Telefonica Emisiones, S.A.U.
Form 424B5
June 12, 2014
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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities Offered	Amount to be Registered	Amount of Registration Fee
Floating Rate Senior Notes Due 2017	$500,000,000	$64,400

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Filed pursuant to Rule 424(b)(5)
Registration No. 333-181576

PROSPECTUS SUPPLEMENT

(TO PROSPECTUS DATED MAY 22, 2012)

TELEFÓNICA EMISIONES, S.A.U.

(incorporated with limited liability in the Kingdom of Spain)

$500,000,000 FLOATING RATE SENIOR NOTES DUE 2017

guaranteed by:

TELEFÓNICA, S.A.

(incorporated with limited liability in the Kingdom of Spain)

The $500,000,000 floating rate senior notes due 2017 (the **Floating Rate Notes** , and together with any other series of notes that may be offered in this offering, the **Notes**) will bear interest at the then-applicable U.S. Dollar three-month LIBOR rate plus 0.650% per year. Interest on the Floating Rate Notes will be payable on March 23, June 23, September 23 and December 23 of each year, beginning on September 23, 2014, until June 23, 2017 (the **Floating Rate Notes Maturity Date**), and on the Floating Rate Notes Maturity Date. The Floating Rate Notes will mature at 100% of their principal amount on the Floating Rate Notes Maturity Date. The Floating Rate Notes and any other series of Notes that may be offered in this offering constitute separate series of securities issued under the Indenture (as defined herein).

Subject to applicable law, the Notes of each series will be unsecured and will rank equally in right of payment with other unsecured unsubordinated indebtedness of Telefónica Emisiones, S.A.U. (the **Issuer**). The Guarantee (as defined herein) as to the payment of principal, interest and Additional Amounts (as defined herein) will be a direct, unconditional, unsecured and unsubordinated obligation of our parent, Telefónica, S.A. (the **Guarantor**), and, subject to applicable law, will rank equally in right of payment with its other unsecured unsubordinated indebtedness.

For a more detailed description of the Notes of each series and the related Guarantee, see Description of the Notes and the Guarantee beginning on S-18.

Investing in the Notes involves risks. See Risk Factors beginning on S-12.

	Price to Public	Underwriting Discounts and Commissions	Proceeds, Before Expenses, to the Issuer
Per Floating Rate Note	100%	0.150%	99.850%
Total for Floating Rate Notes	$ 500,000,000	$ 750,000	$ 499,250,000

Potential investors should review the summary set forth in Taxation , beginning on S-37, regarding the tax treatment in Spain of income obtained in respect of the Notes. In particular, income obtained in respect of the Notes will be exempt from Spanish withholding tax provided certain requirements are met, including that the Paying Agent (as defined herein) provides us and the Guarantor with certain

documentation in a timely manner.

None of the U.S. Securities and Exchange Commission (the SEC), any state securities commission or any other regulatory body has approved or disapproved of these securities or passed upon the adequacy or accuracy of this Prospectus Supplement or the accompanying Prospectus. Any representation to the contrary is a criminal offense.

The underwriter expects to deliver the Notes to purchasers in registered book entry form through the facilities of The Depository Trust Company (**DTC**) for credit to accounts of direct or indirect participants in DTC, including Clearstream Banking, société anonyme, Luxembourg and Euroclear Bank S.A./N.V., on or about June 23, 2014, which will be the eighth Business Day (as defined herein) following the date of pricing of the Notes (such settlement period being referred to as **T+8**). Beneficial interests in the Notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. Application will be made for the Notes described in this Prospectus Supplement to be listed on the New York Stock Exchange (the **NYSE**).

Sole Book-Running Manager

Citigroup

The date of this Prospectus Supplement is June 10, 2014.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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IMPORTANT NOTICE ABOUT INFORMATION IN THIS PROSPECTUS SUPPLEMENT

AND THE ACCOMPANYING PROSPECTUS

This document is in two parts. The first part is this Prospectus Supplement, which describes the specific terms of this offering of the Notes and also adds to and updates information contained in the accompanying Prospectus and the documents incorporated by reference in this Prospectus Supplement and the accompanying Prospectus. The second part is the accompanying Prospectus which gives more general information, some of which does not apply to this offering.

If the description of this offering varies between this Prospectus Supplement and the accompanying Prospectus, you should rely on the information contained in or incorporated by reference in this Prospectus Supplement.

In this Prospectus Supplement and any other prospectus supplements, the **Issuer** , **we** , **us** and **our** refer to Telefónica Emisiones, S.A.U., **Telefónica** or the **Guarantor** refer to Telefónica, S.A. and the **Telefónica Group** refers to Telefónica and its consolidated subsidiaries, in each case except as otherwise indicated or the context otherwise requires. We use the word **you** to refer to prospective investors in the securities.

