TELEFONICA S A
Form 6-K
May 11, 2017
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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of May, 2017

Commission File Number: 001-09531

Telefónica, S.A.

(Translation of registrant s name into English)

Distrito Telefónica, Ronda de la Comunicación s/n,

28050 Madrid, Spain

3491-482 87 00

(Address of principal executive offices)

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

Form 20-F Form 40-F

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

Yes No

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

Yes No

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

Yes No

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

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Telefónica, S.A.

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INTERIM MANAGEMENT STATEMENT

JANUARY MARCH 2017

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The financial information related to January-March 2017 contained in this document has been prepared under International Financial Reporting Standards (IFRS), as adopted by the European Union, which do not differ for the purposes of the Telefónica Group, from IFRS as issued by the International Accounting Standards Board (IASB).

Telefónica s management model, regional and integrated, means that the legal structure of the companies is not relevant for the release of Group financial information, and therefore, the operating results of each of these business units are presented independently, regardless of their legal structure. For the purpose of presenting information on a business unit basis, revenue and expenses arising from invoicing among companies within Telefónica s perimeter of consolidation for the use of the brand and management contracts have been excluded from the operating results for each business unit. This breakdown of the results does not affect Telefónica s consolidated earnings.

The English language translation of the consolidated financial statements originally issued in Spanish has been prepared solely for the convenience of English speaking readers. Despite all the efforts devoted to this translation, certain omissions or approximations may subsist. Telefónica, its representatives and employees decline all responsibility in this regard. In the event of a discrepancy, the Spanish-language version prevails.

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CONSOLIDATED RESULTS

Telefónica Group accesses as of March stood at 346.9m, stable y-o-y, and reflected the improved quality of the customer base; boosting the average revenue per user (+2.1% organic y-o-y) and maintaining low levels of churn.

The weight of higher-value services continued to increase. As such, i) **LTE** customers totalled 75.5m (1.7x y-o-y), with net quarterly additions of 9.2m (+41% y-o-y) and 29% penetration (+12 p.p. y-o-y); ii) **mobile contract** accesses stood at 111.4m (+5% y-o-y) and accounted for 41% of the total (+2 p.p. y-o-y); iii) **smartphones** (+18% y-o-y; 151.5m) achieved 59% penetration (+9 p.p. y-o-y) and net quarterly additions of 4.4m (2.0x y-o-y); and iv) **FTTx and cable** customers (9.6m) grew 21% compared to March 2016, accounting for 45% of total fixed broadband accesses (+8 p.p. y-o-y) and reaching a coverage of 39.9m premises passed (+14% y-o-y).

It is worth highlighting the positive impact of exchange rates on the main financial metrics this quarter (for the first time since the first quarter of 2015), underpinned by the appreciation of the majority of Latin American currencies against the euro, especially the Brazilian real.

As such, **revenues** (13,132m) increased 5.0% vs. January-March 2016, with a positive contribution from exchange rates of 3.7 p.p. In organic terms, revenues were up 1.5%, driven by service revenues (+1.7%), which more than compensated the decline in handset sales (-1.6%). Excluding the negative impact of regulation, revenues would have grown 2.5% y-o-y organic.

Mobile data revenues maintained double-digit y-o-y growth (+13.5% organic), increasing their weight by 5.4 p.p. to 58% of mobile service revenues.

Mobile data traffic maintained a strong pace of growth in the quarter (+68% y-o-y), underpinned by LTE traffic, which accounted for 46% of the total (+18 p.p. y-o-y) with higher average usage (+58%) and ARPU around 11% higher. As such, unitary traffic per client rose to 1.3GB a month (+49% y-o-y).

In January-March 2017, provisions for restructuring costs (mainly   76m in T. España and   11m in T. Deutschland), affected   operating expenses   (85m) and   other net income (expenses)   (4m). In the first quarter of 2016, provisions for restructuring costs were mainly registered in T. Deutschland for   23m.

Operating expenses (9,348m; +4.5% y-o-y) rose 1.0% y-o-y in organic terms, due to higher network and system costs, and inflationary pressure in some Latin American countries; however, personnel expenses decreased (savings associated to redundancy programmes), as did supplies (interconnection savings). The average headcount in the first quarter stood at 126,941 employees (-7.3% y-o-y).

Operating income before depreciation and amortisation (OIBDA) (4,021m) grew 4.8% y-o-y, with exchange rate fluctuations contributing 5.0 p.p. In organic terms, OIBDA was up 1.3% y-o-y, reflecting a positive revenue evolution, cost containment efforts and synergy capture and efficiencies from the transformation process. Excluding the impact of regulation, OIBDA would have increased by 2.3% organic y-o-y.

