

2014
Integrated Report

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Telefonica



Índex

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The Telefónica Annual Report 2014 comprehends the *Integrated Report*, the *Annual Corporate Governance Report / Annual Report on the Remuneration of Directors*, the *Financial Report* and the *Sustainability Report*. If you would like to access them directly, please click on their covers.



Integrated Report



Sustainability Report



Financial Report



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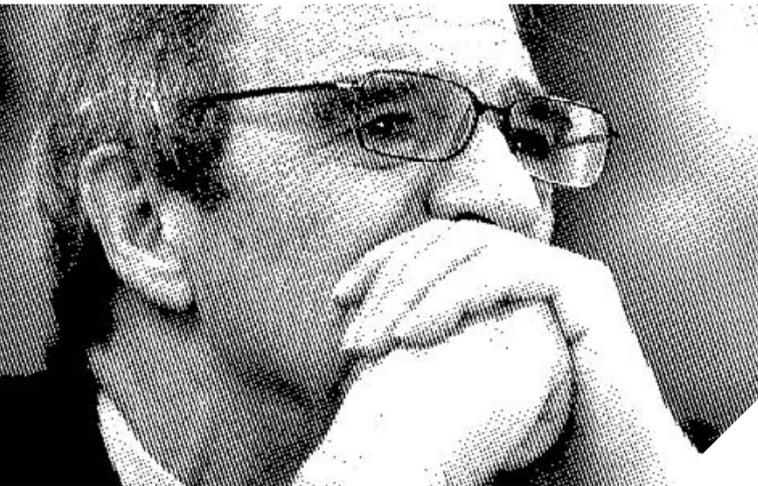
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The Telefónica Annual Report 2014 is available online, for smartphone, and for tablet.

Letter to *shareholders*



"In 2014 we reached the culmination of a period of intense transformation in our effort to become a Leading Digital Telco, which began in 2012"

Dear shareholders,

It is for me a pleasure to share with you all an account of Telefónica's performance and results in 2014 and review the main milestones we have reached in our effort to become a Leading Digital Telco in an industry that opens opportunities for us all.

In my speech a year ago, I told you that 2014 would be a key year to transform Telefónica into a company that grows more and a company that is more efficient and technologically fit. How satisfying to look back and see that we have made significant progress in that direction.

In 2014 we reached the culmination of a period of intense transformation which began in 2012. Those two years were essential, because they enabled us to lay solid foundations for accelerating our growth.

Telefónica is already a very different company indeed, a company that grows more. In 2014 we significantly accelerated our revenues' organic growth to 2.6%, more than three times the increase registered in 2013. Our solid growth in Telefónica Hispanoamérica, the stabilisation of our business in Spain, our strong boost from digital services (which rose nearly 30%), and the initiatives we have rolled out to monetise data traffic growth were key factors in this achievement.

The performance of our revenue figures reflects strong traction in the take-up of high-value services: Pay-TV accesses have grown nearly 50%, and contract accesses

have risen 11% for mobiles and 39% for smartphones. This has allowed a turnaround in the trend of average revenue per access, which grew for the first time in recent years, while the number of accesses also grew to over 340 million.

Our focus on high-value customers is backed by the major technological transformation Telefónica has undergone in recent years, which was driven by heavy investment effort.

For instance, in 2014 we doubled the reach of our fibre network to 15 million premises passed and we reached a 4G coverage of 60% in Europe, while in Latin America this service is already available in ten countries. In parallel, we advanced significantly toward transforming our systems.

Therefore, we boosted investments to almost 9.5 billion euros, including the sum allocated to spectrum. In other words, we invested around 16% of our revenue, the highest amount recorded in our recent history.

Also in 2014 we implemented a new operating model to make us more agile. The new model is already enabling us to achieve improved efficiency, thanks to its focus on simplification. The idea is to transform ourselves in order to gain process agility and improve our response capacity to the level our customers demand, while reinforcing the sustainability of our business.

The organic **growth** of our **revenue** reached **2.6%** in 2014, triple that registered in 2013

Telefónica's **4G coverage** rose to **60%** in Europe, and the service is available in **10** countries in Latin America

In 2014, we **invested 16%** of our revenue, the highest amount recorded in Telefónica's recent history

In little more than two years, the Company **reduced its debt** by more than **13,000 million euros**

The efforts we made in 2014 are evident and have enabled us to slightly grow in organic OIBDA once again, reflecting our revenue growth and the benefits we are obtaining from our new efficiency measures. Thanks to our efforts, in 2014 we reached an OIBDA margin of 31%.

STRONGER POSITION IN KEY MARKETS

In 2014 we also conducted a thorough transformation of our asset portfolio. Our aim was a clear one: to gain strength in strategic markets that contribute to Group growth.

First, we led intra-market consolidation in Europe, and in 2015 we did it again in Brazil, with acquisitions that create value and have significant synergy potential. Our acquisitions of E-Plus in Germany and GVT in Brazil will enable us to grow more in the two biggest markets in Europe and Latin America. In addition, with our recently concluded purchase of DTS (Digital+) in Spain, we have taken a major step toward strengthening our position as a worldwide video company.

Brazil has thus become our primary market in terms of both access numbers (over 100 million customers) and revenue volume.

Second, we decided to withdraw from other markets that due to either their size or our position there are less strategic fits in the medium and long term. Hence, we have reached an agreement to sell off Telefónica's business in the United Kingdom, which will improve our financial flexibility.

In just over two years, we have managed to strengthen our balance sheet quite significantly. We reduced our debt by more than 13 billion euros by the end of 2014, positioning ourselves as the company that lowered its debt more than any other in our industry during that period. The amount of debt we reduced would be considerably higher if we factored in the sale of O2 United Kingdom.

These achievements have been possible thanks to the excellent work of all the professionals here at Telefónica, whom I would like to thank for their dedication and commitment.

Allow me to close this brief summary by highlighting that, considering the speed of changes around us, we will continue to drive our Company's transformation forward. Have no doubt that this year we will consolidate the acceleration of our growth.

And we are going to do that in a context of world economic recovery.

In Spain, 2014 was a turning point. Right now Spain is registering one of the highest GDP growth and employment rates in Europe. This trend is expected to continue over the next few years, with an economic growth rate of close to 3% for 2015 and 2016. Germany, another of our key markets, will be growing at around 2% in 2015 thanks to the favourable growth of its internal demand, particularly private consumer spending.

In the case of Latin America, the outlooks for 2015 for the region as a whole are highly positive. In Brazil in particular, the economic and social achievements accomplished in the past together with the country's huge size and recent economic policy changes will drive medium-term economic growth.

"At Telefónica we are extremely lucky to be in an industry that offers people new opportunities and has the power to transform societies for the better"

Total return
for Telefónica's
shareholders was
7% in 2014

For 2015 the
Company intends to
propose a **dividend**
of **0.75 euros**
per share

ATTRACTIVE SHAREHOLDER REMUNERATION

Our strategy shows in the upward trend in Telefónica's total shareholder return, 7% in 2014.

Our share price has climbed 9.3%⁽¹⁾ so far in 2015, making the increase close to 28% since early 2013. The rise in share price in conjunction with the dividends distributed over the last period add up to a total shareholder return of more than 40%.

As part of the shareholder dividend policy announced in February of this year, the Company intends to propose a dividend of 0.75 euros per share for 2015; 0.35 euros will be distributed in the fourth quarter of 2015 as a scrip dividend, further to the proposal submitted to this General Shareholders' Meeting, while the remaining 0.40 euros will be paid in cash in the second quarter of 2016.

