	1,427.5	1,435.0	1,445.8	1.0
Internet and data accesses	687.1	714.0	758.8	798.0	836.2	21.7
Narrowband	8.5	8.5	8.4	8.5	8.5	(0.1)
Broadband (2)	678.6	705.4	750.4	789.5	827.7	22.0
Mobile accesses	12,005.0	11,703.6	11,516.3	11,680.1	11,633.5	(3.1)
Prepay	9,045.2	8,675.2	8,446.9	8,490.1	8,369.6	(7.5)
Contract	2,959.8	3,028.4	3,069.4	3,190.1	3,263.8	10.3
Pay TV	271.8	284.8	299.1	314.2	332.1	22.2
Wholesale Accesses	3.3	3.3	3.3	3.3	3.3	0.0
Total Accesses	14,398.2	14,126.1	14,004.9	14,230.7	14,250.9	(1.0)
MEXICO						
Mobile accesses	19,076.5	19,168.0	19,251.7	19,086.8	19,145.8	0.4
Prepay	17,626.1	17,668.3	17,663.6	17,545.7	17,662.4	0.2

Contract	1,450.4	1,499.7	1,588.1	1,541.1	1,483.4	2.3
Fixed wireless	991.9	1,158.9	1,259.0	1,403.1	1,476.3	48.8
Total Accesses	20,068.4	20,326.9	20,510.7	20,489.9	20,622.1	2.8
VENEZUELA						
Internet and data accesses	38.1	37.8	37.4	33.8	33.2	(12.9)
Narrowband	30.0	29.5	29.2	25.6	25.2	(15.9)
Broadband (2)	3.2	3.3	3.4	3.5	3.4	4.8
Other (3)	4.9	5.0	4.8	4.7	4.6	(5.8)
Mobile accesses	10,091.0	10,549.0	10,455.5	10,576.8	10,672.2	5.8
Prepay	9,121.1	9,514.8	9,351.4	9,373.3	9,416.0	3.2
Contract	969.9	1,034.3	1,104.1	1,203.4	1,256.1	29.5
Fixed wireless	884.7	900.3	865.9	866.1	818.4	(7.5)
Pay TV	169.5	215.3	237.9	277.2	337.6	99.2
Total Accesses	11,183.3	11,702.4	11,596.8	11,753.9	11,861.3	6.1

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

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

(3) Retail circuits other than broadband.

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TELEFÓNICA LATINOAMÉRICA

ACCESSES BY COUNTRY (III)

Unaudited figures (Thousands)

	2012		2013			
	September	December	March	June	September	% Chg
CENTRAL AMERICA (1)						
Fixed telephony accesses (2)	579.5	600.4	609.5	617.2	626.8	8.2
Fixed Wireless (3)	421.1	440.2	383.0	383.7	376.2	(10.7)
Internet and data accesses	3.2	3.2	3.3	3.3	3.4	6.7
Narrowband	0.2	0.2	0.2	0.2	0.2	(7.0)
Broadband (4)	1.6	1.6	1.6	1.7	1.7	7.1
Other (5)	1.4	1.4	1.4	1.5	1.5	8.3
Mobile accesses	8,871.1	9,380.2	9,340.5	9,843.1	10,357.0	16.8
Prepay	8,067.3	8,545.4	8,475.6	8,958.1	9,476.5	17.5
Contract	803.8	834.8	864.9	885.0	880.6	9.5
Total Accesses	9,453.7	9,983.9	9,953.3	10,463.6	10,987.2	16.2
ECUADOR						
Mobile accesses	4,710.0	4,972.8	4,988.3	5,025.5	5,042.8	7.1
Prepay	3,936.3	4,169.5	4,148.4	4,138.6	4,117.2	4.6
Contract	773.8	803.3	839.9	886.9	925.6	19.6
Fixed Wireless	45.5	46.9	45.0	52.7	53.4	17.3
Total Accesses	4,755.5	5,019.6	5,033.3	5,078.2	5,096.1	7.2
URUGUAY						
Mobile accesses	1,806.1	1,843.5	1,842.8	1,843.6	1,845.9	2.2
Prepay	1,266.3	1,292.9	1,284.3	1,273.2	1,261.0	(0.4)
Contract	539.8	550.6	558.5	570.4	584.9	8.4
Total Accesses	1,806.1	1,843.5	1,842.8	1,843.6	1,845.9	2.2

(1) Includes Guatemala, Panama, El Salvador, Nicaragua, and Costa Rica.

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

(3) Fixed wireless accesses exclude since the first quarter of 2013, 58 thousand accesses included as fixed telephony accesses.

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

(5) Retail circuits other than broadband.

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TELEFÓNICA LATINOAMÉRICA

SELECTED MOBILE BUSINESS OPERATING DATA BY COUNTRY

Unaudited figures

	2012		2013			
	Q3	Q4	Q1	Q2	Q3	% Chg Local Cur
BRAZIL						
Traffic (Million minutes) (1)	29,252	31,062	29,638	29,159	26,203	(10.4)
ARPU (EUR)	8.6	8.8	8.5	8.3	7.6	4.9
ARGENTINA						
Traffic (Million minutes)	5,366	6,084	5,199	5,536	5,820	8.5
ARPU (EUR)	11.1	11.0	10.0	9.6	9.2	5.5
CHILE						
Traffic (Million minutes)	3,194	3,475	3,428	3,310	3,264	2.2
ARPU (EUR)	12.4	12.1	11.3	11.3	10.5	(5.1)
PERU						
Traffic (Million minutes)	5,459	5,592	5,668	5,826	6,160	12.8
ARPU (EUR)	7.0	6.9	6.8	6.7	6.6	5.2
COLOMBIA						
Traffic (Million minutes)	4,447	4,563	4,372	5,014	5,432	22.2
ARPU (EUR)	6.9	7.1	6.9	6.8	6.9	11.7
MEXICO						
Traffic (Million minutes)	4,292	4,494	4,363	4,620	5,411	26.1
ARPU (EUR)	5.7	5.8	5.2	5.3	5.0	(9.2)
VENEZUELA						
Traffic (Million minutes)	4,153	4,604	4,496	4,752	5,017	20.8
ARPU (EUR) (2)	21.9	22.9	15.6	17.4	19.3	36.0
CENTRAL AMERICA (3)						
Traffic (Million minutes)	2,743	2,893	2,892	3,170	3,214	17.2
ARPU (EUR)	5.7	5.7	5.3	5.3	5.1	(5.2)
ECUADOR						
Traffic (Million minutes)	1,056	1,062	1,047	1,096	1,147	8.6
ARPU (EUR)	7.9	7.5	7.2	7.5	7.5	0.6
URUGUAY						
Traffic (Million minutes)	858	897	823	848	868	1.1
ARPU (EUR)	10.6	11.9	11.1	11.0	10.0	1.2

Notes:

ARPU calculated as a monthly quarterly average.

Traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company s mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.

(1) From the third quarter of 2013, duplicated traffic was deleted following the integration of fixed and mobile companies.

(2) For comparative purposes and in order to facilitate the interpretation of the year-on-year change versus 2012 results, the variation in local currency of the ARPU in Venezuela is reported excluding the impact of the hyperinflation adjustment.

(3) Includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica.

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TELEFÓNICA LATINOAMÉRICA

CUMULATIVE SELECTED MOBILE BUSINESS OPERATING DATA BY COUNTRY

Unaudited figures

	2012		2013			
	Jan-Sep	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sep	% Chg Local Cur
BRAZIL (1)						
Traffic (Million minutes) (2)	82,894	113,955	29,638	58,785	85,000	2.5
ARPU (EUR)	8.9	8.9	8.5	8.4	8.1	3.2
ARGENTINA						
Traffic (Million minutes)	15,117	21,201	5,199	10,735	16,555	9.5
ARPU (EUR)	10.9	11.0	10.0	9.8	9.6	6.7
CHILE						
Traffic (Million minutes)	9,589	13,064	3,428	6,737	10,002	4.3
ARPU (EUR)	12.0	12.0	11.3	11.3	11.0	(6.0)
PERU						
Traffic (Million minutes)	15,557	21,149	5,668	11,494	17,654	13.5
ARPU (EUR)	6.6	6.7	6.8	6.8	6.7	4.5
COLOMBIA						
Traffic (Million minutes)	13,093	17,656	4,372	9,386	14,818	13.2
ARPU (EUR)	6.9	7.0	6.9	6.9	6.9	5.0
MEXICO						
Traffic (Million minutes)	13,252	17,746	4,363	8,983	14,394	8.6
ARPU (EUR)	5.6	5.6	5.2	5.3	5.2	(8.3)
VENEZUELA						
Traffic (Million minutes)	11,804	16,408	4,496	9,248	14,265	20.9
ARPU (EUR) (3)	20.6	21.2	15.6	16.5	17.4	27.5
CENTRAL AMERICA (4)						
Traffic (Million minutes)	8,234	11,127	2,892	6,063	9,277	12.7
ARPU (EUR)	5.8	5.8	5.3	5.3	5.2	55.0
ECUADOR						
Traffic (Million minutes)	3,228	4,291	1,047	2,143	3,290	1.9
ARPU (EUR)	7.6	7.5	7.2	7.3	7.4	0.4
URUGUAY						
Traffic (Million minutes)	2,505	3,403	823	1,672	2,539	1.4
ARPU (EUR)	10.5	10.8	11.1	11.1	10.7	3.2

Notes:

ARPU calculated as a monthly quarterly average for each period.

Traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company s mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.

(1) ARPU affected by the disconnection of 1.6 million inactive accesses in the second quarter of 2012 in Brazil.

(2) From the third quarter of 2013, duplicated traffic was deleted following the integration of fixed and mobile companies.

(3) For comparative purposes and in order to facilitate the interpretation of the year-on-year change versus 2012 results, the variation in local currency of the ARPU in Venezuela is reported excluding the impact of the hyperinflation adjustment.

(4) Includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica.