Underlying OIBDA (4,109m), which excluded restructuring costs, was up 6.5% compared to January-March 2016.

OIBDA margin stood at 30.6% and remained stable y-o-y (-0.1 p.p. reported; 0.0 p.p. organic).

Depreciation and amortization (2,451m) increased 5.6% y-o-y and included a positive contribution from exchange rates of 6.9 p.p. (-1.3% organic).

As such, **operating income (OI)** (1,570m) rose 3.6% y-o-y (+5.2% y-o-y organic).

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Net financial expenses in the quarter (449m) were lower than in the same period of the previous year (659m) mainly due to the reduction in the cost of debt, thanks to the refinancing of debt in European currencies.

Corporate Income Tax totalled 314m in the quarter (298m in January-March 2016).

Profit attributable to minority interests (30m) increased 7m vs. January-March 2016, mainly due to the greater profit attributable to the minority interests of T. Deutschland and T. Brasil.

As such, the **profit attributable to equity holders of the Parent** (779m) rose 42.2% y-o-y in the quarter.

Basic earnings per share stood at 0.14 (+48.8%), while reached 0.18 in underlying terms.

CapEx (1,621m; -4.4% y-o-y; -8.4% organic) up to March continued to focus on UBB rollout and reflected integration synergies, consolidation and network optimisation (big data). CapEx included 4m of spectrum acquisition, mainly in Mexico.

Operating cash flow (OIBDA-CapEx) stood at 2,400m and grew 12.0% y-o-y in reported terms (+8.9% organic), levered on solid operating performance and lower CapEx intensity.

In January-March 2017, **free cash flow** reached 599m and increased 530m y-o-y, despite working capital seasonality. Thus:

i) **Operating cash flow (OIBDA-CapEx)** excluding spectrum rose to 2,404m (2,492m underlying; +15.0% y-o-y).

ii) **Interest payments** in the quarter (641m) decreased 27.7% y-o-y, mainly due to the lower cost of debt in European currencies. The effective cost of interest payments in the last 12 months stood at 3.48% at March 2017, 128 b.p. lower than the 4.76% at March 2016.

iii) **Tax payments** totalled 149m vs. 12m of tax collection in January-March 2016, due to lower refunds from previous years. The effective payment rate stood at 11.3%, affected by seasonal factors.

iv) **Working capital** consumed 1,072m, mainly reflecting CapEx seasonality, prepayment of taxes, site rentals and content, partially offset by the execution of factoring measures on accounts receivable and the extension of payment terms with suppliers or with the factoring company where these had been discounted. This consumption is 120m lower than in the first quarter of 2016, mainly due to lower content payments.

v) **Operations with minority shareholders** (21m) are mainly associated with dividend payments in T. Brasil.

Net financial debt at the end of the quarter (48,766m) increased 171m compared to December 2016, despite free cash flow generation of 599m, mainly as a result of: i) shareholder remuneration (186m, mainly coupons from capital instruments); ii) payment of labour-related commitments (166m); iii) higher value in euros of net debt in foreign currencies (141m); and iv) other factors, including the refinancing of commercial liabilities (277m).

During the first quarter of 2017, Telefónica s **financing activity** amounted to approximately 6,106m equivalent (without considering the refinancing of short-term bank loans and commercial paper), and focused on strengthening the liquidity position, refinancing debt maturities (in an environment of very low rates) and extending maturities. Therefore, at the end of March, the Group maintained a comfortable liquidity position, with gross debt maturities covered beyond the next 24 months. The average debt life stood at 7.92 years.

Main financing operations in the quarter included:

In January, there were two Telefónica Emisiones, S.A.U. bond issues totalling 1,750m, of which 1,250m maturing in January 2025 and 500m in October 2028 (annual coupon of 1.528% and 2.318%, respectively). In addition, Telefónica Emisiones, S.A.U. closed a private issuance for 150m, maturing in 2019, and there was an issue by Telefónica Chile for 48,000m CLP, maturing in six years.

In February, Telefónica Brasil issued a 2,000m BRL bond, with final maturity in February 2022.

In March, Telefónica Emisiones, S.A.U. issued a USD bond in two tranches, 1,500m USD at 10 years and 2,000m USD at 30 years, the largest transaction since 2010, with coupons of 4.103% and 5.213%, respectively, the latter being the lowest coupon ever paid by Telefónica in a USD issue at this term. Also in March, there was a 200m reopening of the 500m bond maturing in October 2028, which was issued in January.