SPANISH WITHHOLDING TAX

Potential investors should review the summary set forth in Taxation , beginning on S-37, regarding the tax treatment in Spain of income obtained in respect of the Notes. For these purposes, income means interest paid on an Interest Payment Date (as defined herein) or the amount of the difference, if any, between the aggregate redemption price paid upon the redemption of the Notes of a series (or a portion thereof) and the aggregate principal amount of such Notes (other than in the event of a Redemption for Failure to List (as defined herein)), as applicable. In particular, income obtained in respect of the Notes will be exempt from Spanish withholding tax provided certain requirements are met, including that The Bank of New York Mellon (in its capacity as paying agent, the Paying Agent) provides us and the Guarantor, in a timely manner, with a duly executed and completed statement providing certain details relating to the Notes, including the relevant payment date, the total amount of income to be paid on such payment date and a breakdown of the total amount of income corresponding to Notes held through each clearing agency located outside Spain (the Payment Statement). See Taxation Spanish Tax Considerations Compliance with Certain Requirements in Connection with Income Payments .

If a payment of income in respect of the Notes is not exempt from Spanish withholding tax, including due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, such payment will be made net of Spanish withholding tax, currently at the rate of 21%. If this were to occur due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, affected owners of a beneficial interest in the Notes (each, a Beneficial Owner) will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent submits a duly executed and completed Payment Statement to us and the Guarantor no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, Beneficial Owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures set forth in Annex A hereto.

The supplemental indenture to be entered into in respect of each series of Notes will provide for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes, and set forth certain procedures agreed by us, the Guarantor and the Paying Agent which aim to facilitate such process, along with a form of the Payment Statement to be used by the Paying Agent. See Description of the Notes and the Guarantees Maintenance of Tax Procedures .

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Prospective investors should note that none of the Issuer, the Guarantor or the underwriter accepts any responsibility relating to the procedures established for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes. Accordingly, none of the Issuer, the Guarantor or the underwriter will be liable for any damage or loss suffered by any Beneficial Owner who would otherwise be entitled to an exemption from Spanish withholding tax but whose income payments are nonetheless paid net of Spanish withholding tax because these procedures prove ineffective. Moreover, none of the Issuer or the Guarantor will pay any Additional Amounts (as defined herein) with respect to any such withholding.

See Risk Factors Risks Relating to the Guarantor, the Issuer and the Notes .

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SUMMARY

The following brief summary is not intended to be nor is it complete and is provided solely for your convenience. It is qualified in its entirety by the full text and more detailed information contained elsewhere in this Prospectus Supplement, the accompanying Prospectus, any amendments or supplements to this Prospectus Supplement and the accompanying Prospectus and the documents that are incorporated by reference into this Prospectus Supplement and the accompanying Prospectus. You are urged to read this Prospectus Supplement and the other documents mentioned above in their entirety.

The Telefónica Group

Telefónica, S.A., the Guarantor, is a corporation duly organized and existing under the laws of the Kingdom of Spain, incorporated on April 19, 1924. The Telefónica Group is:

- a diversified telecommunications group which provides a comprehensive range of services through one of the world s largest and most modern telecommunications networks;
- mainly focused on providing telecommunications services; and
- present principally in Europe and Latin America.

Telefónica, S.A. s principal executive offices are located at Distrito Telefónica, Ronda de la Comunicación, s/n, 28050 Madrid, Spain, and its registered offices are located at Gran Vía, 28, 28013 Madrid, Spain. Its telephone number is +34 900 111 004.

Telefónica Emisiones, S.A.U.

We are a wholly owned subsidiary of the Guarantor. We were incorporated on November 29, 2004, as a company with unlimited duration and with limited liability and a sole shareholder under the laws of the Kingdom of Spain (*sociedad anónima unipersonal*). Our share capital is 62,000 divided into 62,000 ordinary shares of par value 1 each, all of them duly authorized, validly issued and fully paid and each of a single class. We are a financing vehicle for the Telefónica Group. We have no material assets. Spanish reserve requirements must be met prior to the payment of dividends, and dividends may only be distributed out of income for the previous year or out of unrestricted reserves, and our net worth must not, as a result of the distribution, fall below our paid-in share capital (*capital social*). There are no other restrictions on Telefónica s ability to obtain funds from us through dividends, loans or otherwise. Spanish Law 13/1985 of May 25, as amended, requires that the proceeds of the offering of the Notes be deposited with Telefónica on a permanent basis.

At March 31, 2014, we had no outstanding secured indebtedness and approximately 31 billion of outstanding unsecured indebtedness and the Guarantor had no outstanding consolidated secured indebtedness and approximately 56 billion of outstanding consolidated unsecured indebtedness. For additional information about the principal transactions of the Guarantor since March 31, 2014, see Capitalization and Indebtedness .