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TELEFÓNICA LATINOAMÉRICA

SELECTED FINANCIAL DATA BY COUNTRY (I)

Unaudited figures (Euros in millions)

	January - September				July - September			
	2013	2012	% Chg	% Chg Local Cur	2013	2012	% Chg	% Chg Local Cur
BRAZIL								
Revenues	9,275	10,252	(9.5)	2.5	2,846	3,354	(15.1)	1.5
Wireless Business	6,110	6,371	(4.1)	8.7	1,901	2,118	(10.2)	7.3
Mobile service revenues	5,736	6,105	(6.1)	6.5	1,799	2,007	(10.4)	7.0
Data revenues	1,688	1,576	7.1	21.4	549	527	4.2	23.9
Handset revenues	375	266	40.9	59.7	102	110	(7.1)	14.0
Wireline Business	3,165	3,881	(18.4)	(7.6)	944	1,236	(23.6)	(8.4)
FBB and new services (1)	1,169	1,328	(12.0)	(0.3)	355	430	(17.6)	(1.3)
Voice & Access Revenues	1,966	2,514	(21.8)	(11.4)	582	793	(26.7)	(12.0)
Other	30	38	(21.1)	(10.6)	8	12	(35.9)	0.0
OIBDA	2,891	3,674	(21.3)	(10.8)	822	1,159	(29.0)	(14.4)
OIBDA margin	31.2%	35.8%	(4.7 p.p.)		28.9%	34.5%	(5.6 p.p.)	
CapEx (2)	1,387	1,335	3.9	17.8	646	372	73.6	97.5
OpCF (OIBDA-CapEx) (2)	1,504	2,339	(35.7)	(27.1)	177	786	(77.6)	(67.9)
ARGENTINA								
Revenues	2,761	2,732	1.1	22.6	932	953	(2.1)	24.9
Wireless Business	1,845	1,783	3.5	25.6	628	624	0.6	28.3
Mobile service revenues	1,615	1,620	(0.3)	20.9	538	558	(3.7)	23.1
Data revenues	773	709	9.1	32.4	261	257	1.7	29.8
Handset revenues	230	162	41.5	71.6	90	66	36.2	72.1
Wireline Business	1,006	1,040	(3.2)	17.4	334	359	(7.0)	18.9
FBB and new services (1)	497	474	4.9	27.3	172	167	3.2	31.4
Voice & Access Revenues	470	533	(11.8)	7.0	149	181	(17.4)	5.9
Other	39	33	17.5	42.5	13	12	10.7	41.2
OIBDA	695	768	(9.5)	9.8	237	252	(5.9)	19.9
OIBDA margin (3)	24.7%	27.5%	(2.8 p.p.)		25.0%	25.9%	(0.9 p.p.)	
CapEx	354	290	22.0	48.0	120	115	3.7	32.5
OpCF (OIBDA-CapEx)	341	478	(28.6)	(13.4)	118	137	(14.0)	9.3

CHILE								
Revenues	1,870	1,886	(0.9)	1.6	600	648	(7.3)	3.3
Wireless Business	1,158	1,143	1.3	3.8	368	396	(6.8)	3.9
Mobile service revenues	1,040	1,061	(2.0)	0.5	336	367	(8.5)	2.0
Data revenues	212	203	4.1	6.8	71	72	(2.4)	8.3
Handset revenues	118	82	43.5	47.1	32	29	13.9	28.2
Wireline Business	783	820	(4.5)	(2.1)	254	279	(9.1)	1.3
FBB and new services (1)	440	421	4.7	7.3	147	146	0.8	12.0
Voice & Access Revenues	325	378	(13.9)	(11.8)	101	126	(19.6)	(10.0)
Other	18	22	(17.7)	(15.6)	5	7	(26.4)	(17.6)
OIBDA	611	762	(19.9)	(17.9)	210	270	(22.2)	(13.9)
OIBDA margin	32.7%	40.4%	(7.7 p.p.)		35.0%	41.7%	(6.7 p.p.)	
CapEx	332	401	(17.3)	(15.2)	124	142	(12.9)	(4.0)
OpCF (OIBDA-CapEx)	279	361	(22.7)	(20.8)	86	128	(32.6)	(24.8)

Notes:

OIBDA is presented before management and brand fees.

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

(2) *CapEx includes 28 million euros from the spectrum acquired in the second quarter of 2013 and 161 million euros in the third quarter of 2013.*

(3) *Margin over revenues includes fixed to mobile interconnection.*

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TELEFÓNICA LATINOAMÉRICA

SELECTED FINANCIAL DATA BY COUNTRY (II)

Unaudited figures (Euros in millions)

	January - September				July - September			
	2013	2012	% Chg	% Chg Local Cur	2013	2012	% Chg	% Chg Local Cur
PERU								
Revenues	1,847	1,781	3.7	7.3	610	633	(3.7)	8.2
Wireless Business (1)	1,047	974	7.5	11.3	352	347	1.4	13.8
Mobile service revenues (1)	917	862	6.3	10.0	308	307	0.3	12.5
Data revenues	192	148	30.0	34.5	64	55	15.9	29.9
Handset revenues	131	112	17.1	21.1	44	40	10.4	23.9
Wireline Business	931	908	2.5	6.1	305	323	(5.6)	6.1
FBB and new services (2)	601	543	10.6	14.5	200	199	0.3	12.5
Voice & Access Revenues	315	347	(9.3)	(6.1)	101	118	(14.5)	(3.4)
Other	15	18	(15.5)	(12.6)	4	5	(28.2)	(17.2)
OIBDA	654	651	0.5	4.0	223	249	(10.5)	0.0
OIBDA margin	35.4%	36.6%	(1.1 p.p.)		36.6%	39.3%	(2.8 p.p.)	
CapEx	206	232	(11.2)	(8.1)	78	109	(28.0)	(20.9)
OpCF (OIBDA-CapEx)	448	419	7.0	10.7	145	140	3.2	16.6
COLOMBIA								
Revenues	1,273	1,324	(3.8)	2.1	422	445	(5.2)	6.5
Wireless Business	781	800	(2.3)	3.7	263	271	(2.9)	9.0
Mobile service revenues	721	745	(3.2)	2.8	242	253	(4.6)	7.1
Data revenues	179	181	(0.8)	5.3	60	62	(3.7)	8.0
Handset revenues	60	55	8.9	15.6	22	18	20.7	35.3
Wireline Business	492	524	(6.1)	(0.3)	159	174	(8.9)	2.6
FBB and new services (2)	261	265	(1.3)	4.8	85	86	(1.1)	11.3
Voice & Access Revenues	228	258	(11.5)	(6.1)	72	87	(17.5)	(7.1)
Other	2	1	107.8	120.7	1	0	176.2	n.m.
OIBDA	427	443	(3.6)	2.4	140	161	(13.0)	(2.4)
OIBDA margin	33.6%	33.5%	0.1 p.p.		33.2%	36.1%	(3.0 p.p.)	
CapEx	200	163	22.6	30.2	92	72	26.9	39.5
OpCF (OIBDA-CapEx)	227	280	(18.9)	(13.9)	48	88	(45.7)	(37.1)
MEXICO								
Revenues	1,178	1,174	0.3	(1.2)	373	398	(6.4)	(2.6)

Mobile service revenues	1,010	1,049	(3.7)	(5.2)	322	356	(9.7)	(6.0)
Data revenues	292	358	(18.5)	(19.7)	87	121	(28.4)	(25.3)
Handset revenues	168	125	34.4	32.4	51	42	20.4	25.4
OIBDA	207	299	(31.0)	(32.0)	67	114	(40.7)	(38.6)
OIBDA margin	17.5%	25.5%	(8.0 p.p.)		18.1%	28.5%	(10.4 p.p.)	
CapEx	124	159	(22.1)	(23.3)	50	85	(42.0)	(41.0)
OpCF (OIBDA-CapEx)	82	140	(41.1)	(42.0)	18	28	(36.7)	(30.9)

Notes:

OIBDA is presented before management and brand fees.

(1) Includes revenues from fixed wireless.

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

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TELEFÓNICA LATINOAMÉRICA

SELECTED FINANCIAL DATA BY COUNTRY (III)

Unaudited figures (Euros in millions)

	January - September				July - September			
	2013	2012	% Chg	% Chg Local Cur	2013	2012	% Chg	% Chg Local Cur
VENEZUELA (1)								
Revenues	2,435	2,305	5.6	45.5	935	795	17.6	55.1
Mobile service revenues	2,109	2,045	3.1	39.2	816	712	14.6	47.1
Data revenues (2)	693	766	(9.5)	38.5	239	258	(7.4)	42.6
Handset revenues	326	260	25.3	92.9	119	84	42.9	118.2
OIBDA	1,073	1,021	5.1	47.4	424	386	9.8	50.3
OIBDA margin	44.1%	44.3%	(0.2 p.p.)		45.3%	48.5%	(3.2 p.p.)	
CapEx (3)	304	261	16.4	69.3	187	104	80.5	158.5
OpCF (OIBDA-CapEx) (3)	769	761	1.2	40.2	236	282	(16.2)	10.1
CENTRAL AMERICA (4)								
Revenues	511	496	3.1	7.2	172	171	0.8	8.0
Mobile service revenues	476	449	6.1	10.3	161	154	4.1	10.9
Data revenues	124	99	25.1	30.8	43	36	21.2	30.4
Handset revenues	35	47	(25.4)	(22.4)	12	16	(25.0)	(24.2)
OIBDA	108	89	21.4	27.2	41	35	16.8	25.0
OIBDA margin	21.0%	17.8%	3.2 p.p.		23.8%	20.5%	3.3 p.p.	
CapEx (5)	78	76	3.1	6.9	33	38	(15.0)	(9.6)
OpCF (OIBDA-CapEx) (5)	29	13	131.8	149.6	8	(3)	c.s.	c.s.
ECUADOR								
Revenues	383	364	5.1	8.1	130	126	3.5	9.6
Mobile service revenues	347	328	5.7	8.7	119	115	3.3	9.4
Data revenues	108	100	8.4	11.4	36	35	2.5	8.5
Handset revenues	36	36	(0.7)	2.1	11	11	4.7	11.6
OIBDA	135	130	3.7	6.6	46	47	(2.1)	3.5
OIBDA margin	35.2%	35.7%	(0.5 p.p.)		35.5%	37.5%	(2.0 p.p.)	
CapEx	48	45	7.7	10.7	21	23	(6.3)	(2.1)
OpCF (OIBDA-CapEx)	87	85	1.6	4.5	25	25	1.8	8.8
URUGUAY								
Revenues	194	184	5.1	5.9	60	61	(2.0)	5.0
Mobile service revenues	184	176	4.6	5.4	57	58	(2.2)	4.7
Data revenues	71	65	9.3	10.2	22	22	0.5	7.5
Handset revenues	9	8	16.6	17.4	3	3	3.6	12.1

OIBDA	78	82	(4.9)	(4.2)	23	27	(15.6)	(9.1)
OIBDA margin	40.2%	44.5%	(4.3 p.p.)		38.3%	44.5%	(6.2 p.p.)	
CapEx (6)	38	10	n.m.	n.m.	7	4	46.2	72.6
OpCF (OIBDA-CapEx) (6)	40	72	(45.1)	(44.7)	16	23	(27.7)	(25.0)

Notes:

OIBDA is presented before management and brand fees.

(1) *Reported figures include the hyperinflationary adjustments in Venezuela in both years. For comparison purposes and to facilitate the interpretation of the year-on-year changes vs. 2012, variations in local currency of the headings affected by the hyperinflation adjustments are reported excluding the impact of this adjustment.*

(2) *Data revenues do not include hyperinflationary adjustments.*

(3) *CapEx includes 32 million euros from the spectrum acquired in the third quarter of 2012.*

(4) *Includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica.*

(5) *CapEx includes 5 million euros from the spectrum acquired in Nicaragua in the first quarter of 2012.*

(6) *CapEx includes 23 million euros from the spectrum acquired in the first quarter of 2013.*

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TELEFONICA EUROPE[1]

Telefónica Europe continued progressing on its transformation journey towards a more sustainable business model to enhance its competitive profile and lead a changing market environment.