After 31 March, Telefónica closed the first transaction on the South Asian market oriented to Taiwanese investors amounting to 200m USD at a 20-year term and a 4.90% coupon. Furthermore, the 30-year bond issued in March 2017 was reopened for 500m USD. The average debt life including these operations stood at 8.29 years.

Throughout the quarter, Telefónica Group obtained funding by means of extending payment terms with suppliers, or with the factoring firm where those had been discounted, for a total of 367m equivalent (643m equivalent in the same quarter of 2016).

Meanwhile, Telefónica, S.A. and its holding companies continued their issuance activity under the Promissory Notes and Commercial Paper Programmes (Domestic and European), maintaining an amount outstanding of approximately 3,005m at the end of March.

At the end of March, Telefónica maintained undrawn, committed credit lines with different credit institutions for an approximate amount of 12,880m (11,570m maturing in more than twelve months) which, combined with the cash equivalents position and current financial assets excluding Venezuela, placed liquidity at 23,927m.

Definitions:

Organic Growth: Assumes constant exchange rates from 2016, excludes the impact of hyperinflationary adjustments in Venezuela in both years and considers a constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, sale of towers, restructuring costs and material non-recurring impacts. CapEx also excludes investment in spectrum.

Underlying Growth: Reported figures excluding the impact of write-downs, capital gains/losses from the sale of companies, tower sales, restructuring costs and material non-recurring impacts, as well as depreciation and amortisation charges from purchase price allocation processes.

Digital Services

(y-o-y changes in organic terms)

Digital service revenues totalled 1,247m and grew 4.9% compared to the first quarter of 2016.

Video revenues (755m) maintained a steady growth rate of 4.6% y-o-y, underpinned by the larger TV base in Hispanoamérica (+3%) and by the improved ARPU in Spain, Brazil and Hispanoamérica. Pay TV accesses stood at 8.2m(-2% y-o-y; including 4.2m for satellite TV (-8% y-o-y)).

Security revenues amounted to 80m in the quarter and grew 1.7% y-o-y. In order to strengthen capacities, existing alliances have been extended both in business (Palo Alto, Fortinet, McAfee or Subex) and consumer (Allot). It is worth highlighting the strong growth in the Corporates segment, which grew 19.0% y-o-y.

M2M revenues reached 69m achieving 37.3% y-o-y growth, due to the acceleration of connectivity and loT solutions, and the rollout of flagship projects in our core geographies. In addition, Telefónica is also working on the global strategy for Low Power Wide Area communications (NB, Sigfox), which are based on using licensed and non-licensed technologies according to each specific case and to the customer s needs.

Cloud revenues totalled 99m, 8.3% less than in January-March 2016 due to significant projects registered in this period. The focus was on strengthening the value proposal for the SME segment.

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Telefónica Global Resources

The **Global Network and Operations** area continued to accelerate the rollout of UBB. Premises passed with FTTx and cable rose to 39.9m (+14% vs. March 2016) of which 17.4m are in Brazil (FTTx and cable), 17.5m in Spain (FTTH) and 5m in Hispanoamérica (FTTx and cable). On the other hand, 4G population coverage, with a total of 58,963 locations, rose to 64% (+11 p.p. y-o-y).

In the move towards an AII-IP network, VoIP accesses totalled 6.4m. Thus, VoLTE and VoWiFi have been launched for certain devices in the UK, while VoWiFi calls have been successfully trialled in Chile.

As for virtualisation, the construction of a large-scale vEPC network (*virtual Evolved Packet Core*) began in 13 countries, which forms a framework for providing converged voice and data on LTE networks.

Meanwhile, two new global centres were launched, the Platforms Centre and the Legacy Network Transformation Centre, with the aim of boosting the efficiencies that have already been achieved. Furthermore, in Spain, the rollout of a new task allocation system commenced, in order to streamline fibre installations and to reduce the time-to-resolution of incidents by up to 40%.

In terms of innovation, key events included the success of the first NFV (Network Functions Virtualization) interoperability event, held at 5TONIC LAB, and the first 5G remote-driving experiment.

Key events this quarter for **Global IT**, focused on the E2E digitalisation of the Company, include the Full Stack programmes initiated in the fixed business in Argentina, the migration of 2.5m prepay customers in Peru and the launch of a pilot for mobile contract customers in Mexico. In addition, progress has been made in the construction of Big Data platforms (x3 capacity y-o-y), the per-country consolidation of different online tariff calculators and the rollout of global applications. The progress made on these projects has led to a 50% level of capacity enablement.