The Board has also submitted a proposal to amortise a number of treasury shares in 2015, adding up to 1.5% of the share capital.

In addition, in 2016 it is the Company's intention to amortise treasury stock adding up to a total of 1.5% of the share capital and distribute a dividend of 0.75 euros per share in cash, in both cases subject to the closing of the proposed sale of O2 United Kingdom.

In due time the Company will propose the appropriate shareholders' resolutions.

At the present share price (12.88 euros on 29/5/15), the remuneration announced for 2015 constitutes a 5.8% yield, the highest return of any of the major Telco players.

In short, for yet another year Telefónica is honouring its firm commitment to remunerate its shareholders, a clear priority for our Company.

A GREAT OPPORTUNITY AHEAD

The digital ecosystem has been undergoing a spectacular transformation over the last few years. This is the Digital Revolution, the greatest revolution in the history of mankind, which opens new opportunities to everybody and every industry.

In an increasingly global world, the digitisation of the economy is a key factor to gain competitiveness and spur growth, thus influencing the level of welfare and development of countries. And at Telefónica we are extremely lucky to be in an industry that offers people new opportunities and has the power to transform societies and make them better.

We stand at the gates of a new era of innovation and change. This is the era of the Industrial Internet, which arises from the convergence of the industrial system with the power of advanced computing and new levels of connectivity. In fact, the Industrial Internet is expected to add an additional 15 trillion dollars to the global economy over the next 20 years.

Machines connected to each other are already a reality in the digital ecosystem, and their future potential is huge. We are already witnessing the proliferation of wearables, connected cars, connected homes and smart cities which, economic considerations apart, are making people's lives easier.

This increase in connectivity is generating large amounts of information. Managing and using all that information is what we call "Big Data", and Big Data will be tremendously useful for governments and companies, since they will have access to the key information they need to accomplish their role in society.

And networks lie at the core of this new economy. Networks allow greater integration of all the elements that support the production, distribution and consumption of the new digital processes and assets. Networks have become the primary infrastructure for fostering economic growth. Therefore, the Telco industry is a key player for the future.

(1) As of 29 May 2015.

The remuneration announced for 2015 constitutes a **5,8% return** on current share prices

"To stay at the forefront of technology and innovation, in 2014 the Company boosted its investment in technological innovation by 13.5% to 6,974 million euros"

In this context, competition in the digital ecosystem has changed in response to the new environment. Accordingly, it is vital to revise regulations to address the reality of the new digital economy and to consider the entire Internet value chain. It is a matter of ensuring that the rules of the game apply equally to all the agents in the ecosystem, to guarantee a level playing field under the "same service, same rules" principle, where there is no discrimination. This will allow citizens to enjoy better protection of their rights and an open, transparent, safer Internet experience for us all.

COMMITMENT TO SOCIETY

To conclude, I would like to remind you that at Telefónica we have always demonstrated our firm commitment to societies where we are present.

To begin with, we support the new generations of young people, and you can see this commitment in the many programmes and activities we run to help young people reach their career goals. To help stimulate entrepreneurship and help make their ideas a reality.

In this sense, Telefónica Open Future is an open, global innovation programme that comprises all our entrepreneurship, innovation, investment and transformation initiatives to support talent by covering all stages of entrepreneurial endeavour.

The programme is being run in 17 countries. Through its various initiatives aimed at investing directly in the various stages of new tech companies, Telefónica Open Future has committed, as of today, more than 700 million euros and secured nearly 7,000 jobs. Altogether, the programme combines the work of Telefónica R&D+i with the objective of optimising the Company's future capital investments and making the Company a key player in high-growth areas of our industry.

In parallel, to stay at the forefront of technology and innovation, in 2014 the Company boosted its investment in technological innovation by 13.5% to 6,974 million euros, positioning Telefónica as the top European telco operator and third worldwide in terms of investment in R&D.

Furthermore, our commitment to society is also strongly reflected in various initiatives involving digital education, a key lever for the development of individuals and societies as a whole.

Telefónica is already a leading player in digital education, providing education for youth and teachers as well as open virtual learning environments. And we are going to do even more in future by encouraging digital learning throughout every stage of education.

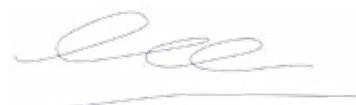
In addition, we are conducting other initiatives in cultural promotion and support for youth through Fundación Telefónica.

Lastly, Telefónica promotes corporate sustainability by ensuring that our innovation processes impact positively on society's development, accessibility and environmental protection, while at the same time creating sustainable products and services for our customers.

Dear shareholders, as you have seen, Telefónica is not just a leading company in this new digital world. Telefónica has a solid commitment to society. We are convinced that technology should be open to all individuals, companies and governments so that they can BE MORE.

On my own behalf and on behalf of the Board of Directors, I want to thank you again this year for your support and trust. Having you behind us is certainly the best incentive to keep us building the Leading Digital Telco in our industry.

Thank you,



César Alierta
Executive Chairman

1. Telefónica in figures





Telefónica *in the world*



ARGENTINA

Revenue (*)	3,219
Investment (*)	676.0
Employees	17,238
Accesses (**)	26,637.6

BRAZIL

Revenue (*)	11,373
Investment (*)	2,933.0
Employees	20,567
Accesses (**)	95,554.5

CHILE

Revenue (*)	2,087
Investment (*)	429.0
Employees	4,686
Accesses (**)	13,893.8

COLOMBIA

Revenue (*)	1,689
Investment (*)	496.0
Employees	3,812
Accesses (**)	15,691.6

ECUADOR

Revenue (*)	493
Investment (*)	102.0
Employees	1,385
Accesses (**)	5,055.6

MEXICO

Revenue (*)	1,652
Investment (*)	252.0
Employees	2,967
Accesses (**)	23,224.7

PERU

Revenue (*)	2,539
Investment (*)	421.0
Employees	9,520
Accesses (**)	21,976.8

URUGUAY

Revenue (*)	236
Investment (*)	31.0
Employees	601
Accesses (**)	1,883.8

VENEZUELA + CENTRAL AMERICA

Revenue (*)	1,421
Investment (*)	435.0
Employees	7,437
Accesses (**)	23,239.2



€50,377 M
total revenue



€9,448 M
total investment



123,700 employees
95% on permanent contracts



341 M
accesses



2nd biggest European operator
in terms of revenue



3rd biggest operator in the world
in terms of investment in R&D

SPAIN

Revenue (*)	12,209
Investment (*)	1,732.0
Employees	35,006
Accesses (**)	41,202.7

GERMANY

Revenue (*)	5,904
Investment (*)	849.0
Employees	11,015
Accesses (**)	47,661.5

UNITED KINGDOM

Revenue (*)	7,021
Investment (*)	755.0
Employees	7,904
Accesses (**)	24,726.4

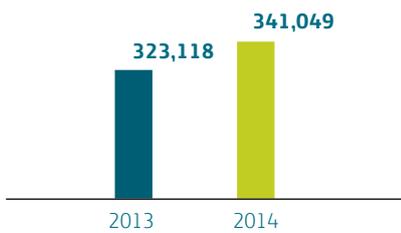
* Millions of euros.
** Thousands of accesses.