In this context, Telefónica Europe in the third quarter of 2013 has continued to innovate in its customer approach, based on a renewed simple and data-centric proposition gradually away from subsidies, enhancing once again its offer with the launch of new high speed mobile services 4G, which strengthens its market positioning.

In the third quarter of 2013 Telefónica España enhanced its commercial offer with an improved value-for-money and quality proposition leveraged on core differential levers as fibre, 4G and pay TV; Telefonica UK completed the launch of Refresh tariffs in all direct channels and introduced a new 4G proposition; and Telefónica Germany launched new smartphones & tariff bundles attached to high value tariffs, while O2 Blue proposition continued to drive mobile data growth.

All this actions contributed to improve the commercial momentum and the profitability level, allowing the Company to deliver a sequential improvement in the year-on-year revenues trend and a year-on-year organic growth of OIBDA margin for a fourth consecutive quarter.

Telefónica Europa s total customer base reached 101.9 million accesses at the end of September (-1% year-on-year), affected by the disposal of assets relating to the fixed consumer business in Telefónica UK in the second quarter of 2013 (720 thousand accesses) and the disconnection of 114 thousands accesses of inactive mobile contract customers in the first quarter of 2013 in Czech Republic. Main operating highlights are:

The **mobile customer base** stood at 70.5 million (stable year-on-year) with the contract segment increasing its weight over the total (60% of the base; +1 percentage points year-on-year). Amid a highly competitive environment, mobile net additions improved sequentially and reached 156 thousand customers in the third quarter, as a result of strong contract net adds (+188 thousand accesses; +624 thousand in the first nine months, excluding the above mentioned disconnections) and a significantly improved performance in the prepaid segment (-32 thousand accesses; -275 thousand in the second quarter).

Mobile broadband accesses maintained a very positive evolution to stand at 28.1 million customers at the end of the quarter, growing 17.2% year-on-year, as a result of the success of the renewed commercial proposition built on increased data usage, which drove a sharp increase in smartphone adoption (40% penetration at the end of September; +8 percentage points year-on-year).

Retail fixed telephony accesses fell 6% year-on-year to 15.0 million at the end of September, impacted by the disposal of the fixed asset in Telefonica UK in the second quarter (-209 thousand accesses), while **retail fixed broadband accesses** stood at 9.0 million accesses (-5% year-on-year) affected also by the aforementioned effect of Telefónica UK (-511 thousand accesses).

It should be reminded that from May 1st 2013, Telefónica Europe excludes the financial results of its fixed consumer business sold by Telefónica UK.

Revenues reached 20,100 million euros in the first nine months of the year (-8.8% year-on-year in organic terms; -10.7% reported), improving their performance in the third quarter (-7.1% year-on-year in organic terms; -9.8% reported) and consolidated the year-on-year recovery path in their evolution, despite a strong regulatory impact related to the interconnection rate cut in July in Spain.

[1] **Organic growth:** In financial terms it assumes constant average January September 2012 exchange rates and excludes changes in the perimeter of consolidation, the sale of non-strategic towers and value adjustments in T. Ireland and the value adjustment of T. Czech Republic. CapEx excludes investment in spectrum.

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Excluding the impact from regulation (mobile termination and roaming rate cuts) revenues would decline 6.6% year-on-year in January-September in organic terms, showing an improved trend compared to previous quarters (-7.7% y-o-y in the first six months of the year).

Mobile data revenues were almost flat in organic terms in the first nine months of the year and in the quarter (-0.2% year-on-year and -0.6% respectively), accounting for 44% of mobile service revenues (+4 percentage points year-on-year). Non-SMS data revenues driven by mobile data propositions continued posting a solid performance growing 10.0% over the first nine months of 2012 in organic terms (+8.8% in the quarter). As a result, non-SMS data revenues accounted for 64% of total data revenues (+6 percentage points year-on-year).

Operating expenses (13,150 million euros in the first nine months of 2013) decreased 9.9% year-on-year in organic terms (-12.4% reported) and 7.3% in the third quarter (-10.8% reported), on higher efficiencies across footprint stemming from the on-going optimization of resources and simplification of the operational model. Operating expenses breakdown is as follows:

Supplies dropped 12.0% in organic terms vs January-September 2012, mainly driven by lower interconnection costs, and to a lesser extent, by the new commercial strategy of subsidies in Spain. In the third quarter, supplies declined 6.4% in organic terms, mainly reflecting a year-on-year increase in the UK.

Personnel expenses up to September fell 4.1% in organic terms and 5.6% in the third quarter, as a result of the savings from the restructuring plans in Spain, Czech Republic and the UK. It is also worth to note the restructuring provisions that were recorded in the UK (8 million euros in the first quarter and 2013 and 40 million in the second quarter), in Czech Republic (14 million euros in the first quarter of 2013 vs 7 million euros in the first quarter of 2012 and 2 million in the second quarter) and in Ireland (1 million euros in the first quarter of 2012 and 6 million in the second quarter).

Subcontract expenses declined 10.6% year-on-year in organic terms in the first nine months to September, due to the reduction in commercial costs and savings in IT and network costs. In the third quarter, subcontract expenses decreased 11.1% in organic terms.

OIBDA amounted to 7,369 million euros in the January-September period, posting a 4.8% year-on-year organic decline (-7.1% reported), and maintaining a similar trend than in the first half of the year (-4.5% year-on-year organic).

OIBDA performance up to September 2013 was affected by the following impacts: the value adjustment of Telefónica Czech Republic (-56 million euros in the third quarter), the above mentioned restructuring expenses in the UK and Czech Republic, the adjustment in the value of Telefónica Ireland (-16 million euros) and the capital gain from the disposal of assets relating to the fixed consumer business in Telefónica UK (73 million euros in the second quarter). In the first nine months of 2012 OIBDA was impacted by: restructuring expenses in Ireland and Czech Republic already mentioned, the sale of non core assets in Spain (28 million euros in the first quarter and 16 million euros in the third quarter) and Czech Republic (9 million euros in the first quarter) and the sale of applications in Spain (18 million euros in the second quarter).

OIBDA margin stood at 37.3% in the third quarter, improving 0.7 percentage points year-on-year in organic terms, thanks to the strong cost control and despite top line pressures. **OIBDA margin** reached 36.7% in the January-September period (+1.6 percentage points year-on-year in organic terms).

CapEx stood at 2,804 million euros in the first nine months of the year and included spectrum in the UK (716 million euros) and the license spectrum extension in Spain (69 million euros). In organic terms, CapEx was 14.5% lower vs the first nine months of 2012, reflecting the prioritization in investment allocation, the efficiencies from the network sharing agreements and the on-going focus in growing areas (fibre, 3G and 4G).

Operating cash flow (OIBDA-CapEx) reached 4,565 million euros up to September, virtually stable compared with the same period of 2012 (-0.6% organically).

Telefónica España

Third quarter results confirm the gradual recovery of Telefónica España s business, with progressive stabilisation of the year-on-year revenue decline and sequential improvement on OIBDA in absolute terms and profitability. This stabilisation is underpinned by the benefits of the deep transformation process undertaken by the Company, allowing to strengthen its competitive positioning and to lead the growth of the convergent market and the development of fibre services, amid a highly competitive backdrop.

One year after its launch, Movistar Fusión maintained a solid commercial performance, reaching 2.6 million customers at the end of September, accounting for 52% of fixed broadband customers and 39% of mobile contract customers in the residential segment (including additional mobile lines, which exceeded one million lines). Noteworthy once again was the steady improvement in the percentage of new customers and customers taking new services, reaching 60% of Movistar Fusión gross additions in the third quarter. Additionally, the on-going focus on the service quality improvement continue helping to increase customer satisfaction and loyalty, as reflected in the positive performance of churn across services.

Fibre services, boosted by the success of Movistar Fusión , continued to grow despite the seasonality of the summer months, with net additions in the quarter of 63 thousand accesses, slightly above the figure for the previous quarter and double that obtained in the third quarter of 2012. As a result, the number of fibre accesses totalled almost half a million as of September, doubling the figure year-on-year, while households passed stood at 3 million (1.5x compared with September 2012).

Against this backdrop, and with the aim of improving its offer quality premium and continuing to lead the market, Movistar has revamped its service portfolio increasing the value for the customer. This renewal is based on three key levers: Movistar Fusión , fibre and the high-speed mobile service 4G.

Movistar Fusión convergent catalogue is renewed with no price increase including: i) 4G mobile service in all modalities ii) unlimited calls on the customer s main mobile line in Movistar Fusión 4G and Movistar Fusión Fibra Máxima and on the additional mobile line which can be contracted, iii) Movistar TV Mini service (with 7 channels) in the fibre-based Movistar Fusión offerings.

In the mobile-only tariffs catalogue, the 4G service is included in the Movistar Total tariff and the mobile data allowance was raised from 1 GB to 1.5 GB. In addition, the Company launched Movistar 20 , a new tariff aimed at customers with an average consumption, including 4G service, 250 minutes of calls, 1 GB of browsing and 500 text messages, thus covering all the customer s needs. With all these tariffs the customer has the option of contracting an additional volume of data at the highest speed (1GB for 10 euros/month).

On the other hand, the Company eliminated the permanence commitment in all mobile contract portfolio (Movistar Total , Movistar Cero and Movistar 20) for both new and existing customers and launched a new loyalty programme, which replaced the previous one, offering customers certain benefits to obtain discounts on a wide range of services.

It should be noted the positive uptake for this revamped offering, with an improvement trend observed since its launch in the operating performance of broadband, pay TV and mobile contract accesses. However, the launch took place in mid-September so the effects of this renewal are not yet visible in the Company s commercial performance in the third quarter.

Thus, in October Telefónica began offering 4G mobile service, based on the roaming agreement signed with Yoigo and the beginning of its own 4G network roll out on the 1,800MHz band, with the aim of providing LTE coverage at the end of 2013 to almost 50% of Spain s population.

Total revenues (fixed + mobile) excluding handset sales, the Company focus in a market with a higher weight of convergent offers, declined 11.2% year-on-year in the third quarter, affected by the sharp 60% reduction in the mobile termination rate in July. Excluding the impact from interconnection and roaming, total revenues (fixed + mobile) excluding handset sales maintained their progressive improvement, falling 8.8% year-on-year in the quarter (-9.6% in the second quarter and -10.5% in the first).

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The **OIBDA margin** for the July-September period stood at 50.2%, a year-on-year and quarter-on-quarter improvement in organic terms (+3.2 percentage points and +1.7 percentage points, respectively). This high level of profitability, a benchmark in the sector, underlines the savings achieved as a result of the several measures implemented in recent months to improve efficiency. The most notable are: the simplification of the commercial and operating model, the containment of personnel expenses, the improvement in service quality and customer satisfaction and the benefits of Telefónica s scale.

At the end of September, Telefónica España managed a total of 42.0 million **accesses** (-4% year-on-year). In the **fixed business**:

Retail fixed telephony accesses (-4% year-on-year) posted a net loss in the quarter of 159 thousand accesses, slightly lower than in the previous quarter, thanks to a better churn performance. In the first nine months of the year, however, the net loss of accesses was 14% lower compared to the same period of the previous year.