Our principal executive offices are located at Distrito Telefónica, Ronda de la Comunicación, s/n, 28050 Madrid, Spain, and our registered offices are located at Gran Vía, 28, 28013 Madrid, Spain. Our telephone number is +34 900 111 004.

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THE OFFERING

For a more detailed description of the Notes and the Guarantee, see Description of the Notes and the Guarantee .

Issuer	Telefónica Emisiones, S.A.U.
Guarantor	Telefónica, S.A.
Trustee, Paying Agent, Registrar, Transfer Agent and Calculation Agent	The Bank of New York Mellon will be acting as the Trustee, Paying Agent, Registrar, Transfer Agent and Calculation Agent with respect to the Floating Rate Notes.
Notes Offered	$500,000,000 aggregate principal amount of floating rate senior notes due 2017. The Floating Rate Notes will bear the following CUSIP: 87938WAS2, the following ISIN: US87938WAS26 and the following Common Code: 107875123.
	The Floating Rate Notes and any other series of Notes that may be offered in this offering, if any, constitute separate series of securities issued under the Indenture (as defined herein).
Issue Price	100%
Interest Payable on the Notes	The Floating Rate Notes will bear interest at the then-applicable U.S. Dollar three-month LIBOR rate plus 0.650% per year, payable on March 23, June 23, September 23 and December 23 of each year, beginning on September 23, 2014, until the Floating Rate Notes Maturity Date, and on the Floating Rate Notes Maturity Date.
Early Redemption for Taxation or Listing Reasons	If, in relation to the Notes of a series (i) as a result of any change in the laws or regulations of the Kingdom of Spain or any political subdivision thereof or any authority or agency therein or thereof having power to tax, or in the administrative interpretation or administration of any such laws or regulations which becomes effective on or after the date of issuance of the Notes of such series, (x) we or the Guarantor, as the case may be, are or would be required to pay any Additional Amounts (as defined herein) or (y) the Guarantor is or would be required to deduct or withhold tax on any payment to us to enable us to make any payment of principal, premium, if any, or interest on the Notes of such series, provided that such payment cannot, with reasonable effort by the Guarantor, be structured to avoid such deduction or withholding, and (ii) such circumstances are evidenced by the delivery by us or the Guarantor, as the case may be, to the Trustee of a certificate signed by an authorized officer or director of the Issuer or the Guarantor, as the case may be, stating that such circumstances prevail and describing the facts leading to such circumstances, together with an opinion of independent legal advisers of recognized standing to the effect that

such circumstances prevail, we or the Guarantor, as the case may be, may, at our respective election and having given not less than 30 nor more than 60 days notice (ending on a day upon which interest is payable) to the holders in accordance with the terms described under Description of the Notes and the Guarantee Notices (which notice shall be irrevocable), redeem all of the outstanding Notes of such series at a redemption price equal to their principal amount, together with accrued and unpaid interest, if any, thereon to but excluding the redemption date. No such notice of redemption may be given earlier than 150 days prior to the date on which we or the Guarantor would be obligated to pay such Additional Amounts were a payment in respect of the Notes of such series then due.

In addition, if any series of Notes is not listed on an organized market in a member country of the Organization for Economic Co-operation and Development (**OECD**) no later than 45 days prior to the first Interest Payment Date (as defined herein) for such series of Notes, we or the Guarantor, as the case may be, may, at our respective option and having given not less than 15 days notice (ending on a day which is no later than the Business Day (as defined herein) immediately preceding the relevant first Interest Payment Date) to the holders of the Notes of such series in accordance with the terms described under Description of the Notes and the Guarantee Notices (which notice shall be irrevocable), redeem all of the outstanding Notes of such series at their principal amount, together with accrued interest, if any, thereon to but not including the redemption date (any such redemption, a **Redemption for Failure to List**); *provided* that from and including the issue date of the Notes of such series to and including such Interest Payment Date, we will use our reasonable best efforts to obtain or maintain such listing, as applicable.

In the event of a Redemption for Failure to List of a series of Notes, we or the Guarantor, as the case may be, will be required to withhold tax and will pay any income in respect of the Notes redeemed net of the Spanish withholding tax applicable to such payments (currently 21%). If this were to occur, Beneficial Owners would have to follow the Direct Refund from Spanish Tax Authorities Procedures set forth in Annex A hereto in order to apply directly to the Spanish tax authorities for any refund to which they may be entitled. See Taxation Spanish Tax Considerations Tax Rules for Notes not Listed on an Organized Market in an OECD Country .