Relevant information 2014

Total accesses

Thousands

▲ 5.5%

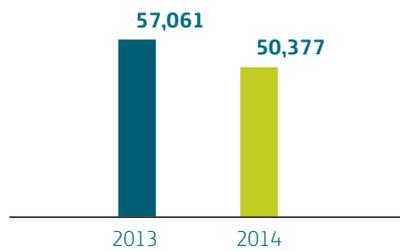


Telefónica's total accesses experienced a 5.5% year-on-year growth after incorporating E-Plus customers in Telefónica Deutschland and registering substantial growth in Telefónica Latin America, Telefónica Brazil and Telefónica UK. Excluding E-Plus accesses from the 2014 base, as well as accesses from Telefónica Czech Republic and Telefónica Ireland, from the 2013 base, organic growth is approximately 2%. In terms of services, sales activities stand out, with particular focus on high-value clients, as proven by the continued growth in mobile contracts (smartphones and LTE), fibre-optics and pay-per-view TV.

Revenue

Millions of euros

Organic growth
▲ 2.6%

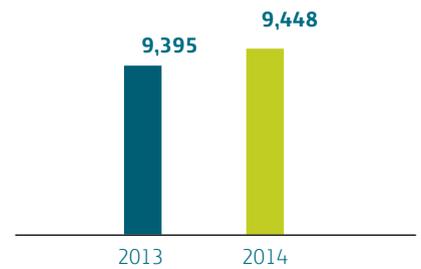


Revenues fell 11.7% on a year-on-year basis, affected by the negative impact of exchange rates and changes in the scope of consolidation. The move to SICAD II in Venezuela had a particularly negative impact (-2.187 billion euros) on fourth-quarter revenues. Regarding services, mobile data continues to be one of the main platforms for the Company's growth; having experienced a 9.9% organic growth in 2014, it now represents 41% of mobile service revenues, which is 3 p.p. more than in 2013.

Investment

Millions of euros

▲ +0.6%



Investment grew by 0.6% on a year-on-year basis and includes 1.294 billion euros in spectrum purchases. The Company has continued to make progress in modernising and differentiating its networks, dedicating 75% of the year's total investments –excluding spectrum purchases– to transformation and growth, 6 p.p. more than in 2013, in organic terms.

Debt

Millions of euros

Debt ratio/
OIBDA
2.74x



Debt was reduced by 294 million euros when compared to December 2013. Excluding the impact of the evolution of exchange rates in Venezuela, debt would thus be reduced to 2.635 billion euros. The debt ratio (net debt over OIBDA) at the close of 2014 was approximately 2.74x. This ratio would be 2.15x if the planned sale of O2 UK were taken into account.

Relevant information 2014

OIBDA

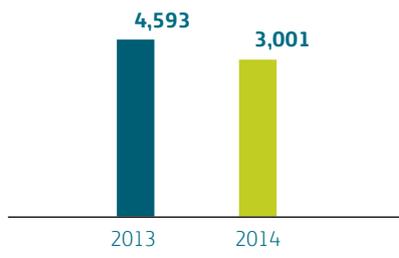
Millions of euros



Reported OIBDA declined by 18.7% in 2014, affected by the evolution of exchange rates, changes in the scope of consolidation and other, non-recurring factors. Nonetheless, it grew 0.2%, organically, on a year-on-year basis, reflecting the growth in revenues and the benefits yielded by the efficiency measures implemented, despite the increased commercial and network-related expenses mentioned above. By regions, Telefónica Latin America stands out, with 16.4% year-on-year organic growth, which is 2.1 p.p. more than in 2013, and contributes 4.8 p.p to OIBDA growth, leveraging growth acceleration in Mexico and Colombia. Excluding the regulation's negative impact, OIBDA grew, in organic terms, by 1.3% in 2014.

Net profits

Millions of euros



Net profits reached 3.001 billion euros in 2014 (4.462 billion euros in underlying assets); basic net profits per share were 0.61 euros (0.93 euros underlying). It should be noted that net profits are effected by extraordinary allocations, among which the impact of adopting the SICAD II exchange rate in Venezuela (-399 million euros), the provision for restructuring expenditures (-405 million euros) and adjustments in the valuation of Telco, S.p.A. (-257 million euros) are worth mentioning.

Employees

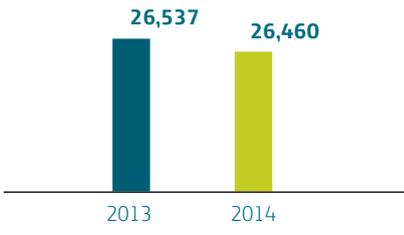
People



Total staff at the close of 2014 fell by 2.4%. This decrease in numbers was caused by corporate transactions which resulted in the businesses in Ireland, Czech Republic and Slovakia leaving the Company's scope, but were balanced, for the most part, by the incorporation of E-Plus in Germany.

Providers

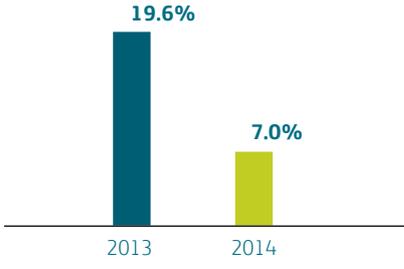
Millions of euros



In 2014 Telefónica hired services from 12,442 different providers, of which 83.8% were local providers from the different communities where Telefónica has a presence. The total amount of allocations, in euros, was also negatively influenced by the evolution of exchange rates.

Total profitability for shareholders

Percentage



Telefónica shares experienced a revaluation of 0.7% and a total return to shareholders of 7.0%, once the dividends distributed in 2014 were included. The year ended with shares costing 11.92 euros.

Key performance indicators

Economic indicators

			2012	2013	2014	Unit
 FINANCE	Revenues	The sum of all income originating from the sale of products and services, from financial and non-financial investment and from the sale of tangible and intangible assets	62,356	57,061	50,377	Mill €
 MANUFACTURING	Supplier costs	Purchasing and other third-party costs	18,074	17,041	15,182	Mill €
 FINANCE	Added value	Operating margin: revenues - supplier costs	44,282	40,020	35,195	Mill €
 HUMAN	Employee remuneration	Costs of employee remuneration (includes wages, salaries, and social contributions)	8,569	7,208	7,098	Mill €
 FINANCE	Gross operating profit	OIBDA	21,231	19,077	15,515	Mill €
 FINANCE	Financial costs	Amount of accrued interest through external financing	-3,659	-2,866	-2,822	Mill €
 FINANCE	Owner retribution	Shareholder dividends paid during the period	3,273	2,182	2,328	Mill €
	Profits tax	Profit tax	-1,461	-1,311	-383	Mill €
 SOCIAL	Economic contribution to the community	Investment in social actions (LBG)	158	129	129	Mill €
	Economic contribution to Public Administration	Total payments to public bodies (taxes, levies, VAT, Social Security, etc.)	13,806	14,060	12,057	Mill €
 INNOVATION	R&D&i Investment	Total amount of costs and investment on R&D&i	5,771	6,142	6,974	€
 INNOVATION	Total investment	Capex	9,458	9,395	9,448	€
 FINANCE	Profitability	Net profit after tax	3,928	4,593	3,001	€
 FINANCE	Debt	Net debt	51,259	45,381	45,087	€
 FINANCE	Treasury shares	Percentage of own shares in Treasury	0.64%	0.65%	2.75%	%