Retail fixed broadband accesses grew 4% year-on-year at the end of September, with net additions of 17 thousand accesses in the third quarter, below that of the second quarter, reflecting lower gross additions affected by a more competitive environment and seasonality, not offset by the continued improvement in churn (1.5% in the quarter; -0.4 p.p. y-o-y). In the first nine months, net additions stood at 103 thousand accesses, boosted by the success of Movistar Fusión. This represents a remarkable improvement on the figure reported for the same period a year earlier (-29 thousand accesses).

Effective broadband **ARPU** stood at 25.2 euros in the third quarter and fell 7.0% year-on-year, decelerating its year-on-year decline for the fourth consecutive quarter (-7.6% y-o-y in the second quarter). This improvement was supported by the migration of customers to the new tariffs and the improved customer mix with an increasing weight of fibre customers. Nevertheless, since the launch of Movistar Fusión , the ARPU of individual services is less representative, as it is affected by the defined allocation of convergent product revenues between the fixed and mobile businesses.

Fibre customers, who have higher ARPU and better satisfaction and loyalty levels than ADSL customers, maintained a noteworthy pace of growth, with net additions of 63 thousand accesses in the quarter, doubling the figure at the end of September 2012. The number of households connected reached 494 thousand, doubling year-on-year and representing 17% of households passed with this technology (3 million). It should be highlighted that the Company s firm commitment to capture the growth of this new market is reflected in the renewal of its commercial offer and the acceleration of its fibre roll out, with the aim of achieving approximately 3.5 million households passed by the end of 2013.

Pay TV accesses improved their performance compared to the previous quarter and reduced by 23 thousand in the quarter, posting a 29% lower net loss than in the same quarter of 2012, positively impacted by the promotion of Movistar TV Familiar for 10 euros up to 31 August.

Highlights at the **wireless business:**

Total mobile accesses stood at 19.4 million, down 8% year-on-year, with the contract segment now accounting for 77% of the total (+2 percentage points year-on-year) and smartphone penetration on the mobile access base reaching 47% (+13 percentage points year-on-year).

The **contract net loss** in the quarter stood at 145 thousand accesses, similar to the previous quarter (-140 thousand accesses) and 18% lower than in the same quarter of 2012, affected by a more competitive market which caused a worsened net portability balance. However, the quarterly performance of migrations from the prepay segment and the capture of new customers continued their positive trend, reflecting the enhanced attractive of the new contract portfolio.

Total **churn** stood at 2.1% in the quarter and contract churn stood at 1.8%, both stable compared with the previous quarter.

In terms of portability, Telefónica España registered a negative net contract balance of 211 thousand accesses (174 thousand in the second quarter of 2013), mainly reflecting the migration of low-value customers to competitors   convergent offers. However, the higher net loss in the quarter reflects the decline in portability gross additions in a market with an intensified competition.

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ARPU in the third quarter declined by 18.8% year-on-year (-14.1% in the second quarter), impacted by the 60% reduction in the mobile termination rate since 1 July, additional to the cuts implemented in April 2013 (-13%) and October 2012 (-8%). The performance of ARPU reflected lower usage by customers and the lower prices of the new tariff portfolio. It is worth noting that the ARPU of individual services is less representative following the launch of Movistar Fusión , as it is affected by the defined allocation of convergent product revenues between the fixed and mobile businesses.

Revenues amounted to 9,763 million euros in January-September, down 14.1% year-on-year, was impacted by the sharp drop in revenues from handset sales due to the removal of subsidies in March 2012 (-55.0% year-on-year). In the quarter, revenue performance improved (-12.1% year-on-year) mainly due to a lower y-o-y decline of handset revenues (-32.8% in the quarter) which reflected a more homogeneous year-on-year comparison, and to a better performance of revenues in the fixed business.

Excluding handset sales, revenues in the first nine months of 2013 amounted to 9,402 million euros (-11.0% year-on-year), and posted a 11.2% year-on-year decline in the third quarter, impacted by the 60% reduction in the mobile termination rate on 1 July. Excluding the regulation impact, these revenues fell 8.8% year-on-year, improving their pace of decline compared to previous quarters (-9.6% in the second quarter and -10.5% in the first).

Fixed line revenues in the first nine months fell 7.9% year-on-year, with a better performance in the quarter (-5.2% year-on-year) that reduced their pace of decline for the third quarter in a row on the back of the improved commercial activity fostered by Movistar Fusión and the development of fibre services.

Mobile business revenues in January-September declined 21.3% year-on-year (-19.7% in the quarter), significantly affected by the aforementioned reduction in revenues from handset sales.

Mobile service revenues in the first nine months declined 14.8% year-on-year and 18.3% year-on-year in the third quarter, reflecting the cut in the mobile termination rate in July mentioned earlier. Excluding the impact of the cut in mobile termination rates and roaming, mobile service revenues declined 13.7% year-on-year in the quarter, posting a higher decline than in the second quarter (-10.7%) mainly due the lower impact from the loyalty programme and the evolution of the customer base.

Operating expenses amounted to 5,257 million euros in January-September, down 19.4% year-on-year (-15.8% in the third quarter). Commercial costs reduction continued to be noteworthy (-34.2% year-on-year; -27.2% in the quarter) as a result of the new commercial model that eliminates handset subsidies. By component:

Supplies (1,828 million euros) in the first nine months fell 26.9% year-on-year (-21.1% in the third quarter), primarily due to lower mobile equipment costs as a consequence of the new commercial policy, and to lower interconnection costs.

Subcontracting expenses (1,540 million euros) in January-September fell by 23.4% year-on-year (-23.9% in the quarter), reflecting lower expenses of subsidies and commissions, and the savings from the simplification carried out by the Company. Especially notable are the commercial offer and processes simplification, the redefinition of the distribution channel and call centres and the insourcing of activities.

Personnel expenses in the first nine months (1,604 million euros) were down 5.7% year-on-year (-4.0% in the quarter) as a result of the savings derived from the redundancy programme (126 million euros, 44 million euros in the quarter) and from the temporary suspension of the Company s contribution to the pension plan since April (44 million euros, 19 million euros in the quarter). At the end of September, Telefónica España s headcount totalled 30,226 employees (-4.8% year-on-year).

OIBDA in the first nine months of 2013 totalled 4,736 million euros, reaching an OIBDA margin of 48.5% (+4.0 percentage points year-on-year in organic terms) despite the pressure on revenues. In the third quarter the margin stood at 50.2% (+3.2 percentage points year-on-year in organic terms; +1.7 percentage points compared with the previous quarter).

In organic terms (excluding the positive impact from the sale of non-strategic towers in 2012), OIBDA consolidates an stabilisation of its year-on-year decline, and fell 6.1% in the quarter and 6.4% in the first nine months (-7.2% reported).

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It should be noted that the year-on-year performance of OIBDA is affected by the positive impact of the sale of non-strategic towers in the first and third quarters of 2012 (28 million euros and 16 million euros, respectively) and the disposal of applications in the second quarter of 2012 (18 million euros).

CapEx amounted to 909 million euros in the January-September period (-22.9% year-on-year), reflecting the high level of investment s efficiency as a result of the improvements in quality and complaint indexes and enhanced efficiency in IT. At the same time, the Company continued to prioritise the investment devoted to consolidate network quality, accelerating the roll-out of fibre and fostering LTE deployment.

In organic terms, excluding the impact of the extension of spectrum licenses for the 900 MHz band, booked in the second and third quarters of 2013 (65 and 4 million euros, respectively), CapEx in the first nine months of 2013 fell 28.8% year-on-year.

As a result, **operating cash flow (OIBDA-CapEx)** totalled 3,827 million euros in the January-September period, growing 0.4% year-on-year in organic terms.

Telefónica UK (year-on-year changes in local currency)

In the third quarter of 2013, Telefónica UK maintained a solid trading momentum supported by Refresh tariffs, showing both revenue and OIBDA growth in the quarter.

On August 29th, Telefónica UK launched its LTE, high speed mobile service in three major cities, including London and further eight cities have now gone live. The commercial proposition is focused on providing an outstanding customer experience through network excellence and exclusive content (twelve months free music with video download), which is starting to deliver encouraging signs in terms of data consumption.

The Refresh proposition, launched in the second quarter of 2013, remains unique in the market and was available to all direct channels since the 18th of July. This proposition is showing promising results, with increasing commercial traction in the third quarter (53% of contract commercial activity is being done under the Refresh proposition) while also improving tariff subscription and customer satisfaction. Additionally, Refresh is a vehicle to improve distribution dynamics in the market towards more efficient direct channels.

From the 1st of May, Telefónica UK excludes the financial results of its fixed consumer business (93 million euros in revenues in the period January-September 2012 and 0.5 million euros in OIBDA vs. 35 million euros of revenues in January-April 2013 with no relevant OIBDA contribution).

Total accesses grew 1% year-on-year to reach 23.7 million at the end of September 2013 despite the impact from the disposal of the fixed assets (720 thousand accesses: 209 thousand in fixed telephony accesses and 511 thousand in fixed broadband accesses).

Operating highlights are:

The solid **mobile contract customer base** growth (+9% year-on-year) drive **total mobile customers** to grow 4% year-on-year reaching 23.4 million at the end of September. The contract mix accounted for 54% of the mobile base, increasing 2 percentage points year-on-year.

The success of the Refresh proposition and the launch of 4G services is reflected in the strong **contract net additions,** 219 thousand in the quarter (+6% year-on-year) and 761 thousand in the first nine months to September (+12% year-on-year). **Prepay net additions** improved in the quarter in a declining prepay market, leading to **total net additions** of 303 thousand in the third quarter and 563 thousand in the January-September period.

The successful management of customer loyalty enabled Telefónica UK to again deliver market leading **contract churn** below 1.0% (0.1 percentage points better year-on-year in the quarter). In the first nine months contract churn improved by 0.1 percentage points to 1.0%. **Total churn** was 0.4 percentage points better year-on-year in the quarter and declined to 2.3% (0.5 percentage points better in the nine months to September) in the quarter and in the nine months to September.

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Smartphone penetration continued to grow and reached 48% by the end of the third quarter (+5 percentage points year-on-year).

Blended ARPU[2] declined 8.5% year-on-year in the third quarter and in the first nine months of the year. Excluding regulation, ARPU was 6.8% lower year-on-year in the third quarter (-5.9% year-on-year in the period to September), negatively impacted by the Refresh model (higher handset revenues recognition as handset sales are recorded upfront and lower service revenues as a result). **Voice ARPU** ex regulation declined 7.7% year-on-year in the quarter (-8.3% in the January-September period). **Data ARPU** was down 5.9% in the third quarter (-3.5% year-on-year in the first nine months).

Revenue growth accelerated in the third quarter to 3.1% year-on-year, amounting to 4,950 million euros in the January-September period (-0.8% year-on-year), reflecting the benefit of Refresh which contributed with 9.2 percentage points to revenue growth in the third quarter (4.9 percentage points in the nine months to September).