Optional Redemption of the Floating Rate Notes

We may, at our election and having given not less than 30 nor more than 60 days notice to the holders of the Floating Rate Notes in accordance with the terms described under Description of the Notes and the Guarantee Notices (which notice shall be irrevocable), redeem from time to time all or a portion of the outstanding Floating Rate Notes at a make whole redemption price determined in the

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	manner set forth in this Prospectus Supplement. See Description of the Notes and the Guarantee Redemption and Purchase Optional Redemption of Floating Rate Notes .
Status of the Notes	The Notes of each series will constitute our direct, unconditional, unsubordinated and unsecured obligations and will rank *pari passu* without any preference among themselves and (subject to any applicable statutory exceptions) our payment obligations under the Notes of such series will rank at least *pari passu* with all our other unsecured and unsubordinated indebtedness, present and future, except as our obligations may be limited by Spanish bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors rights generally in the Kingdom of Spain. See Description of the Notes and the Guarantee Status of the Notes .
Form of Notes	The Notes of each series will be initially represented by one or more global security certificates (each, a **Global Certificate**) which will be deposited with a custodian for DTC and Notes represented thereby will be registered in the name of Cede & Co., as nominee for DTC. Beneficial Owners will not receive Certificated Notes (as defined herein) unless one of the events described under the heading Description of the Notes and the Guarantee Form, Transfer and Registration occurs.
	A Beneficial Owner may hold beneficial interests in the Notes of a series represented by a Global Certificate directly through DTC if he or she is a DTC participant or indirectly through organizations that are DTC participants or that have accounts with DTC. In order to confirm any position that is held through an indirect participant of a clearing system, the direct participant holding the Notes directly through the relevant clearing system must confirm their indirect participant s downstream position.
	See Description of the Notes and the Guarantee Form, Transfer and Registration .
Status of the Guarantee	Pursuant to the Guarantee, Telefónica, as Guarantor, will unconditionally and irrevocably guarantee the due payment of all sums expressed to be payable by us under the Notes of each series on an unsubordinated and unconditional basis. The obligations of the Guarantor under the Guarantee in respect of the Notes of a series will constitute direct, unconditional, unsubordinated and unsecured obligations of the Guarantor under the Guarantee and will rank *pari passu* without any preference among such obligations of the Guarantor under the Guarantee in respect of the Notes of such series and at least *pari passu* with all other unsubordinated and unsecured indebtedness and monetary obligations involving or otherwise related to borrowed money of the Guarantor, present and future; *provided* that the obligations of the Guarantor under the Guarantee in respect of

the Notes will be effectively subordinated to those obligations that are preferred under Law 22/2003 (*Ley Concursal*) dated July 9, 2003 regulating insolvency proceedings in Spain (the **Insolvency Law**). See Description of the Notes and the Guarantee The Guarantee .

At March 31, 2014, the Guarantor had no outstanding consolidated secured indebtedness and approximately 56 billion of outstanding consolidated unsecured indebtedness. For information about the Guarantor s principal transactions since March 31, 2014, see Capitalization and Indebtedness .

Spanish Tax Law Requirements

Under the regulations established by Royal Decree 1065/2007, as amended by Royal Decree 1145/2011, income obtained in respect of the Notes will not be subject to withholding tax in Spain, provided certain requirements are met, including that the Paying Agent provides us and the Guarantor, in a timely manner, with a duly executed and completed Payment Statement. See Taxation Spanish Tax Considerations Compliance with Certain Requirements in Connection with Income Payments . For these purposes, income means interest paid on an Interest Payment Date (as defined herein) or the amount of the difference, if any, between the aggregate redemption price paid upon the redemption of the Notes of a series (or a portion thereof) and the aggregate principal amount of such Notes (other than in the event of a Redemption for Failure to List), as applicable.

The Payment Statement shall contain certain details relating to the Notes, including the relevant payment date, the total amount of income to be paid on such payment date and a breakdown of the total amount of income corresponding to Notes held through each clearing agency located outside Spain.

The supplemental indenture to be entered into in respect of each series of Notes will provide for the timely provision by the Paying Agent of a duly executed and completed Payment Statement in connection with each payment of income under the Notes, and set forth certain procedures agreed by us, the Guarantor and the Paying Agent which aim to facilitate such process, along with a form of the Payment Statement to be used by the Paying Agent. See Description of the Notes and the Guarantees Maintenance of Tax Procedures .

If a payment of income in respect of the Notes is not exempt from Spanish withholding tax, including due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, such payment will be made net of Spanish withholding tax, currently at the rate of 21%. If this were to occur due to any failure by the Paying Agent to deliver a duly executed and completed Payment Statement, affected Beneficial Owners will receive a refund of the amount withheld, with no need for action on their part, if the Paying Agent submits a duly executed and completed Payment Statement to