Environmental indicators

Energy efficiency and climate change

			2012	2013	2014	Unit
 NATURAL	Energy consumption	Total direct consumption of renewable and non-renewable energy in operations, offices and vehicle fleets	23,278,963	23,624,920	22,990,841	GJ
 NATURAL	Greenhouse gas (GHG) emissions	The sum of direct and indirect GHG emissions measured in tonnes of CO ₂ equivalent	1,859,986	1,881,903	1,731,619	t CO ₂ eq

Eco-Efficiency and waste management

 NATURAL	Water consumption	Total water consumption in operations and offices	5,581,053	4,447,574	4,125,025	m ³
 NATURAL	Managed waste	Managed waste from operations, offices and customers sent for recycling, reuse and landfill	30,581	30,432	22,766	t
 NATURAL	Reused waste	Waste generated by operations and customers reused in accordance with specific processes	195	250.81	172	t

Social indicators

Human capital				2012	2013	2014	Unit
 HUMAN	Employees	Number of contracted employees at the end of the period	133,263	126,730	123,700	no.	
 HUMAN	Gender diversity among employees	Number of contracted women at the end of the period	50,507	48,513	47,045	no.	
 HUMAN	Management positions	Number of contracted managers at the end of the period	1,234	1,255	1,145	no.	
 HUMAN	Gender diversity in management	Number of women managers at the end of the period	239	262	236	no.	
 HUMAN	Employment stability	Number of employees with permanent contracts at the end of the period	124,134	118,937	117,245	no.	
 HUMAN	Absenteeism	(Number of days lost due to absence during the period/ Number of days worked by all employees during the same period) x 200,000	5,569	5,599	5,283	no.	
 HUMAN	Employee turnover	Percentage of employees who have voluntarily left or joined the Group	n.a.	10.75	7.6	%	
 INNOVATION	Employee training	Total number of training hours received by employees during the period	3,912,000	2,859,751	3,698,585	no.	
Social capital							
 MANUFACTURING	Payments to suppliers	Average payment period for suppliers in days ⁽¹⁾	75	60	51	days	

(1). Data for Spain

Corporate Governance indicators

				2012	2013	2014	Unit
 GOVERNANCE	Directors	Total number of directors	18	18	18	no.	
 GOVERNANCE	Independent directors	Number of independent directors	7	8	8	no.	
 GOVERNANCE	Directors in the area of Corporate Social Responsibility (CSR)	Number of directors with specific responsibilities in matters of CSR	5	6	6	no.	
 GOVERNANCE	Strategy Committee	Number of directors with specific responsibilities regarding Company strategy	5	6	6	no.	
 GOVERNANCE	Audit Committee	Number of directors with specific responsibilities regarding economic and financial control	3	5	5	no.	
 GOVERNANCE	Appointments Committee	Number of directors with specific responsibilities in appointment matters	5	5	5	no.	
 GOVERNANCE	Board Meetings	Number of meetings held by the Board during the period	14	14	14	no.	
 GOVERNANCE	Gender diversity in the Board	Number of women members of the Board	2	2	2	no.	

Economic impact on communities

Telefónica strives to be a driver of economic, social and technological development in the communities in which it is present.

Contribution to local progress

Revenue Provisioning Salaries Tax Contributions Investment

All economic data in millions of euros

	Economic Impact	Revenue/GDP (%)	Magnitudes
Spain 2014			
Revenue	12,209	1.2%	Employees 35,006
Payments	2,936.9 2,646.4 3,074.0 1,732.0		Local suppliers 1,706
			% Local purchases 91.5%
			Accesses (thousands) 41,202.7
Germany 2014			
Revenue	5,904	0.2%	Employees 11,015
Payments	2,128.6 841.8 677.6 849.0		Local suppliers 492
			% Local purchases 60.97%
			Accesses (thousands) 47,661.5
United Kingdom 2014			
Revenue	7,021	0.4%	Employees 7,904
Payments	3,466.9 592.2 507.9 755.0		Local suppliers 350
			% Local purchases 67.9%
			Accesses (thousands) 24,726.4
Argentina 2014			
Revenue	3,219	0.9%	Employees 17,238
Payments	748.6 668.5 977.2 676.0		Local suppliers 1,057
			% Local purchases 86.8%
			Accesses (thousands) 26,637.6
Brazil 2014			
Revenue	11,373	0.7%	Employees 20,567
Payments	2,648.0 1,108.9 5,009.6 2,933.0		Local suppliers 2,030
			% Local purchases 99.8%
			Accesses (thousands) 95,554.5
Chile 2014			
Revenue	2,087	1.0%	Employees 4,686
Payments	651.8 217.9 220.2 429.0		Local suppliers 660
			% Local purchases 74.5%
			Accesses (thousands) 13,893.8

Contribution to local progress

Revenue Provisioning Salaries Tax Contributions Investment

All economic data in millions of euros

	Economic impact	Revenue/GDP (%)	Magnitudes
Colombia 2014			
Revenue	1,689	0.6%	Employees 3,812
Payments	444.0 131.0 346.6 496.0		Local suppliers 502
			% Local purchases 74.9%
			Accesses (thousands) 15,691.6
Ecuador 2014			
Revenue	493	0.7%	Employees 1,385
Payments	121.5 53.8 81.3 102.0		Local suppliers 297
			% Local purchases 70.4%
			Accesses (thousands) 5,055.6
Mexico 2014			
Revenue	1,652	0.2%	Employees 2,967
Payments	644.5 156.6 129.4 252.0		Local suppliers 538
			% Local purchases 89.2%
			Accesses (thousands) 23,224.7
Peru 2014			
Revenue	2,539	1.6%	Employees 9,520
Payments	663.3 368.4 587.7 421.0		Local suppliers 1,051
			% Local purchases 73.9%
			Accesses (thousands) 21,976.8
Uruguay 2014			
Revenue	236	0.6%	Employees 601
Payments	67.5 20.0 39.8 31.0		Local suppliers 279
			% Local purchases 33.0%
			Accesses (thousands) 1,883.8
Venezuela & Central America 2014			
Revenue	1,421	0.3%	Employees 7,437
Payments	383.5 136.8 307.8 435.0		Local suppliers 1,239
			% Local purchases 90.2%
			Accesses (thousands) 23,239.2

Fiscal transparency

The current economic environment has put the tax contribution of large multinationals at the centre of the debate (fair share). At Telefónica, the value of our tax contribution is a priority and a matter of prestige. The total tax contribution rose to 12,057 million euros.

Transparency above all. With this aim, we have developed Business Principles for tax compliance, based on which we commit to acting with honesty and respect for the law in the management of [fiscal affairs](#).

Furthermore, in 2010 the Board of Directors approved our adherence to the Code of Good Tax Practices developed by the Large Businesses Forum along with the Spanish Tax Authority, in order to avoid the use of opaque structures for fiscal purposes.

Therefore, we do not use corporate structures to conceal or reduce the transparency of our activities from tax authorities or any other interested party. Nor are we present in any of the jurisdictions included in the list of tax havens legally established by Spain according to the 1st additional provision of Law 36/2006 on Measures for the Prevention of Fiscal Fraud in the wording updated by the Final Provision 2 of Law 26/2014 of 27 November.