Finally, the first quarter saw the reduction of 0.9% of servers, 2 Data Centres and 123 applications, while critical incidents were down 21%.

Telxius

(y-o-y changes in organic terms)

Telxius presented solid results in the first quarter of 2017, with **revenues** of 188m (+5.4% y-o-y), **OIBDA** of 92m and an OIBDA margin of 48.9%. As the Company was only created in 2016, the y-o-y comparison of OIBDA does not reflect actual business performance, as it is affected by the progressive establishment of activities over the course of the year and by the negative impacts associated with the formation of the Company.

In the **Tower business**, Telxius grew its portfolio with 27 new towers in the quarter, reaching a total of 15,897 at the end of March, with a tenancy ratio of 1.28x. Revenues stood at 76m.

In the **Submarine Cable business**, there was notably higher demand for international data traffic managed by Telxius (+35% y-o-y in IP traffic and +54% bandwidth in Capacity services). As such, revenues totalled 112m. In addition, rollout continued of the two new cables, BRUSA and MAREA, which will become operational in 2018:

BRUSA: 100% Telxius , with 8 fibre pairs and capacity of 100 Tbps, connecting with its approximately 10,700 km in length Brazil, Puerto Rico and the US.

MAREA will be approximately 6,600 km in length, connecting Virginia Beach (US) with Bilbao (Spain), and Telxius will have 4 of the system s 8 fibre pairs.

The **CapEx** totalled 13m. However, this item is subject to a high degree of seasonality during a year of notable investment for Telxius, in the context of the above-mentioned rollout of new cables.

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TELEFÓNICA

ACCESSES

Unaudited figures (thousands)

	2016				2017	
	March	June	September	December	March	% Chg
Final Clients Accesses	341,262.7	341,922.3	343,932.9	344,671.1	341,785.7	0.2
Fixed telephony accesses (1)	39,606.5	39,262.1	38,914.0	38,280.1	37,853.0	(4.4)
Internet and data accesses	21,507.7	21,641.4	21,738.4	21,652.1	21,657.8	0.7
Broadband	21,097.2	21,195.9	21,266.5	21,194.9	21,196.4	0.5
FTTx/Cable	7,933.6	8,378.1	8,704.0	9,137.6	9,580.6	20.8
Mobile accesses	271,783.2	272,596.8	274,883.7	276,450.0	274,055.6	0.8
Prepay	166,005.2	165,619.6	165,912.1	165,663.2	162,648.4	(2.0)
Contract	105,778.0	106,977.2	108,971.6	110,786.8	111,407.2	5.3
M2M	12,583.9	12,988.2	13,591.7	14,002.0	14,488.0	15.1
Pay TV	8,365.4	8,422.0	8,396.7	8,289.0	8,219.3	(1.7)
Wholesale Accesses	5,826.7	5,591.7	5,480.7	5,300.9	5,087.1	(12.7)
Total Accesses	347,089.4	347,514.0	349,413.5	349,972.1	346,872.8	(0.1)

(1) Includes fixed wireless and VoIP accesses.

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MOBILE ACCESSES

Unaudited figures

	2016				2017	
	March	June	September	December	March	% Chg
Contract percentage (%)	38.9%	39.2%	39.6%	40.1%	40.7%	1.7 p.p.
Smartphones (000)	128,326.0	130,058.4	144,588.9	147,161.8	151,547.7	18.1
Smartphone penetration (%)	50.6%	51.1%	56.4%	57.1%	59.4%	8.8 p.p.
LTE (000)	43,870.2	50,077.3	57,342.4	66,295.7	75,458.8	72.0
LTE penetration (%)	16.9%	19.3%	22.1%	25.3%	29.1%	12.2 p.p.