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	us and the Guarantor no later than the 10th calendar day of the month immediately following the relevant payment date. In addition, Beneficial Owners may apply directly to the Spanish tax authorities for any refund to which they may be entitled pursuant to the Direct Refund from Spanish Tax Authorities Procedures set forth in Annex A hereto. **Neither we nor the Guarantor will pay Additional Amounts (as defined herein) in respect of any such withholding tax.**
Listing	Application will be made to list the Notes of each series on the NYSE. Trading on the NYSE is expected to begin within 30 days after delivery of the Notes.
Governing Law	Pursuant to Section 5-1401 of the General Obligations Law of the State of New York, the Indenture, the Notes and the Guarantee shall be governed by, and shall be construed in accordance with, the laws of the State of New York.
	The due authorization and the ranking of the Notes and the Guarantee shall be governed by Spanish law.
Use of Proceeds	We expect that the net proceeds from this offering, after deducting the underwriter s discount but before expenses, will be approximately $499,250,000. We intend to deposit the net proceeds on a permanent basis with the Guarantor. The Guarantor will use such net proceeds for general corporate purposes. See Use of Proceeds .
Denomination and Minimum Purchase Amount	The Notes will be issued in denominations of $1,000 and integral multiples thereof. The minimum purchase amount of the Notes is $150,000.
Settlement	The underwriter expects to deliver the Notes to purchasers in registered form through DTC on or about June 23, 2014, which will be the eighth Business Day (as defined herein) following the date of pricing of the Notes.
Risk Factors	***Investing in the Notes involves risks.***
	Beneficial Owners should carefully consider the risk factors in the Risk Factors section in this Prospectus Supplement and in Item 3.D. in Telefónica s Form 20-F for the year ended December 31, 2013 filed with the SEC on March 21, 2014 (the **Form 20-F**).

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SELECTED CONSOLIDATED FINANCIAL INFORMATION

Telefónica, S.A.

The following tables present certain selected historical consolidated financial information of Telefónica, S.A. and its subsidiaries and investees. You should read these tables in conjunction with Operating and Financial Review and Prospects and the Guarantor s consolidated financial statements (including the notes thereto) included in the Form 20-F (the **Consolidated Financial Statements**). The consolidated statements of income and cash flow data for the years ended December 31, 2011, 2012 and 2013 and the consolidated statement of financial position at December 31, 2012 and 2013 set forth below are derived from, and are qualified in their entirety by reference to the Consolidated Financial Statements included in the Form 20-F. The unaudited consolidated statements of income and cash flow data for the three months ended March 31, 2013 and 2014 and the unaudited consolidated statement of financial position at March 31, 2014 set forth below are derived from, and are qualified in their entirety by reference to the Guarantor s consolidated financial information included in the Form 6-K filed with the SEC on June 10, 2014 (SEC Accession No. 0001193125-14-231245) (the **Interim Results Form 6-K**), which, along with the Form 20-F, is incorporated herein by reference. The interim financial information contained in the Interim Results Form 6-K is incomplete in that it omits certain disclosures that are required by International Accounting Standards 34 (*Interim Financial Reporting*). The consolidated statements of income and cash flow data for the years ended December 31, 2009 and 2010, and the consolidated statement of financial position at December 31, 2009, 2010 and 2011 set forth below are derived from the Guarantor s consolidated financial statements for such years. You should not rely solely on the summarized information in this section of this Prospectus Supplement.

The basis of presentation and principles of consolidation of the information below are described in detail in Notes 2 and 3.q., respectively, to the Consolidated Financial Statements. The Guarantor s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (**IFRS**) as issued by the International Accounting Standards Board (**IASB**), which do not differ for the purposes of the Telefónica Group from IFRS as adopted by the European Union.

	For the year ended December 31,					For the three months ended March 31,	
	2009	2010	2011	2012	2013	2013	2014
	(in millions of euros, except share and per share data)						
Consolidated Income Statement Data of the Guarantor							
Revenues	56,731	60,737	62,837	62,356	57,061	14,141	12,232
Other income	1,645	5,869	2,107	2,323	1,693	319	321
Supplies	(16,717)	(17,606)	(18,256)	(18,074)	(17,041)	(4,188)	(3,580)
Personnel expenses	(6,775)	(8,409)	(11,080)	(8,569)	(7,208)	(1,870)	(1,614)
Other expenses	(12,281)	(14,814)	(15,398)	(16,805)	(15,428)	(3,835)	(3,430)
Depreciation and amortization	(8,956)	(9,303)	(10,146)	(10,433)	(9,627)	(2,501)	(2,091)
Operating income	**13,647**	**16,474**	**10,064**	**10,798**	**9,450**	**2,066**	**1,838**
Share of (loss) profit of associates	**47**	**76**	**(635)**	**(1,275)**	**(304)**	**18**	**1**
Net finance expense	(2,767)	(2,537)	(2,782)	(3,062)	(2,696)	(643)	(648)
Net exchange differences	(540)	(112)	(159)	(597)	(170)	(31)	(154)
Net financial expense	**(3,307)**	**(2,649)**	**(2,941)**	**(3,659)**	**(2,866)**	**(674)**	**(802)**
Profit before taxes from continuing operations	**10,387**	**13,901**	**6,488**	**5,864**	**6,280**	**1,410**	**1,037**
Corporate income tax	(2,450)	(3,829)	(301)	(1,461)	(1,311)	(452)	(308)
Profit for the period from continuing operations	**7,937**	**10,072**	**6,187**	**4,403**	**4,969**	**958**	**729**
Profit after taxes from discontinued operations							
Profit for the period	**7,937**	**10,072**	**6,187**	**4,403**	**4,969**	**958**	**729**