Mobile service revenue showed a year-on-year decline of 4.9% in the quarter and totalled 4,123 million euros in the nine months to September (-5.5% year-on-year). Excluding the impact of mobile termination rate cuts and roaming regulation, as well as the impact of the new commercial model, mobile service revenues decreased 1.5% year-on-year in the first nine months (-0.9% in the third quarter).

Non-SMS data revenue showed strong growth of 7.9% year-on-year in the period to September (+2.7% in the third quarter) accounting for 50% of data revenues in the first nine months (+4 percentage points year-on-year).

Data revenue declined 0.4% year-on-year in the nine months to September (-2.3% in the third quarter) due to on-going decline of SMS revenues. Data revenues account for 53% of mobile service revenues in the first nine months (+3 percentage points year-on-year).

Telefónica UK continued to drive maximum efficiencies and has maintained a flat level of **operating expenses** year-on-year (-0.5% in January-September period and +3.0% in the third quarter) despite the higher supply expenses in the third quarter (+10.1% year-on-year; -1.3% in the first nine months). The performance of supply expenses in the quarter is affected by the recognition in the third quarter of 2012 of the positive impact from the outcome of the Court of Appeal s ruling (did not allow variable wholesale termination charges for calls to 080, 0845 and 0870 numbers) while these expenses decline year-on-year in the nine months on lower interconnection costs. Personnel expenses grew 8.5% year-on-year in the nine months to September as costs were affected by the exceptional effects related to the restructuring expenses (40 million euros recorded in the second quarter and 8 million euros in the first quarter) reversing a previous growing trend in the third quarter (-14.1% better) due to the outsourcing of the customer service. External services declined 2.3% year-on-year in the January-September period (-8.0% in the third quarter) on lower commercial costs as Refresh proposition is based in a no-subsidy approach.

OIBDA grew 5.4% year-on-year in the first nine months of the year, and totalled 1,195 million euros (+3.7% in the third quarter). Year to date performance was impacted by the capital gain of 73 million euros from the disposal of assets related to the fixed consumer business in the second quarter.

OIBDA margin stood at 25.5% in the third quarter (+0.2 percentage points year-on-year) and 24.1% in the nine months to September (+1.4 percentage points year-on-year), positively impacted by the Refresh proposition while the Company continues to direct its commercial investments towards a more sustainable direct distribution model.

CapEx amounted to 1,238 million euros in the first nine months (+0.7% year-on-year excluding spectrum acquisition of 716 million euros). The increased investments in the joint deployment of LTE continued with the fastest network rollout of LTE in the UK.

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

Telefónica Germany

In the third quarter of 2013, Telefónica Germany maintained the focus on its data-centric business model with strong push to data monetisation in a more dynamic competitive environment. The German market showed a high level of commercial activity around bundles (smartphone & service tariffs) and LTE.

In this context, Telefónica Germany has taken the appropriate investment decisions, with commercial activities centered on retention and focused on contributing to the continuous value enhancement of the customer base.

Telefónica Germany s **total access base** remained stable year-on-year at 25.4 million at the end of September 2013. Main operating highlights are:

Mobile accesses totalled 19.6 million accesses (+2% year-on-year) with contract mix improving 1 percentage point year-on-year to 53%. Contract customers grew 4% year-on-year while the prepaid customer base remained almost stable versus the same quarter of the previous year.

Smartphone penetration increased 6 percentage points year-on-year and reached 30% at the end of September 2013 with the adoption of LTE-enabled handsets improving (approximately 55% of total shipments in the third quarter vs. 40% in the second quarter), which is an encouraging trend for further data monetisation.

The Company has been able to improve its mobile commercial traction in the quarter with **total net additions** almost doubling the figure achieved in the previous quarter (165 thousand vs. 87 thousand in the second quarter). **Contract net additions** in the quarter totalled 55 thousand (207 thousand in the first nine months of the year) in a very competitive market, with continued success of the new O2 All-in Blue portfolio. **Prepay net additions** improved strongly sequentially to 110 thousand in the quarter versus 27 thousand in the second quarter, to reach 69 thousand in the first nine months of the year, mainly driven by secondary brands and take-up of smartphone tariffs.

Contract churn continued its positive progression, improving 0.1 percentage points year-on-year to 1.3% in the quarter thanks to the successful management of the high value customer base, including retention and focused tariff migration activities which improved the quality of mobile contract base. In the first nine months of the year improved 0.1 percentage points to 1.4%.

Mobile ARPU in the first nine months declined 7.9% year-on-year (-8.2% in the quarter). Excluding mobile termination rate cuts ARPU declined 4.1% up to September and 4.4% in the July-September period on the back of continuous tariff renewals to lower pricing levels and the general trend of SMS substitution, affecting mostly SMS incoming revenues. ARPU erosion excluding MTRs posted a stabilising performance in the year-on-year rate of decline (-4.4% in the third quarter vs. -4.5% in the second quarter). This performance is mainly driven by an improved tariff mix within the All-in Blue portfolio, the lower dilution from long-term contract renewals within the customer base and a lower negative impact from SMS substitution in the market, which is mostly impacting incoming ARPU.

Data ARPU grew 0.8% in the first nine months of the year (stable year-on-year in the third quarter) despite the negative impact of further deceleration in SMS. The introduction of All-in Blue propositions and regulatory measures continued to pressure **voice ARPU** (-14.9% year-on-year in the first nine months of the year) though improving sequentially in the third quarter (-15.0% year-on-year vs. -15.8% year-on-year in the second quarter) on increasing smartphone penetration.

Retail **broadband fixed internet accesses** declined by 29 thousand in the quarter, posting an improvement over the previous quarter (-40 thousand) leveraged on good adoption of VDSL proposition, and amounted 2.3 million at the end of September (-7% year-on-year).

Revenues up to September totalled 3,671 million euros (-5.2% year-on year; -7.0% year-on-year in the third quarter). Excluding the impact from mobile termination rate cuts, revenues declined 2.8% in the first nine months of the year (-4.6% in the third quarter).

Mobile service revenue reached 2,246 million euros in the first nine months of 2013 (-4.8% year-on-year; -5.7% year-on-year in the third quarter). Excluding mobile termination rate cuts, mobile service revenue declined 0.9% (-1.8% in the third quarter). This performance is the result of the continued above-mentioned ARPU dilution as well as the lower trading activity versus 2012 in the contract segment. Despite this performance, sequential year-on-year deterioration is lower vs. the previous quarter as a result of lower ARPU erosion from contract tariff renewals.

Non-SMS data revenue grew 20.2% year-on-year in the third quarter (+22.9% year-on-year in the first nine months) with non-SMS data representing 68% of total data revenues, (+10 percentage points year-on-year). As a result, **mobile data revenues** grew 3.0% in the quarter (+4.3% in the first nine months of the year), accounting for 48% of mobile service revenues (+4 percentage points year-on-year).

Handset revenues grew 2.1% year-on-year in the first nine months of the year, but changed the trend in the third quarter declining 11.0% year-on-year as a consequence of different timings of device launches, specific bundles with high value mobile data tariffs.

Fixed revenues improved their trend in the third quarter to -8.1% year-on-year and reached 938 million euros in the first nine months of the year (-9.5% year-on-year) as a result of the slowdown in DSL disconnections and the increasing adoption of VDSL.

OIBDA totalled 918 million euros in the first nine months of the year, declining 6.8% year-on-year and 12.0% year-on-year in the third quarter. This performance in July-September period reflected revenue flow-through and increasing commercial investments, mainly related to retention activities in the mobile business and selective promotions of devices bundled high value tariffs that support the mobile data monetization strategy.

OIBDA margin reached 25.7% in the third quarter (-1.5 percentage points year-on-year) and 25.0% in the first nine months of 2013 (-0.4 p.p. year-on-year).

CapEx in the nine months to September amounted to 468 million euros, an increase of 3.4% year-on-year, focusing efforts in the development of the LTE network, which more than doubled last year s figure.

Telefónica Czech Republic (year-on-year changes in constant currency)

In the third quarter of the year, Telefónica Czech Republic continued focused on pushing the Free and Vario tariffs that have changed the market rules addressing customers needs and maintaining the commercial momentum in mobile.

4G spectrum auction will take place in Czech Republic in mid-November and the Company will take part in it while contesting certain discriminatory conditions of the Czech auction in court.

The Company is also pushing VDSL as a key area of growth and adding value to customers with Pay TV with a renewed and enhanced service platform.

In the meantime, the continued focus on efficiencies and the implementation of a simplified operating model are already bearing fruit with OIBDA margin at a high level and improving versus the previous quarter.

Telefonica Slovakia keeps its strong subscriber s growth and is further increasing its contribution to the Group financial performance.

Worth to highlight, that in order to continue bringing significant benefits to customers and to drive further resources optimisation, especially in service quality and coverage, Telefónica Czech Republic reached an agreement at the end of October regarding the consolidation of its current 2G and 3G mobile network with T Mobile Czech Republic.

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Total accesses, including Slovakia, grew 1% year-on-year to 9.3 million at the end of September 2013 (affected by the disconnection of 114 thousand accesses of inactive mobile contract customers in the first quarter of 2013 in Czech Republic). **Operating highlights** in the mobile business include:

Total mobile customer base in the Czech Republic increased 1% year-on-year and reached 5.1 million at the end of the quarter, despite the above mentioned disconnections, with incremental weight of the contract base that totalled 63% of total base (+0.5 percentage points year-on-year).

Contract net additions reached 22 thousand in the third quarter of 2013 affected by higher churn in the business segment to amount 117 thousand in the first nine months of 2013 when excluding disconnections, on the back of continuous success of the FREE and Vario tariffs. **Total net additions** amounted to 105 thousand in the first nine months excluding the adjustment while in the quarter net losses totalled 7 thousand, due to higher prepay churn in the quarter driven by the most price-sensitive customers migrating to MVNO s operators.

The **total number of customers in Slovakia** continues growing at high path, reaching 1.5 million customers at the end of the quarter (+14% year-on-year), with the contract base growing at 21% year-on-year and already representing 50% of the base (+3 percentage points year-on-year). **Total net additions** in the nine months to September 2013 totalised 117 thousand (68% in contract) and 43 thousand in the third quarter (70% in contract).

Contract churn in the quarter stood at 1.1% (+0.1 percentage points year-on-year) and total churn at 2.1% (+0.5 percentage points year-on-year), due to higher prepay churn, driven by the on-going migration from prepay to contract and the above mention customers migration to MVNO s operators.

Smartphone sales represented 65% of total handset sales in the quarter while **smartphone penetration** grew 11 percentage points year-on-year to reach 23% at the end of September 2013.

ARPU declined 18.7% year-on-year in the quarter and 16.2% in the first nine months of the year, strongly affected by mobile termination rate cuts (-10.9% year-on-year in the quarter and 9.9% in the first nine months of the year excluding that impact). Year-on year performance is explained by the ARPU dilution in the business segment. Voice ARPU accelerated its sequential year-on-year declining trend due to MTR cut in July and spend deterioration in business segment while data ARPU is growing year-on-year in the quarter as Free tariffs are driving data growth.