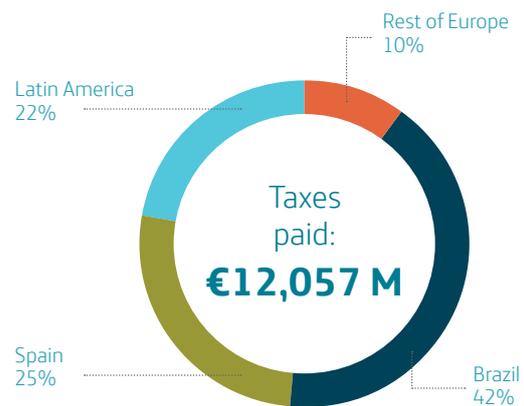
TAXES IN 2014

In 2014, our total tax contribution has risen to 12,057 million euros. Brazil and Spain were the jurisdictions that contributed most to tax payments. This shows that for every 100 euros of our turnover, 23.9 euros were allocated to the payment of taxes, of which 7.1 euros were taxes incurred and 16.9 euros were taxes levied.

Based on the methodology of the distributed value produced by the CTT of PwC, for every 100 euros of value distributed by Telefónica in the 2014 fiscal year, 50 euros were allocated to tax payments. According to the CTT methodology by PwC, a company's distributed value is the sum of the following elements: shareholder value (eg. dividends, reserves, etc.), wages and salaries (net of taxes collected from employees), net interest and taxes (incurred and levied).

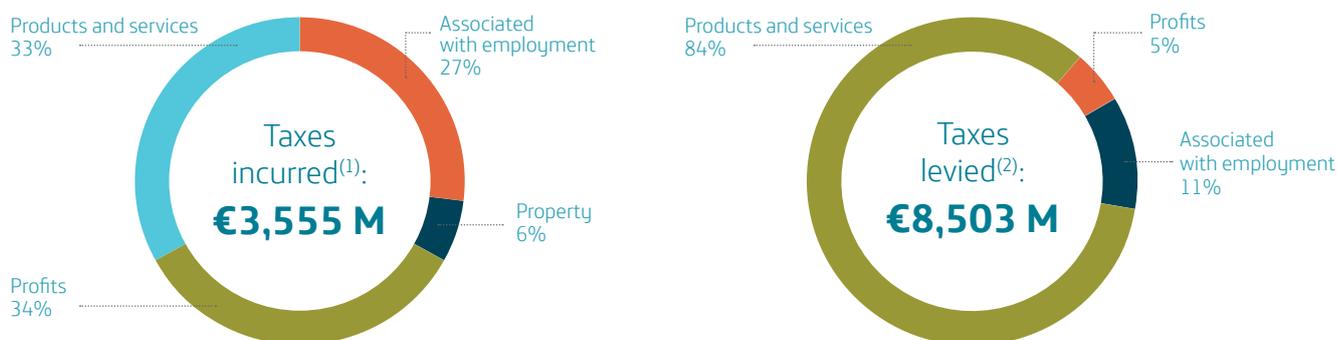
CONTRIBUTION TO SOCIETY

Distribution of taxes paid by geographic area



Brazil and Spain were the jurisdictions that contributed most to the payment of taxes in 2014. For every 100 euros of Telefónica's turnover, 23.9 euros were allocated to taxes

Breakdown of the total tax contribution worldwide



Breakdown of Telefónica's global tax contribution

In thousands of euros

Country	Taxes incurred ⁽¹⁾	Taxes levied ⁽²⁾	Total contribution ⁽³⁾
Brazil	1,087,052	3,922,561	5,009,613
Spain	944,386	2,129,657	3,074,043
Argentina	383,429	593,779	977,208
Germany	172,131	505,419	677,550
Peru	292,773	294,968	587,741
United Kingdom	82,107	424,839	506,946
Colombia	167,771	178,792	346,563
Central America	185,302	122,519	307,821
Chile	55,040	165,121	220,161
Mexico	28,094	101,292	129,386
Ecuador	65,455	15,823	81,278
Ireland	29,218	16,707	45,925
Uruguay	23,537	16,311	39,848
Czech Republic	1,502	1,035	2,537
Other	36,913	13,780	50,724
TOTAL	3,554,710	8,502,603	12,057,344

(1) Taxes incurred: taxes paid by Telefónica to administrations of the different states in which it operates and that cause the Company to assume an effective cost.

(2) Taxes levied: taxes managed by Telefónica that have been entered on behalf of other contributors as a result of the economic activity of the Company; that is, tax revenues obtained due to the economic value generated by this economic activity.

(3) Total contribution: the total contribution measures the total impact represented by the payment of taxes to the different administrations in a direct or indirect manner as a result of the Company's economic activity.

2. Business model and strategy







Evolution of the environment *and macrotrends*

The era of digitalisation has opened up a huge opportunity for growth for telecommunications operators, who are at the epicentre of the technological revolution. Telefónica's vision: that our customers fully enjoy connectivity. However, achieving this success requires significant transformation.

Every day the world is more global, open and digital, as are the lives of the people in it. The main drivers of this productive and social revolution are the growth in connectivity and the talent of millions of people being applied to technology. Despite their magnitude, these changes have only just begun. In the next decade, connectivity will even further increase its relevance, as it will form part of all solutions to new challenges.

We are seeing three main mutually dependent trends: more mobility, more bandwidth, and more cloud services. These tendencies open the way to new waves of technology. The Internet of Things is the connection between the digital world and the real world. Estimations anticipate more than 50,000 million devices connected to networks by 2020. So many connected sensors will generate enormous volumes of data, which will have to be transferred and processed in order to produce knowledge and actions.

The development of connectivity has a long way to go and by its nature tends to spark a never-ending stream of innovation

Big Data is the discipline dedicated to mass data and will change, for example, the way we manage homes, traffic, and industrial production.

In the same way it could be said that digitisation is in a process of change, passing from 'bits' to 'atoms', where new advances such as nanotechnology, robotics or 3D printing are boosting the growth opportunities for operators who are coordinating local presence with digital capabilities.

Connectivity and future challenges



- **Greater life expectancy**
eHealth, robotics, entertainment and social communication
- **Individual growth**
Teletraining, privacy and security of networks
- **The empowering nature of ICT**
Ubiquitous, powerful, accessible connectivity



- **Interconnected economy**
Global opportunities and new solutions (Cloud, M2M, Big Data)
- **The importance of public finance**
Digital efficiency of public administrations and transparency
- **Emerging economies**
Social mobility and a narrowing of the digital divide



- **Climate change**
Sensors and analysis. Reduction in transport and consumption
- **Pressure on resources**
Monitoring and administration for sustainable management
- **Urbanisation**
Smart Cities, M2M

(Sources: KPMG Future State 2030 and Telefónica)



At Telefónica
we capture digital
opportunities for
our customers.