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For the year ended December 31,					For the three months ended March 31,
2009	2010	2011	2012	2013	2013 2014
(in millions of euros, except share and per share data)					

CORDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 3 - SALE OF BUSINESS SEGMENTS (cont'd)

Current liabilities	
Accounts payable and accrued expenses	$ 98,419
Loans payable to parent and subsidiaries	84,724*
Loans payable to affiliates	31,000
Other loans payable	212,892

	427,035
Accumulated deficit	(386,848)

Total liabilities and stockholders' equity	$ 40,187
	========

* Eliminated in consolidation.

Loss from operations of discontinued business segments includes the following:

	Year Ended December 31,	
	2002	**2001**
Revenues	$ 3,568	$ 81,810
Loss before income taxes	$17,383	$284,417

The 2001 statement of operations was reclassified to give retroactive effect to the sale of the business segment.

NOTE 4 - RELATED PARTY TRANSACTIONS

During 2002 and 2001, the Company paid $21,000 and $24,000, respectively, to eLEC for office rent.

The Company periodically borrows funds from shareholders and affiliates of shareholders. The loans bear interest at the rate of 12% per annum and are payable on demand. Interest expense resulting from related party loans totaled approximately $10,000 and $33,000 during the years ended December 31, 2002 and 2001, respectively.

During 2001, the Company repaid $311,102 of loans payable to an affiliate of one of its officer/shareholders and related accrued interest of $26,498 in exchange for shares of eLEC common stock having a fair market value of $100,800. The excess of the obligations extinguished over the value of the eLEC common stock has been accounted for as a $236,800 contribution of capital.

CORDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following at December 31, 2002 and 2001:

	2002	2001
During 2001, the Company leased office equipment ($58,567, less accumulated depreciation of $23,101 and $11,388 at December 31, 2002 and 2001, respectively) under a non- cancelable capital lease. The lease expires during 2004, bears interest at the rate of 10% per annum and provides for aggregate monthly payments of $1,890. The lease is secured by the acquired asset.	$33,076	$47,020
The Company financed the purchase of a vehicle with a note that bears interest at the rate of 9% per annum, final payment due in 2002.	-	1,650
	33,076	48,670
Less: Current portion	25,672	20,472
	$ 7,404	$28,198

Annual payments under the capital lease obligation are due as follows:

Years ending December 31,		
2003	(including three months arrears)	$28,347
2004		7,559
Total		35,906
Less: Deferred interest		2,830
		$33,076

NOTE 6 - STOCKHOLDERS' EQUITY

During June 2002, Cordia approved a 5-for-1 reverse split of its common stock with no change in its par value of $.001. All references in the consolidated financial statements and in the notes to consolidated financial statements with respect to the number of common shares and per share amounts have been restated to reflect the stock split.

During September 2000, prior to the reverse acquisition transaction described in Note 1, Cordia issued warrants to purchase 112,000 shares of its common stock. The warrants have an exercise price of $2.50 per share and expire during the period from July through September 2002. All 112,000 warrants were never exercised and expired during 2002.

Effective January 5, 2001, the Company established the 2001 Equity Incentive Plan (the "Plan"). The total number of shares of Cordia's common stock issuable under the Plan is 5,000,000, subject to adjustment for events such as stock dividends and stock splits.

The Plan is administered by a committee of the board of directors having full and final authority and discretion to determine when and to whom awards should be granted. The committee will also determine the terms, conditions and restrictions applicable to each award. Transactions under the Plan are summarized as follows:

CORDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 6 - STOCKHOLDERS' EQUITY (cont'd)

	Stock Options	Exercise Price
Balance, January 1, 2001	-0-	$ -0-
Granted: With 3-year vesting	221,000	7.50
With immediate vesting	166,000	2.50 to 15.00
Exercised and forfeited:	(8,000)	6.25
Balance, December 31, 2001	379,000	
Granted: With immediate vesting	150,000	2.00 to 2.50
Exercised and forfeited	(383,000)	2.00 to 15.00
Balance, December 31, 2002	146,000	2.50 to 11.25

In electing to follow APB 25 for expense recognition purposes, the Company is obliged to provide the expanded disclosures required under FAS No. 123 for stock-based compensation granted in 1996 and thereafter. The fair value of the employee stock options granted during 2002 and 2001 was estimated to be $102,000 and $1,613,550, respectively, based on the Black-Scholes option valuation model. For purposes of pro forma disclosures, stock-based compensation is amortized to expense on a straight-line basis over the vesting period.