Highlights of **fixed business** were:

Fixed telephony accesses reached 1.4 million at the end September and net losses continued slowing down in the quarter (-26 thousand net losses in the third quarter vs. -30 thousand in the second quarter) to amount 88 thousand in the first nine months of the year.

Retail broadband internet accesses remained stable compared to the previous year, despite the highly competitive environment and amounted 889 thousand at the end of September. VDSL continued growing and already represents 80% of addressable xDSL residential base. The number of VDSL customers grew by 26 thousand in the quarter and 76 thousand in the first nine months of the year.

Pay TV customers grew 6% year-on-year, reaching 148 thousand, after recording 5 thousand net additions in the quarter (vs. 1 thousand in the first half of the year), with the new IPTV platform helping to manage churn and spend dilution.

Revenues for the Czech Republic and Slovakia reached 1,382 million euros in the first nine months of the year (-6.0% year-on-year; -7.6% in the third quarter). Excluding mobile termination rate cuts, quarterly revenues were -3.1% year-on-year and -1.9% in the first nine months, with trends decelerating in both, mobile and fixed segments.

Mobile service revenues amounted to 739 million euros in the January-September period (-9.2% year-on-year; -11.7% in the third quarter). Excluding the impact of regulation, mobile service revenues declined 2.1% year-on-year in the first nine months of the year (-3.9% year-on-year in the third quarter), affected by business segment performance and ARPU dilution from the high-end migrated customers to the new tariffs as well as further optimisation of the prepay base. However, the impact of spend dilution from migrated customers to Free tariffs is fading out since the high spender customers have already migrated. On the bright side, **mobile data revenues** accelerated their year-on-year growth trend in the third quarter (+7.5% year-on-year vs. +2.8% in the second quarter) driven by the solid performance of **non-SMS data revenues** (+31.0% year-on-year in the third quarter and +22.0% year-on-year in the nine months to September).

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Mobile service revenues in Slovakia posted a solid increase of 7.4% year-on-year in the first nine months of the year, largely impacted by mobile termination rate cuts and 6.9% year-on-year in the third quarter (improving versus 4.7% year-on-year increase in the second quarter).

Fixed revenues totalled 590 million euros in January-September 2013 (-4.1% year-on-year; -3.9% year-on-year in the third quarter) affected by lower ICT revenues.

The Company continued to focus on efficiency with a simplified operating model already showing lower billing, commissions, personnel and network costs. As a result, operating expenses in Czech Republic decreased 4.6% year-on-year in the nine months to September (-6.8% year-on-year in the third quarter).

OIBDA reached 545 million euros decreasing by 9.5% year-on-year in the first nine months, showing an improving trend in the quarter to -7.5% year-on-year. It should be highlighted that the first quarter of the year was negatively impacted by restructuring expenses of 14 million euros (9 million euros in the first half of 2012 which was offset by the positive impact of 9 million euros from the sale of non-core assets).

As a result, **OIBDA margin** in the third quarter was stable despite intensified revenue pressure and stood at 41.9%, reaching 39.4% in the first nine months of the year (-1.5 p.p. year-on-year).

CapEx totalled 134 million in the first nine months of the year (-13.2% year-on-year), with the Company focusing on growth areas like 3G capacity extension, LTE, IPTV and VDSL.

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TELEFÓNICA EUROPE

ACCESSES

Unaudited figures (thousands)

	2012		2013			
	September	December	March	June	September	% Chg
Final Clients Accesses	97,423.4	97,575.5	96,861.8	95,885.0	95,775.9	(1.7)
Fixed telephony accesses (1) (2)	15,948.2	15,849.3	15,653.0	15,227.6	15,017.1	(5.8)
Internet and data accesses	10,026.4	10,065.4	10,027.0	9,488.5	9,457.0	(5.7)
Narrowband	470.2	444.1	432.1	419.2	401.1	(14.7)
Broadband (3)	9,510.7	9,576.2	9,548.1	9,027.7	9,014.4	(5.2)
Other (4)	45.5	45.1	46.8	41.6	41.5	(8.9)
Mobile accesses	70,484.7	70,751.5	70,329.6	70,347.6	70,503.4	0.0
Prepay	28,837.8	28,680.4	28,229.6	27,954.6	27,922.7	(3.2)
Contract (5)	41,646.9	42,071.1	42,099.9	42,393.0	42,580.6	2.2
Pay TV	964.1	909.3	852.2	821.3	798.4	(17.2)
Wholesale Accesses	5,605.9	5,684.3	5,820.7	5,957.0	6,131.9	9.4
Total Accesses	103,029.4	103,259.8	102,682.5	101,842.0	101,907.8	(1.1)

TELEFÓNICA EUROPE

MOBILE ACCESSES

Unaudited figures (thousands)

	2012		2013			
	September	December	March	June	September	% Chg
Prepay percentage (%)	40.9%	40.5%	40.1%	39.7%	39.6%	(1.3 p.p.)
Contract percentage (%)	59.1%	59.5%	59.9%	60.3%	60.4%	1.3 p.p.
MBB accesses (000)	24,004.8	25,499.1	26,321.0	27,352.5	28,130.7	17.2
MBB penetration (%)	34%	36%	37%	39%	40%	5.8 p.p.
Smartphone penetration (%)	33%	35%	37%	39%	40%	7.6 p.p.

Note:

Telefónica España mobile accesses include since 2013 the accesses of Tuenti and in 2012 they have been restated with the same criteria.

(1) *PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company s accesses for internal use included. Includes VoIP and Naked ADSL.*
(2) *In the second quarter of 2013, 209 thousand accesses were disconnected due to the disposal of the assets of the fixed business in UK.*
(3) *In the second quarter of 2013, 511 thousand accesses were disconnected due to the disposal of the assets of the fixed business in UK.*
(4) *Retail circuits other than broadband.*
(5) *First quarter of 2013 includes the disconnection of 114 thousand inactive accesses in Czech Republic.*

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TELEFÓNICA EUROPE

CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - September		% Chg		July - September		% Chg	
	2013	2012	Reported	Organic	2013	2012	Reported	Organic
Revenues	20,100	22,518	(10.7)	(8.8)	6,708	7,438	(9.8)	(7.1)
Internal exp. capitalized in fixed assets	354	342	3.5	4.8	112	104	7.6	9.9
Operating expenses	(13,150)	(15,011)	(12.4)	(9.9)	(4,273)	(4,788)	(10.8)	(7.3)
Supplies	(6,197)	(7,344)	(15.6)	(12.0)	(2,026)	(2,293)	(11.7)	(6.4)
Personnel expenses	(2,585)	(2,727)	(5.2)	(4.1)	(814)	(877)	(7.2)	(5.6)
Subcontracts	(3,967)	(4,509)	(12.0)	(10.6)	(1,291)	(1,489)	(13.3)	(11.1)
Bad debt provision	(169)	(183)	(8.0)	(7.1)	(58)	(51)	13.7	15.8
Taxes	(232)	(247)	(6.4)	(6.3)	(84)	(79)	7.4	7.6
Other net operating income (expense)	48	(8)	c.s.	c.s.	11	(22)	c.s.	c.s.
Gain (loss) on sale of fixed assets	22	98	(77.9)	80.6	(50)	30	c.s.	(52.8)
Impairment of goodwill and other assets	(4)	(5)	(10.4)	c.s.	(3)	(2)	15.0	c.s.
Operating income before D&A (OIBDA)	7,369	7,934	(7.1)	(4.8)	2,505	2,759	(9.2)	(5.4)
OIBDA Margin	*36.7%*	*35.2%*	*1.4 p.p.*	*1.6 p.p.*	*37.3%*	*37.1%*	*0.3 p.p.*	*0.7 p.p.*
Depreciation and amortization	(3,664)	(3,766)	(2.7)	(0.5)	(1,194)	(1,270)	(6.0)	(1.3)
Operating income (OI)	3,705	4,168	(11.1)	(8.7)	1,311	1,490	(12.0)	(8.8)

Notes:

OIBDA and OI before management and brand fees.

From January 1st, 2013, Tuenti is included in the consolidation perimeter of T. España. Before it was included within Other companies and eliminations of Telefónica Group. As a consequence, the results of T. España, T.

Europe and Other companies and Eliminations of Telefónica Group have been restated for the fiscal year 2012. As this is an intragroup change, Telefónica consolidated results for 2012 are not affected.

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TELEFÓNICA EUROPE

ACCESSES BY COUNTRY

Unaudited figures (Thousands)

	2012		2013			
	September	December	March	June	September	% Chg
TELEFÓNICA ESPAÑA						
Final Clients Accesses	39,213.1	38,821.7	38,196.6	37,695.5	37,171.2	(5.2)
Fixed telephony accesses (1)	11,770.5	11,723.0	11,587.2	11,420.3	11,261.3	(4.3)
Naked ADSL	28.4	25.0	22.9	22.5	22.4	(21.1)
Internet and data accesses	5,665.4	5,779.3	5,830.2	5,860.5	5,872.6	3.7
Narrowband	69.4	54.0	53.2	50.2	46.1	(33.6)
Broadband (2)	5,579.8	5,709.3	5,761.7	5,795.6	5,812.3	4.2
Other (3)	16.2	16.0	15.3	14.7	14.3	(12.1)
Mobile accesses	21,017.6	20,608.7	20,119.3	19,782.3	19,428.0	(7.6)
Prepay	5,407.1	5,180.5	4,966.5	4,769.5	4,560.0	(15.7)
Contract	15,610.4	15,428.2	15,152.7	15,012.8	14,867.9	(4.8)
Pay TV	759.6	710.7	659.9	632.5	609.3	(19.8)
Wholesale Accesses	4,310.7	4,396.0	4,502.0	4,626.5	4,792.2	11.2
WLR (4)	479.6	481.2	485.9	488.6	506.6	5.6
Unbundled loops	3,157.9	3,262.0	3,358.1	3,475.3	3,619.0	14.6
Shared ULL	189.6	183.5	169.5	157.6	147.3	(22.3)
Full ULL (5)	2,968.3	3,078.5	3,188.6	3,317.6	3,471.7	17.0
Wholesale ADSL	672.7	652.3	657.6	662.2	666.2	(1.0)
Other (6)	0.5	0.5	0.4	0.4	0.4	(26.5)
Total Accesses	43,523.8	43,217.8	42,698.6	42,322.0	41,963.3	(3.6)
TELEFÓNICA UK						
Final Clients Accesses	23,425.4	23,801.7	23,814.0	23,326.8	23,639.5	0.9
Fixed telephony accesses (1) (7)	362.8	377.4	384.5	192.7	198.7	(45.2)
Internet and data accesses	579.5	560.1	519.4	10.4	13.6	(97.6)
Broadband (8)	579.5	560.1	519.4	10.4	13.6	(97.6)
Mobile accesses	22,483.2	22,864.2	22,910.1	23,123.7	23,427.2	4.2
Prepay	10,863.9	10,962.9	10,758.0	10,680.0	10,764.7	(0.9)
Contract	11,619.2	11,901.3	12,152.1	12,443.7	12,662.4	9.0
Wholesale Accesses	36.4	40.5	42.4	36.8	40.7	11.9
Total Accesses	23,461.8	23,842.2	23,856.4	23,363.6	23,680.2	0.9