Vision of the business *model and strategy*

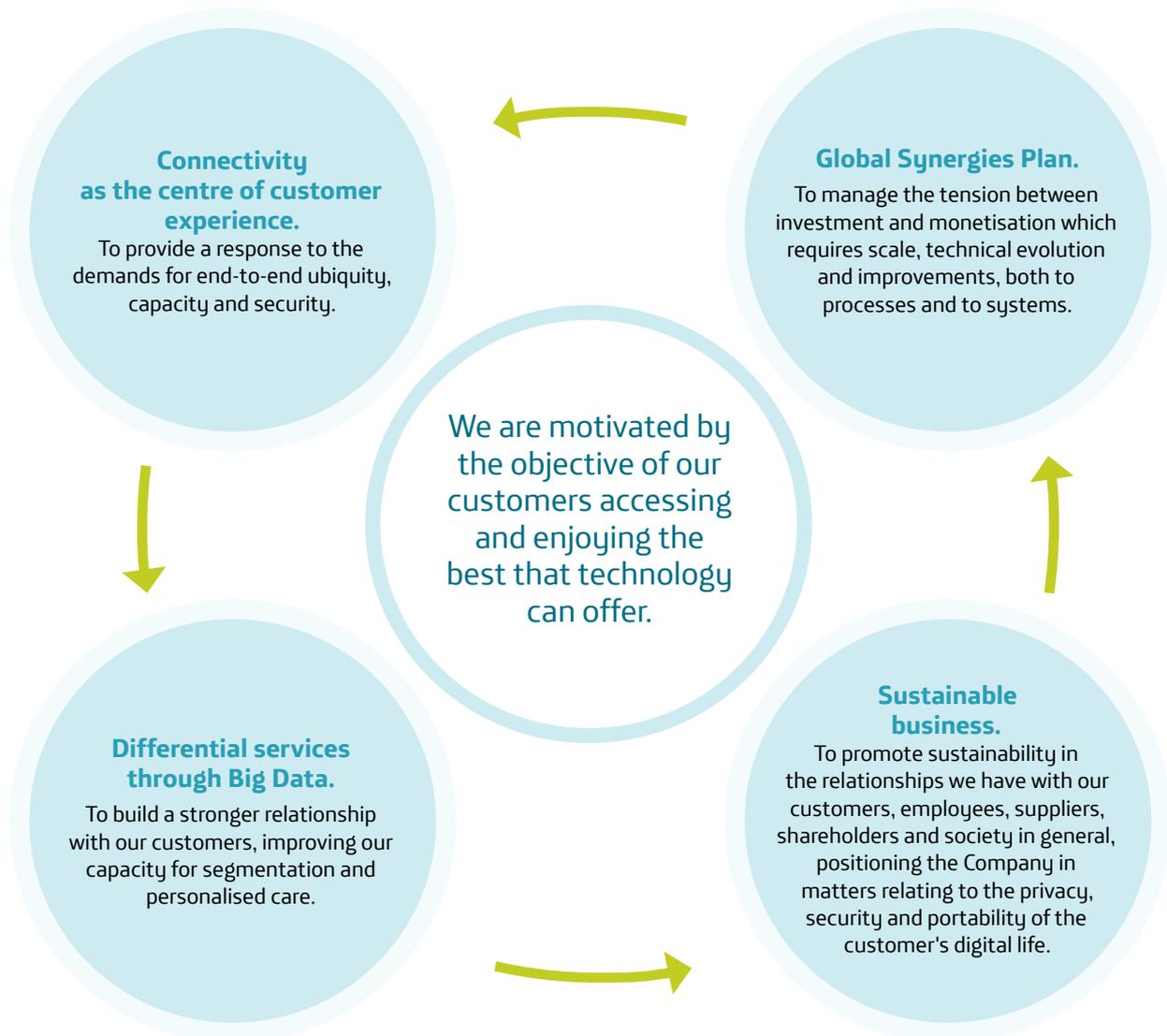
At Telefónica we had already defined our vision of a Digital Telco in 2011. Our combination of connectivity and digital services has made us a benchmark in innovation and operating models.

At Telefónica we have defined the concept of a Digital Telco to encapsulate all the efforts we are making in this direction. We are motivated by the objective of our customers accessing and enjoying the best that technology can offer.

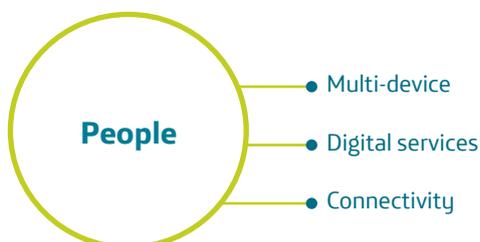
The next challenge is to monetise all of this innovative effort through a service proposal that is convincing for customers. The role of Telefónica is already key to the digital development of the societies and economies in which we are present. We believe that there is a long way to go in the development of the connectivity business which, currently, presents significant barriers as it is capital intense, and by its nature tends to trigger inexhaustible new lines of discovery.

Our business model will be more robust, sustainable and profitable as our services become a *critical mission* for our customers.

Our strategy means bringing into play our capabilities, directing them towards the customer and continuing the transformation in order to further strengthen and capitalise on our positioning in the new value chain. Starting from a position of leadership in connectivity in terms of technology and as a way of relating to our customers, Telefónica aspires to being a benchmark in the sector at this technological and competitive turning point. This strategy is focused on four key concepts:



Digital technology for people and for businesses



Innovation *management*

At Telefónica we are committed to both traditional R&D innovation and open innovation.

R&D&i at *Telefónica*

Telefónica is the European telecommunications operator which invests the most in R&D, and the second largest R&D investor in the world. This was acknowledged in the latest report published by the European Commission, performed on the 2013 data.

FORWARD PROGRESS

We are convinced that only a commitment to innovation will achieve sustained business viability, a competitive edge and an advantageous position from which to evolve, think ahead and provide customer satisfaction.

In 2014, Telefónica submitted 27 new applications for patents and utility models through the Spanish Patent and Trademark Office (Spanish initials: OEPM). Our objective is to protect our innovative activity in the markets where we operate: Europe and America. This policy has enabled us to become the leading Spanish telecommunications company in terms of the number of international patent applications

made (according to the World Intellectual Property Organisation), and this year we have once again set the benchmark for private innovation in Spain.

Centres of Excellence

Telefónica's commitment to internal innovation is channelled through Telefónica R&D, with a network of technological centres of excellence located in Barcelona, Granada, Huesca, Madrid, Valladolid, São Paulo and London.