The following table compares 2002 and 2001 results as reported to the results had the Company adopted the expense recognition provisions of

FAS No. 123:

	As reported	Pro Forma
2002		
Net loss	$1,157,384	$1,141,934
Loss per share	.21	.20
2001		
Net loss	$1,678,784	$2,312,567
Loss per share	.31	.43

The Company also issued 25,000 shares of its common stock under a separate consulting agreement during 2001. The Company recognized a consulting expense of $102,500 during 2001 based on the fair market value of the shares on the date of grant.

NOTE 7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, accounts receivable and trading securities. Concentrations with regard to accounts receivable are limited due to the Company's large customer base.

The carrying amounts of cash, accounts receivable, trading securities, accounts payable and accrued expenses approximate fair value due to the short-term nature of these items. The carrying amount of debt also approximates fair value since the interest rates on these instruments approximate market interest rates.

NOTE 8 - INCOME TAXES

The tax effect of the temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2002 and 2001 was as follows:

	2002	2001
Deferred income tax assets:		
Accounts payable and accrued expenses	$ 527,683	$ 355,155
Unearned income	33,333	142,350
Investments	26,365	31,006
Net operating loss carryover	1,119,082	1,247,502
Less: Valuation allowance	(1,506,430)	(1,671,997)
	200,033	104,016
Deferred income tax liabilities:		
Accounts receivable	151,026	83,704
Prepaid expenses and other current assets	33,202	3,412
Accumulated depreciation	15,805	16,900
	200,033	104,016
Net deferred income tax liability	$ -	$ -

The consolidated financial statements have been presented on the accrual method of accounting. For income tax reporting purposes, the Company is on the cash method. Accordingly, for income tax purposes, certain revenues and related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred.

Cordia and its subsidiaries have incurred losses since inception that have generated net operating loss carryforwards aggregating approximately $2,800,000 at December 31, 2002 for federal and state income tax purposes. These carryforwards are available to offset future taxable income and expire at various dates through 2022 for income tax purposes. These losses are subject to limitation on future years' utilization. The Company experienced a decrease in its net operating loss carryforward during 2002 due to the sale of RiderPoint (approximately $1,940,000), offsetting the net operating loss carryforward increase during 2002 as a result of current year net operating losses.

In consideration of the uncertainty about the Company's ability to realize the benefit of their deferred tax assets, the accompanying financial statements reflect a valuation allowance of $1,506,430 and $1,671,997 at December 31, 2002 and 2001, respectively, to fully offset the deferred tax benefit amount.

The components of income tax expense (benefit) were as follows:

	2002	**2001**
Deferred:		
Federal	$ -	$(62,619)
State	-	(11,050)
	$ -	**$(73,669)**

CORDIA CORPORATION AND SUBSIDIARIES
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DECEMBER 31, 2002 AND 2001

NOTE 8 - INCOME TAXES (cont'd)

A reconciliation of the difference between the expected income tax rate using the statutory federal tax rate and the Company's effective tax rate was as follows:

	2002	2001
U.S. Federal income tax statutory rate	34.0%	34.0%
Investments	(7.2)	11.4
NOL of discontinued business segments	(44.6)	-
Consulting fees expense	30.4	11.7
Change in valuation allowance, net	9.5	(74.6)
State income taxes, net of federal benefit	-	6.0
Other, net	(22.1)	15.7
Effective tax rate	- %	4.2%

NOTE 9 - EMPLOYEE BENEFIT PLAN

Universal Recoveries, Inc. has a defined contribution (SIMPLE SRA) plan covering all eligible employees. Universal Recoveries, Inc. matches up to 3% of eligible employee compensation, up to a maximum of the respective employee's elective deferral. During the years ended December 31, 2002 and 2001, employer contributions to the plan amounted to $8,090 and $9,066, respectively.

NOTE 10 - COMMITMENTS

Operating Leases
The Company is committed for annual rentals under non-cancelable operating

leases for its office space, as well as office and transportation equipment that
expire at various times through 2005. Future minimum rental commitments under
these leases for years subsequent to December 31, 2002 are as follows:

Year Ending December 31:	
2003	**$221,736**
2004	**77,472**
2005	**4,417**
Total	$303,625

Rent expense from continuing operations was approximately $280,000 and $141,000
for the years ended December 31, 2002 and 2001, respectively.

Cash

The Company maintains its cash in various banks. Accounts at each bank are
guaranteed up to certain insurance limitations. Uninsured cash bank balances at
December 31, 2002 approximated $460,000, which exceeded book balances
principally due to outstanding checks.

CORDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 11 - SEGMENT INFORMATION AND CONCENTRATIONS

As discussed in Note 1, the Company conducts its operations through different business segments. Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker(s) in deciding how to allocate resources and in assessing performance. A summary of financial information by business segment follows:

	Revenues	Segment Operating Profit/(Loss)	Total Assets*
2002			
Subrogation services	$2,837,346	$(1,071,631)	$607,596
Claims administration	2,597,468	781,780	265,130
Telecommunications	547,780	(65,985)	276,814
Outsourcing and other	22,667	(1,010,775)	19,411
Total per financial statements	$6,005,261	$(1,366,611)	$1,168,951
2001			
Subrogation services	$1,834,779	$ (899,861)	$ 392,255
Claims administration	1,948,903	288,861	269,376
Telecommunications	-	(1,446)	-

Outsourcing and other 33,750 (634,843)
100,739
---------- ----------- ----------
$3,817,432 $(1,247,289)
762,370
========== ===========
Discontinued segments
38,208

Total per financial statements $
800,578
==========

*After elimination of inter-company balances.

One and two insurance companies accounted for approximately 28% and 48% of total subrogation service and fee revenues during the years ended December 31, 2002 and 2001, respectively. One insurance company accounted for approximately 88% and 100% of claims management services during 2002 and 2001, respectively.

NOTE 12 - SUBSEQUENT EVENTS

Sale of ISG
On March 3, 2003, Cordia sold its equity interests in ISG to West Lane Group Inc., a company owned by the current management of ISG. The $750,000 selling price of ISG is evidenced by a promissory note bearing interest at the rate of 6% per annum. The principal obligation of $750,000 is payable on or before March 3, 2005, and is secured by 700,000 shares of Cordia's common stock owned by West Lane Group, Inc.

The following is a summary of the sale transaction (unaudited):

Assets sold	$ (777,913)
Liabilities sold	1,659,634
Note received	750,000
Write-off of inter-company receivables and payables	(76,082)

Gain on sale, before income taxes	$1,555,639
	==========

The Company's net operating losses are expected to offset the gain on sale of **ISG.**

CORDIA CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001

NOTE 12 - SUBSEQUENT EVENTS (cont'd)

As a result of the sale of ISG, (a) employee stock options to purchase 83,000 common shares of the Company at $7.50 per share expired, and (b) the Company's net operating loss carry-forward for federal income tax reporting purposes, on a pro-forma basis giving retroactive effect to the sale of ISG as of December 31, 2002, would have been approximately $2,220,000.

The accompanying consolidated balance sheets at December 31, 2002 and 2001 include the following assets and liabilities of ISG:

	2002	2001
Current Assets		
Cash	$ 164,527	$ 182,065
Accounts receivable, net	377,568	206,897
Investments	886	23,054
Prepaid expenses and other current assets	17,512	9,137
Loans receivable from affiliates	31,899	15,071
Loans receivable from parent and subsidiaries*	-	5,446
Total current assets	592,392	441,670
Property and equipment		
Office equipment	218,015	91,028
Equipment - capital leases	58,567	58,567
Vehicles	16,743	16,743
Furniture and fixtures	98,376	

		97,936
	391,701	264,274
Less: Accumulated depreciation	138,506	66,006
	253,195	198,268
Other assets		
Security deposits	27,139	27,139
Total assets	$ 872,726	$ 667,077
Current Liabilities		
Book overdraft	$ 90,946	$ -
Accounts payable and accrued expenses	1,319,207	624,210
Securities sold but not purchased	-	50,229
Obligation under capital lease, current portion	25,672	18,822
Current portion of long-term debt	-	1,650
Unearned income	83,333	355,876
Loans payable to affiliates	9,744	-
Loans payable to parent and subsidiaries*	76,082	1,082
Total current liabilities	1,604,984	1,051,869
Obligation under capital lease, less current potion	7,404	28,198
Accumulated deficit	(739,662)	(412,990)

Total liabilities and accumulated deficit	$ 872,726	$ 667,077
	==========	==========

NOTE 12 - SUBSEQUENT EVENTS (cont'd)

*Eliminated in consolidation.
See Note 11 for revenue and operating profit segment information of ISG (subrogation services and claims management) for the years ended December 31, 2002 and 2001.

License Agreement
On March 3, 2003, Cordia entered into a licensing agreement with ISG whereby ISG purchased an unlimited license to certain software owned by Cordia. The license agreement provides for ISG to pay Cordia $100,000 on execution of license agreement, plus $6,000 per month (including interest) for a period of twenty-five months. Cordia shall provide software updates and maintenance as necessary, during this twenty-five month period.

Sale of Common Stock
Pursuant to a private offering of its common stock, the Company collected $60,000 during 2002 and issued 60,000 common shares in 2003. The Company also collected $44,500 during February 2003 for which no common shares have as yet been issued.