TELEFÓNICA GERMANY						
Final Clients Accesses	24,215.2	24,284.9	24,218.9	24,216.2	24,306.2	0.4
Fixed telephony accesses (1)	2,296.3	2,249.0	2,212.8	2,176.0	2,144.9	(6.6)
Internet and data accesses	2,740.4	2,678.9	2,630.2	2,583.1	2,543.5	(7.2)
Narrowband	310.1	302.6	294.6	287.9	277.2	(10.6)
Broadband	2,430.3	2,376.3	2,335.6	2,295.1	2,266.2	(6.8)
Mobile accesses	19,113.8	19,299.9	19,324.5	19,411.1	19,576.4	2.4
Prepay	9,224.7	9,191.3	9,123.6	9,150.6	9,260.7	0.4
Contract	9,889.1	10,108.5	10,200.9	10,260.5	10,315.7	4.3
Pay TV	64.8	57.2	51.3	46.0	41.5	(35.9)
Wholesale Accesses	1,104.6	1,087.9	1,112.9	1,127.2	1,130.4	2.3
Total Accesses	25,319.9	25,372.8	25,331.8	25,343.3	25,436.6	0.5
TELEFÓNICA IRELAND						
Internet and data accesses	29.5	31.0	31.7	30.9	33.0	11.7
Broadband	29.5	31.0	31.7	30.9	33.0	11.7
Mobile accesses	1,553.8	1,541.7	1,530.2	1,520.5	1,526.1	(1.8)
Prepay	777.4	759.7	739.5	726.6	725.9	(6.6)
Contract	776.4	782.0	790.7	794.0	800.1	3.1
Total Accesses	1,583.3	1,572.7	1,561.9	1,551.4	1,559.1	(1.5)
TELEFÓNICA CZECH REPUBLIC						
Final Clients Accesses	7,694.1	7,740.3	7,672.7	7,667.0	7,628.6	(0.9)
Fixed telephony accesses (1)	1,518.6	1,499.9	1,468.4	1,438.6	1,412.3	(7.0)
Naked ADSL	273.8	285.9	289.7	297.6	310.4	13.4
VoIP	71.6	76.7	79.8	82.1	83.9	17.2
Internet and data accesses	1,011.6	1,016.1	1,015.5	1,003.7	994.3	(1.7)
Narrowband	90.7	87.6	84.3	81.1	77.8	(14.2)
Broadband	891.6	899.4	899.7	895.7	889.3	(0.3)
Other	29.3	29.1	31.6	26.9	27.2	(7.1)
Mobile accesses	5,024.2	5,082.9	5,047.8	5,081.9	5,074.4	1.0
Prepay	1,883.8	1,891.1	1,926.7	1,909.2	1,879.6	(0.2)
Contract (9)	3,140.4	3,191.7	3,121.1	3,172.7	3,194.9	1.7
Pay TV	139.7	141.4	140.9	142.8	147.6	5.6
Wholesale Accesses	154.2	159.9	163.4	166.5	168.6	9.3
Total Accesses	7,848.3	7,900.1	7,836.0	7,833.5	7,797.2	(0.7)
TELEFÓNICA SLOVAKIA						
Mobile accesses	1,292.3	1,354.2	1,397.7	1,428.1	1,471.4	13.9
Prepay	681.0	694.9	715.3	718.8	731.8	7.5
Contract	611.4	659.3	682.5	709.3	739.6	21.0
Total Accesses	1,292.3	1,354.2	1,397.7	1,428.1	1,471.4	13.9

Note:

Telefónica España mobile accesses include since 2013 the accesses of Tuenti and in 2012 they have been restated with the same criteria.

(1) *PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30.Company s accesses for internal use included. Includes VoIP and Naked ADSL.*
(2) *ADSL, satellite, optical fiber and broadband circuits.*
(3) *Leased lines.*
(4) *Wholesale Line Rental.*
(5) *Includes naked shared loops.*
(6) *Wholesale circuits.*
(7) *In the second quarter of 2013, 209 thousand accesses were disconnected due to the disposal of the assets of the fixed business in UK.*
(8) *In the second quarter of 2013, 511 thousand accesses were disconnected due to the disposal of the assets of the fixed business in UK.*
(9) *First quarter of 2013 includes the disconnection of 114 thousand inactive accesses.*

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TELEFÓNICA EUROPE

SELECTED OPERATING MOBILE BUSINESS DATA BY COUNTRY

Unaudited figures

	2012		2013			
	Q3	Q4	Q1	Q2	Q3	% Chg Local Cur
TELEFÓNICA ESPAÑA						
Traffic (Million minutes)	9,051	8,737	8,238	8,774	8,647	(4.5)
ARPU (EUR)	21.4	19.8	18.4	18.4	17.4	(18.8)
Prepay	9.5	8.1	7.5	7.5	7.5	(22.0)
Contract	25.5	23.8	22.0	21.9	20.4	(19.9)
Data ARPU (EUR)	6.5	6.5	6.5	6.8	6.9	5.9
% non-SMS over data revenues (1)	85.3%	87.6%	90.8%	91.6%	92.4%	7.1 p.p.
TELEFÓNICA UK						
Traffic (Million minutes)	12,077	11,910	11,940	12,105	12,196	1.0
ARPU (EUR)	22.9	21.8	20.1	19.9	19.4	(8.5)
Prepay	9.7	9.1	8.0	7.7	7.5	(15.9)
Contract	35.5	33.7	31.1	30.5	29.6	(9.8)
Data ARPU (EUR)	11.8	11.6	10.6	10.5	10.3	(5.9)
% non-SMS over data revenues	48.0%	48.7%	49.7%	49.7%	50.5%	2.5 p.p.
TELEFÓNICA GERMANY						
Traffic (Million minutes)	7,228	7,528	7,444	7,691	7,497	3.7
ARPU (EUR)	14.0	13.6	12.5	12.7	12.9	(8.2)
Prepay	5.7	5.5	5.0	5.1	5.4	(6.1)
Contract	21.8	21.0	19.3	19.5	19.6	(10.1)
Data ARPU (EUR)	6.2	6.2	6.1	6.2	6.2	0.2
% non-SMS over data revenues	57.9%	59.9%	63.4%	65.4%	67.6%	9.7 p.p.
TELEFÓNICA IRELAND						
Traffic (Million minutes)	960	941	901	932	957	(0.3)
ARPU (EUR)	29.6	28.8	26.2	27.1	25.6	(13.5)
Prepay	20.4	20.4	18.0	19.0	18.4	(9.8)
Contract	39.0	36.9	34.1	34.6	32.2	(17.4)
Data ARPU (EUR)	13.5	13.4	13.4	13.8	13.7	1.5
% non-SMS over data revenues	48.5%	49.6%	50.9%	51.7%	54.3%	5.8 p.p.
TELEFÓNICA CZECH REPUBLIC (2)						
Traffic (Million minutes)	2,359	2,499	2,419	2,714	2,776	17.7
ARPU (EUR) (3)	15.7	14.6	13.2	13.0	12.4	(18.7)
Prepay	7.1	6.6	5.9	5.8	5.4	(20.4)
Contract (3)	20.9	19.3	17.6	17.4	16.6	(16.8)
Data ARPU (EUR)	4.5	4.4	4.1	4.2	4.4	1.1

% non-SMS over data revenues	47.1%	47.4%	49.9%	54.4%	58.1%	11.0 p.p.

(1) Non-SMS revenues include in 2013 the minimum consumption part of contract customers that corresponds to data revenues and Tuenti. Thus, 2012 figures have been restated.

(2) KPIs for mobile business in Czech Republic do not include Slovakia.

(3) ARPU and year-on-year change affected by the disconnection of 114 thousand inactive accesses in the first quarter of 2013.

Notes:

ARPU calculated as monthly quarterly average.

Traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company s mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.

T. España ARPU and traffic are affected by the entrance of Tuenti in its consolidation perimeter in 2013, and in 2012 they have been restated with the same criteria.

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TELEFÓNICA EUROPE

CUMULATIVE SELECTED OPERATING MOBILE BUSINESS DATA BY COUNTRY

Unaudited figures

	2012		2013			
	Jan-Sep	Jan-Dec	Jan-Mar	Jan-Jun	Jan-Sep	% Chg Local Cur
TELEFÓNICA ESPAÑA						
Traffic (Million minutes)	27,644	36,382	8,238	17,012	25,659	(7.2)
ARPU (EUR)	21.4	20.6	18.4	18.4	18.1	(15.7)
Prepay	9.4	8.8	7.5	7.5	7.5	(19.9)
Contract	25.7	24.7	22.0	22.0	21.5	(16.4)
Data ARPU (EUR)	6.5	6.5	6.5	6.7	6.7	3.8
% non-SMS over data revenues (1)	84.4%	85.2%	90.8%	91.2%	91.6%	7.2 p.p.
TELEFÓNICA UK						
Traffic (Million minutes)	36,340	48,250	11,940	24,045	36,241	(0.3)
ARPU (EUR)	22.7	22.5	20.1	20.0	19.8	(8.5)
Prepay	9.7	9.6	8.0	7.9	7.7	(16.3)
Contract	35.5	35.0	31.1	30.8	30.4	(10.1)
Data ARPU (EUR)	11.4	11.4	10.6	10.5	10.5	(3.5)
% non-SMS over data revenues	46.1%	46.8%	49.7%	49.7%	49.9%	3.8 p.p.
TELEFÓNICA GERMANY						
Traffic (Million minutes)	21,991	29,519	7,444	15,135	22,632	2.9
ARPU (EUR)	13.8	13.8	12.5	12.6	12.7	(7.9)
Prepay	5.5	5.5	5.0	5.0	5.2	(6.7)
Contract	21.7	21.5	19.3	19.4	19.5	(10.0)
Data ARPU (EUR)	6.1	6.2	6.1	6.2	6.2	0.8
% non-SMS over data revenues	55.6%	56.7%	63.4%	64.4%	65.5%	9.9 p.p.
TELEFÓNICA IRELAND						
Traffic (Million minutes)	2,955	3,896	901	1,833	2,790	(5.6)
ARPU (EUR)	29.6	29.4	26.2	26.7	26.3	(11.0)
Prepay	20.1	20.2	18.0	18.5	18.4	(8.2)
Contract	39.7	39.0	34.1	34.3	33.6	(15.2)
Data ARPU (EUR)	13.4	13.4	13.4	13.6	13.6	1.9
% non-SMS over data revenues	47.1%	47.7%	50.9%	51.3%	52.3%	5.1 p.p.
TELEFÓNICA CZECH REPUBLIC (2)						
Traffic (Million minutes)	7,093	9,592	2,419	5,133	7,909	11.5
ARPU (EUR) (3)	15.8	15.5	13.2	13.1	12.9	(16.2)
Prepay	7.0	6.9	5.9	5.9	5.7	(16.6)
Contract (3)	21.0	20.6	17.6	17.5	17.2	(16.3)
Data ARPU (EUR)	4.5	4.4	4.1	4.2	4.2	(2.6)
% non-SMS over data revenues	46.0%	46.3%	49.9%	52.2%	54.2%	8.2 p.p.