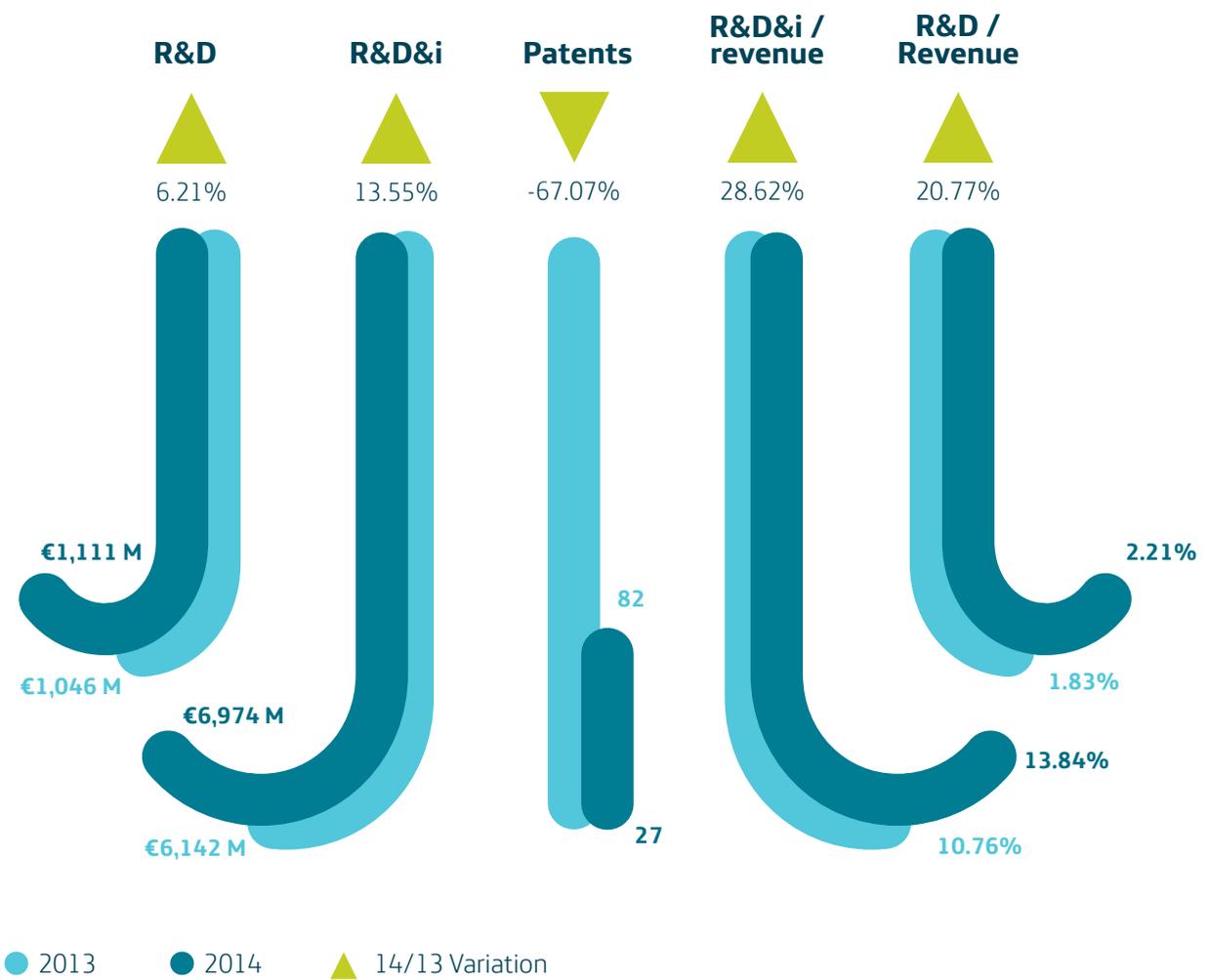
In November 2014, we opened a new centre as part of this network in Chile. In this case it was the result of a public-private initiative in collaboration with Corfo and the *Universidad del Desarrollo*. The centre leads the development of new technology focused on the digital world and the Internet of Things, and will initially be applicable to smart cities and smart industries (agriculture and mining). This centre will focus on open platforms and collaborative work and research models, drawing on the results of the other Telefónica R&D centres around the world.

Telefónica is committed to investing in R&D





Our commitment to R&D is backed up by the figures





Telefónica is working in conjunction with Sigfox on 5G networks

Telefónica R&D collaborates with more than 50 universities

2014 ACHIEVEMENTS

At Telefónica, we want to become the leading digital telephone company. With this objective in mind, our innovation activity focuses on communication services, improving our networks, identification, Media Services, IoT, Big Data and the Cloud, among other things.



Communication Services

TU Go. This year saw continued evolution of the TU Go service, which enables the use of a mobile phone number on any connected device.

To this end, an app was offered to customers using Windows Phone devices in order to make the service accessible without the need to install any additional software.

Wearable Technology. TU Go incorporated integration with Android Wear, which enables users to receive and interact directly with smart watches. New features were also incorporated into the product, such as the ability to make calls using the 3G and 4G data connections.

■ **Firefox Hello.** The development of version 2.0 of this operating system was completed. Integration of communication, data, text and video on WebRTC capabilities in Firefox OS, make it the number one operating system. This has enabled Firefox Hello to be compatible with any desktop web browser.

■ **Awazza.** This product enables users to access the Internet more quickly from their mobile, and offers customers security management, access control and the blocking of advertising. Now present in Spain, Mexico and the United Kingdom, and with almost 17,000 registered users in 2014, work has been done to refine the product technologically and improve its features with a view to its future launch.



Network improvement

Efforts have been made in the improvement of network virtualisation, i.e., the ability for a single device to be used for different purposes depending on the software installed on it.

NFV Reference Lab. Telefónica has set the benchmark worldwide in leading the laboratory that implements the latest network virtualisation architecture, proposed within the framework of ETSI's ISG NFV.



Innovation in identification

- Work has been done on the technological development of the Mobile Connect service, which enables use of a phone number and SIM as identification details via any Internet service.
- Within the framework of the GSMA, work has been done on improving the technology, making the launch of the product's first multi-operator pilots feasible in 2015.



Video

- Technological advances have been marketed, such as the online recording service or multi-screen broadcasts, which represent a clear technological leap in comparison to our competitors' proposals.
- Video services based on the distribution capabilities of the LTE mobile network over MBMS interfaces have been investigated, as well as those based on live distribution capabilities through multicast technology.



Internet of Things

Within the framework of the Internet of Things, Telefónica R&D has designed an advanced technology solution for the complete management of towns and cities, which transforms them into smart cities that are completely connected. In Spain, Valencia will be the first city to implement this platform's technology.

- **Smart Cities.** To build this platform, components developed in the European FI-WARE project have been used. The project, whose technological development is coordinated by Telefónica R&D, makes technological modules available to developers and entrepreneurs so that they can build their own applications and breathe life into the ecosystem. The platform specifications are public and royalty-free.
- **Thinking Things.** A set of low-cost modular devices have been launched, which integrate different sensors and which, through a connection to the cloud, enable all the possibilities of the Internet of Things to be exploited. This is a *plug and play* solution which enables users to employ Thinking Things without having any knowledge of programming or needing any additional infrastructure.
- **#IoT Challenge.** This has been launched through Telefónica Open Future, with which it is hoped the developer community will get involved.
- **Click&Pizza.** A service developed by Telefónica R&D in collaboration with Telepizza. It is a new concept in responding to pizza delivery orders which requires no more than a single click. This is one of the first solutions designed based on Thinking Things.

Telefónica R&D was recognised as a world pioneer in applying global 'Lean Startup' methodologies in their innovation processes



Big Data

Through the analysis of large anonymous data packages, it is possible to provide detailed information about users and their preferences, which opens a range of possibilities that enable tourism enterprises to improve both the services they offer and the management of their businesses. Noteworthy among these are the following:

- **Smart Tourism.** A new methodology has been developed to analyse and investigate the tourism sector.
- **Improvement of customer experience in shops.** Digital business intelligence techniques are used both in Telefónica's flagship stores and in third party shops, wherein the aim is to use analytical techniques to gain a greater knowledge of customer behaviour, their typical routes and hot spots.
- **Driving Patterns.** The analysis of data will allow the evolution of the Insurance Telematics product in 2015, with potential applications in insurance for users, and in enabling a better understanding and management of traffic accidents.
- **Data Transparency Lab.** This is a work forum which seeks the collaboration of technologists, regulators and privacy advocates, so that they can develop useful tools and better regulation for the industry.

The research projects carried out by Telefónica R&D in this area are particularly noteworthy:

- Prediction of the spread of diseases based on mobile usage patterns.
- Application during epidemics such as the recent Ebola outbreak.
- Predictive analysis of crime in large cities using anonymised data.



Innovation in the Cloud

Telefónica acquired the company **eyeOS** in order to strengthen its position in Cloud services. The Company develops virtualised desktops which are accessed from a web browser and which are an ideal platform for organisations such as Government or small and medium-sized businesses.



Patent Awards
 In the latest edition, along with the explicit recognition of each of the inventors in the Group, prizes were awarded to the most important and innovative projects of 2014. The following are some key examples:

- **TU Go**
- **Awazza**
- **Latch:** a security service that gives users the control to shut down their online services when they are not connected to them, thus reducing exposure time to cyber-attacks.
- **Network virtualisation,** which simplifies the equipment installed in the customer's house, thereby reducing costs and complications for users.