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CONSOLIDATED INCOME STATEMENT

Unaudited figures (Euros in millions)

	January - March		% Chg	
	2017	2016	Reported	Organic
Revenues	13,132	12,511	5.0	1.5
Internal exp. capitalized in fixed assets	208	213	(2.5)	(5.2)
Operating expenses	(9,348)	(8,943)	4.5	1.0
Supplies	(3,730)	(3,675)	1.5	(0.2)
Personnel expenses	(1,818)	(1,749)	4.0	(0.7)
Other operating expenses	(3,800)	(3,519)	8.0	3.1
Other net income (expense)	29	49	(42.2)	(43.5)
Gain (loss) on sale of fixed assets	8	6	33.9	23.7
Impairment of goodwill and other assets	(7)	1	c.s.	c.s.
Underlying operating income before D&A (OIBDA)	*4,109*	*3,860*	*6.5*	
Operating income before D&A (OIBDA)	4,021	3,838	4.8	1.3
OIBDA Margin	*30.6%*	*30.7%*	*(0.1 p.p.)*	*(0.0 p.p.)*
Depreciation and amortization	(2,451)	(2,322)	5.6	(1.3)
Operating income (OI)	1,570	1,516	3.6	5.2
Share of profit (loss) of investments accounted for by the equity method	2	(3)	c.s.	
Net financial income (expense)	(449)	(659)	(32.0)	
Profit before taxes	1,123	853	31.7	
Corporate income tax	(314)	(298)	5.4	
Profit for the period	809	555	45.8	
Attributable to equity holders of the Parent	779	548	42.2	
Attributable to non-controlling interests	30	7	n.m.	
Weighted average number of ordinary shares outstanding during the period (millions)	5,062	5,073	(0.2)	
Basic and diluted earnings per share attributable to equity holders of the Parent (euros)	0.14	0.09	48.8	
Underlying basic and diluted earnings per share attributable to equity holders of the Parent (euros)	*0.18*	*0.12*	*46.1*	

Notes:

- *Since the second quarter of 2016 Telefónica s operations in the United Kingdom are no longer reported as discontinued operations and all its assets and liabilities have ceased to be reported as held for sale , and have been reclassified back into full consolidation, in compliance with International Financial Reporting Standards*

(IFRS). For comparative purposes, the results of Telefónica Group of the first quarter of 2016 are reported following the same criteria.

- *The weighted average number of ordinary shares outstanding during the period has been obtained applying the IAS rule 33 Earnings per share . Thereby, the weighted average of shares held as treasury stock have not been taken into account as outstanding shares. On the other hand, the denominator is retrospectively adjusted for transactions that have changed the number of shares outstanding without a corresponding change in equity (as if such transactions had occurred at the beginning of the earliest period presented). For instance, the bonus share issue carried out to meet the scrip dividends paid in 2016, have been taken into account. Also, the ordinary shares that would be issued upon the conversion of the mandatorily convertible notes issued on 24 September 2014 are included in the calculation of earnings per share from that date.*
- *Basic earnings per share ratio is calculated dividing Profit for the period attributable to equity holders of the parent, adjusted for the net coupon corresponding to Other equity instruments , by the weighted average number of ordinary shares outstanding during the period.*
- *2016 and 2017 reported figures include hyperinflationary adjustments in Venezuela in both years.*

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GUIDANCE 2017

2016 Base		Operative 2017 Guidance	2017 Jan - Mar
51,734	Revenues (% Chg YoY)	Stable (in spite of regulation: ~-1.2 p.p.)	1.5%
31.8%	OIBDA margin (Chg YoY)	Expansion up to 1 p.p.	(0.0 p.p.)
16.5%	CapEx / Sales	Around 16%	12.2%

- ***Organic criteria**: Assumes constant exchange rates as of 2016 (average FX in 2016), excludes the impact from hyperinflation in Venezuela in both years and considers constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, tower sales, material non-recurring impacts and restructuring costs. CapEx also excludes investment in spectrum.*

2016 adjusted base excludes:

- *The results of the companies sold in 2016 (Telefé, T. Personalizadas and Vocem) from 1 January, 2016 to the date of exiting the perimeter of consolidation.*
- *OIBDA excludes additionally write-downs, capital gains/losses from the sale of companies, tower sales, material non-recurrent impacts and restructuring costs.*
- *CapEx excludes additionally spectrum acquisition.*

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited figures (Euros in millions)

	March 2017	December 2016	% Chg
Non-current assets	103,786	103,667	0.1
Intangible assets	20,275	20,518	(1.2)
Goodwill	28,896	28,686	0.7
Property, plant and equipment and Investment properties	36,672	36,393	0.8
Investments accounted for by the equity method	70	76	(6.8)
Non-current financial assets	9,656	9,765	(1.1)
Deferred tax assets	8,216	8,229	(0.2)
Current assets	24,338	19,974	21.8
Inventories	1,125	1,055	6.7
Trade and other receivables	10,601	10,675	(0.7)
Current financial assets	3,723	2,954	26.0
Tax receivables			