(1) Non-SMS revenues include in 2013 the minimum consumption part of contract customers that corresponds to data revenues and Tuenti. Thus, 2012 figures have been restated.
(2) KPIs for mobile business in Czech Republic do not include Slovakia.
(3) ARPU and year-on-year change affected by the disconnection of 114 thousand inactive accesses in the first quarter of 2013.

Notes:

ARPU calculated as monthly quarterly average of each period.

Traffic is defined as minutes used by the company customers, both outbound and inbound. On-net traffic is only included once (outbound), and promotional traffic is included. Traffic not associated to the Company s mobile customers (roaming-in, MVNOs, interconnection of third parties and other business lines) is excluded. Traffic volume non rounded.

T. España ARPU and traffic are affected by the entrance of Tuenti in its consolidation perimeter in 2013, and in 2012 they have been restated with the same criteria.

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TELEFÓNICA EUROPE

SELECTED FINANCIAL DATA BY COUNTRY

Unaudited figures (Euros in millions)

	January - September				July - September			
	2013	2012	% Chg	% Chg Local Cur	2013	2012	% Chg	% Chg Local Cur
TELEFÓNICA ESPAÑA								
Revenues	9,763	11,371	(14.1)		3,204	3,646	(12.1)	
Revenues ex-handset revenues	9,402	10,567	(11.0)		3,104	3,497	(11.2)	
Wireless Business	3,896	4,953	(21.3)		1,261	1,571	(19.7)	
Mobile service revenues	3,534	4,149	(14.8)		1,161	1,422	(18.3)	
Data revenues (1)	1,212	1,263	(4.0)		405	414	(2.0)	
Handset revenues	361	804	(55.0)		100	149	(32.8)	
Wireline Business	6,618	7,185	(7.9)		2,190	2,309	(5.2)	
FBB and new services (2)	3,214	3,310	(2.9)		1,067	1,072	(0.4)	
Voice & access revenues	3,075	3,505	(12.3)		998	1,132	(11.8)	
Other	328	369	(11.0)		124	105	18.1	
OIBDA	4,736	5,104	(7.2)		1,607	1,728	(7.0)	
OIBDA margin	*48.5%*	*44.9%*	*3.6 p.p.*		*50.2%*	*47.4%*	*2.8 p.p.*	
CapEx (3)	909	1,180	(22.9)		282	393	(28.1)	
OpCF (OIBDA-CapEx) (3)	3,827	3,924	(2.5)		1,325	1,335	(0.7)	
TELEFÓNICA UK								
Revenues	4,950	5,234	(5.4)	(0.8)	1,717	1,797	(4.4)	3.1
Mobile service revenues	4,123	4,579	(9.9)	(5.5)	1,365	1,550	(11.9)	(4.9)
Data revenues	2,172	2,287	(5.0)	(0.4)	720	795	(9.5)	(2.3)
Handset revenues and other	827	655	26.2	32.4	352	246	42.7	53.4
OIBDA	1,195	1,190	0.5	5.4	438	454	(3.5)	3.7
OIBDA Margin	*24.1%*	*22.7%*	*1.4 p.p.*		*25.5%*	*25.3%*	*0.2 p.p.*	
CapEx (4)	1,238	544	127.8	139.0	167	169	(0.9)	8.2
OpCF (OIBDA-CapEx) (4)	(43)	646	c.s.	c.s.	271	285	(5.1)	1.1
TELEFÓNICA GERMANY								
Revenues	3,671	3,871	(5.2)		1,225	1,317	(7.0)	
Wireless Business	2,729	2,832	(3.6)		912	977	(6.6)	
Mobile service revenues	2,246	2,359	(4.8)		765	812	(5.7)	

Data revenues	1,079	1,034	4.3		365	355	3.0	
Handset revenues	482	472	2.1		147	165	(11.0)	
Wireline Business	938	1,036	(9.5)		311	338	(8.1)	
FBB and new services (2)	664	750	(11.5)		217	248	(12.3)	
Voice & access revenues	267	276	(3.3)		91	87	4.4	
Other	7	10	(32.0)		3	3	(20.1)	
OIBDA	918	986	(6.8)		315	358	(12.0)	
OIBDA margin	*25.0%*	*25.5%*	*(0.4 p.p.)*		*25.7%*	*27.2%*	*(1.5 p.p.)*	
CapEx	468	452	3.4		171	181	(5.5)	
OpCF (OIBDA-CapEx)	451	533	(15.5)		144	177	(18.7)	
TELEFÓNICA IRELAND								
Revenues	413	474	(12.9)		135	161	(16.1)	
Mobile service revenues	371	432	(14.0)		121	144	(15.6)	
Data revenues	187	190	(1.7)		62	63	(1.1)	
Handset revenues and other	41	42	(1.6)		14	18	(20.2)	
OIBDA	80	95	(15.4)		29	38	(24.6)	
OIBDA Margin	*19.5%*	*20.0%*	*(0.6 p.p.)*		*21.2%*	*23.6%*	*(2.4 p.p.)*	
CapEx	42	49	(14.1)		16	16	(4.2)	
OpCF (OIBDA-CapEx)	38	46	(16.7)		13	22	(39.8)	
TELEFÓNICA CZECH REPUBLIC (5)								
Revenues	1,382	1,502	(8.0)	(6.0)	451	502	(10.1)	(7.6)
Wireless Business	792	872	(9.2)	(7.4)	257	293	(12.3)	(10.1)
Mobile service revenues	739	830	(11.0)	(9.2)	240	279	(13.8)	(11.7)
Data revenues	233	228	2.2	4.3	81	77	4.8	7.5
Handset revenues	54	43	25.7	28.1	16	14	17.2	20.0
Wireline Business	590	630	(6.4)	(4.1)	195	209	(6.8)	(3.9)
FBB and new services (2)	300	298	0.6	3.1	98	100	(2.1)	0.9
Voice & access revenues	286	328	(12.8)	(10.6)	95	108	(11.7)	(8.9)
Other	4	4	(1.1)	1.3	2	1	39.7	43.6
OIBDA	545	615	(11.4)	(9.5)	189	210	(10.0)	(7.5)
OIBDA margin	*39.4%*	*41.0%*	*(1.5 p.p.)*		*41.9%*	*41.9%*	*0.0 p.p.*	
CapEx	134	158	(15.1)	(13.2)	48	71	(32.8)	(30.9)
OpCF (OIBDA-CapEx)	411	458	(10.2)	(8.2)	141	139	1.7	4.6

Notes:

OIBDA before management and brand fees.

From January 1st, 2013, Tuenti is included in the consolidation perimeter of T. España. Before it was included within Other companies and eliminations of Telefónica Group. As a consequence, the results of T. España, T. Europe and Other companies and Eliminations of Telefónica Group have been restated for the fiscal year 2012. As this is an intragroup change, Telefónica consolidated results for 2012 are not affected.

(1) T. España wireless data revenues include in 2013 the minimum consumption part of contract customers that corresponds to data revenues. Thus, 2012 figures have been restated.

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

(3) CapEx includes 65 million euros from the spectrum acquired in the second quarter of 2013 and 4 million euros in the third quarter of 2013.

(4) CapEx includes 716 million euros from the spectrum acquired in 2013.
(5) Includes Slovakia.

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ADDENDA

Key Holdings of the Telefónica Group

TELEFÓNNICA LATINOAMÉRICA

	% Stake
Telefónica de Argentina	100.0
Telefónica Móviles Argentina	100.0
Telefónica Móviles Chile	100.0
Telefónica Móviles Mexico	100.0
Telefónica Venezuela	100.0
Telefónica Ecuador	100.0
Telefónica Móviles Uruguay	100.0
Telefónica Costa Rica	100.0
Telefónica del Peru	98.5
Telefónica Móviles Peru	98.5
Telefónica Chile	97.9
Telefónica Brasil	73.9
Telefónica Colombia	70.0
Telefónica Móviles El Salvador	60.0
Telefónica Móviles Guatemala	60.0
Telefonía Celular Nicaragua	60.0
Telefónica Móviles Panama	60.0

TELEFÓNICA EUROPE

	% Stake
Telefónica de España	100.0
Telefónica Móviles España	100.0
Telefónica UK	100.0
Telefónica Ireland (1)	100.0
Telefónica Germany	76.8
Telefónica Czech Republic (2) (3)	69.4
Telyco	100.0
T. Soluciones de Informática y	
Comunicaciones de España	100.0
Telefónica Telecomunic. Públicas	100.0

Iberbanda	100.0
Acens Technologies	100.0
Tuenti (4)	91.4

(1) This company is in a process of divestment.

(2) As of November, 5th, total stake amounted to 70.8% when including treasury shares. The same day, Telefónica announced the sale of 65.9% of Telefónica Czech Republic, maintaining a 4.9% stake in the company.

(3) It includes 100% of Telefónica Slovakia.

(4) As of November 6th, Telefónica announced the increase of its stake in Tuenti to 100%.

OTHER STAKES

	% Stake
Telefónica de Contenidos	100.0
T. Intern. Wholesale Serv. (TIWS)	100.0
Telco SpA (1)	66.0
DTS, Distribuidora de Televisión Digital	22.0
China Unicom	5.0
BBVA	0.8
Portugal Telecom	0.5

(1) Telefónica holds an indirect stake of the ordinary share capital (with voting rights) of Telecom Italia through Telco of approximately 14.96%. If we take into account the saving shares (azioni di risparmio), which do not have voting rights, the indirect stake of Telefónica over Telecom Italia would be 10.28%.

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ADDENDA

Changes to the Perimeter

During the first nine months of 2013 the main changes in the perimeter of consolidation were as follows:

In July Telefónica S.A completed the sale of 40% of its assets in Guatemala, El Salvador, Nicaragua and Panama for 500 million US dollars (equivalent to 377 million euros on the date of execution of the sale). The Telefónica Group retains control over these assets, which are still fully consolidated.

On 24 September 2013, Telefónica and the remaining shareholders of Telco, S.p.A reached an agreement by virtue of which Telefónica subscribed for and paid out a capital increase in Telco, S.p.A. through the contribution of 323,772,468 euros in cash, receiving in return non-voting shares of 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 %, as Telefónica currently holds), although its interest in the total share capital of Telco, S.p.A. is increased to 66%. The current governance at Telco, S.p.A. s level remains unaffected, including the obligation by Telefónica of abstaining from participating or influencing in any decisions which could affect the markets in which both companies are present. This company is still included in the perimeter of consolidation using the equity method.

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Finally, it is stated that neither this presentation nor any of the information contained herein constitutes an offer of purchase, sale or exchange, nor a request for an offer of purchase, sale or exchange of securities, or any advice or recommendation with respect to such securities.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Telefónica, S.A.

Date: November 8th, 2013

By: /s/ Miguel Escrig Meliá
Name: Miguel Escrig Meliá
Title: Chief Financial Officer