Acknowledgements
 Telefónica R&D was recognised as a world pioneer in applying 'Lean Startup' methodologies in its innovation processes. This methodology, which has been applied since the end of 2011, requires continuous contact with the customer from the outset, thus enabling the usefulness of the products and services being developed to be assessed as soon as possible, as stipulated in a report made by [Susana Jurado Apruzzese and María Olano Mata](#). The use of this technology globally leads to greater effectiveness in innovation and a greater capability to test new product ideas that are in line with the needs of the customer.

All R&D&i activity is focused on a single objective: to continue transforming Telefónica into a leading Digital Telco. It is not possible to take on this great challenge alone. Therefore, being capable of getting the most from communities is a key factor of success.

Some of the projects currently underway are:

- Collaboration with other European operators and institutions in order to participate in projects promoted by the European Union.
- Collaboration with Spanish and foreign universities and research centres. This has allowed us to create one of the most relevant innovation networks in the global ICT sector. Only Telefónica R&D collaborates with more than 50 universities.
- The organisation of competitions and hackathons all around the world. Among them, those related to Firefox OS and FI-WARE stand out.

In addition, Telefónica's User Experience Lab strives to get to know and understand customers, and work with them to define new services and design products.

We have identified technological challenges that need to be resolved in the next few years and which will govern innovation activities in the near future. Noteworthy among them are the following:

- **The limitations that current mobile networks pose to the development of the Internet of Things.**
 In order to fully develop this concept, new networks that enable communications to be independent of the power supply will need to be created. To address this challenge, Telefónica has become a shareholder in Sigfox, a company which generates this type of technology and is working on the definition of future 5G networks.
- These good prospects will bring with them **the need for long-term projects** to be addressed, since a continued effort is necessary to overcome the technological difficulties involved. Therefore, the choice of technology associates is key, as the success of this kind of venture will depend on it.

BIG SOCIAL DATA

Big Data is a term which refers to the huge quantities of data that are constantly being recorded due to the digitisation of science (astronomy, physics, medicine...) and infrastructure (smart cities, financial transactions...), as well as mass use of mobile phones and other connected devices. This process in turn gives rise to what is known as **Big Social Data**, where the data generated is used for social causes, such as how to act in the case of natural disasters, fight the spread of epidemics, improve crime prevention, increase agricultural productivity or optimise medical diagnoses, among others.

This aggregate data makes it possible to establish behavioural patterns (social, mobility...) and predictive models, thanks to artificial intelligence, pattern discovery and machine learning techniques. The work of researchers offers valuable information to both public and private institutions, helping them to ease decision-making and orientate activities.

Our researchers analyse the large quantity of anonymous and encrypted data compiled from the traffic registers in mobile antennas, always while maintaining the anonymity and privacy of the data.

This work has principally been carried out in Latin America – given Telefónica's heavy presence in the region – with a view to improving decision-making processes that affect low-income communities. Although it could equally be applied to any other part of the world and to any community irrespective of resource levels, in nowhere but Latin America do over 170 million customers use our telephone networks on a daily basis. This traffic generates such vast quantities of data so as to allow us to deduce, for example, mobility patterns for entire towns; important information which at Telefónica we believe will help to bring about a major advance in improving the quality of life of the Latin American population.

Open innovation at Telefónica

Open Future is Telefónica's global programme of entrepreneurship and investment, aimed at attracting innovative products, services and talent to the Company, with the goal of integrating them into our value proposition for customers.

It includes several initiatives of proven success, such as the Telefónica Ventures and Américo investment funds, the start-up accelerator Wayra and the Think Big and Talentum initiatives (which support the youngest talent).

Open Future offers a complete model of support to the unique talent on the market, from the earliest stages, when the project is just an idea, up to the more advanced stages, where a financial partner is needed to support the growth and expansion of startups.

Furthermore, both Telefónica and its partners can use Open Future as a doorway to external innovation and to digital products which are key to the industries of the future.

There are several objectives which Telefónica hopes to achieve with this project:

- ⇒ Through alliances with its associates, Telefónica can reach more people, render its initiatives more global, make them generate more impact and multiply the involvement of talent. As a result, investment decisions will be more successful, the best projects will be attracted and Telefónica will therefore be able to offer the best of the digital world to its customers.
- ⇒ Moreover, Telefónica has the firm conviction that technological innovation and the promotion of talent are the best means of spurring economic growth and employment in all markets. This growth benefits all the agents that operate in this market, including Telefónica.

Currently, at Telefónica we are carrying out these activities in 17 countries, with 500 companies invested in, and a total investment committed by Telefónica and its associates amounting to 300 million euros.

Objectives of the Open Future programme



Encourage -

Think Big, Talentum and Open Future

We create and revive entrepreneurial ecosystems which invigorate the local economy by attracting and supporting talent.



Accelerate -

Crowdfunding and Wayra

We promote the growth of that talent with acceleration tools for their businesses. This enables the identification of innovative products which improve the value proposal to customers of Telefónica and its partners.



Invest -

Américo and Telefónica Ventures

We promote the necessary investment for those projects with the greatest potential, so that they can scale up their business and consolidate its internationalisation.



Sustainable Innovation projects supported by Telefónica

Through the open innovation developed on its Open Future programme, Telefónica supports various sustainable innovation projects in areas such as disability and dependence, education, health, finance and the environment.

MintLabs

A Platform which makes the prediction, detection and diagnosis of possible neurological disorders possible through an analysis of algorithms capable of creating a 3D map of the brain.



Mirubee is designed to enable anyone to find out about and control their consumption of electronic equipment at home.

acamica

Acámica is an online education platform which offers a dynamic approach to learning through what it is known as distributed microlearning.



Akademia is a web service that allows the online, centralised management of all a school's academic processes, thereby facilitating communication and interaction between pupils, parents and teachers.

cúrsa.me

Cursa.me is a platform that connects the pupils, parents, teachers and management of any one institution, permitting and facilitating greater interaction and strengthening the teaching-learning process, thus improving the quality of education.



"School Control" is a communication platform for schools where teachers, students and their families can consult school information and follow closely the academic performance of any one student.



Educabilia is a platform where students can find the best courses, classes and workshops, both offline and online, offered in their area.





[Qranio](#) is an online learning platform where users can test their knowledge in exchange for various physical prizes.



A [Platform](#) for vehicle sharing which builds trust among its community of users.



[ProRadis](#) develops tailor-made software solutions for the management and operation of radiology clinics, making these laboratories more accessible to an ever expanding public.



[TedCas](#) is a system which implements the use of the Xbox Kinect technology to manage medical information in an operating theatre through movement and voice sensitive interfaces, without compromising the sterilisation of the medical team or their equipment.



[Ikenga](#): This app provides a fun and easy way of helping people to define and fulfil their financial goals, be they finding financial freedom, saving to start a business, reducing debt etc.



[Online market](#) for regional farm produce, which encourages local consumption.



[TrashOut](#) is an environmental project whose goal is to locate fly-tipping sites around the world.



A [platform](#) which markets used baby clothes, promoting reuse and a circular economy.





A platform where actions, not money, are donated. Positive environmental habits are promoted which, when adopted by many individuals, make a big difference. Aimed at businesses and their employees, users can make their contributions to the environment public, such as using videoconferencing or cycling to work. This can generate friendly competition and motivate and bond teams.



Software which converts *smart glasses* into a tool that enables visually-impaired people to learn more about their surroundings.



A fast and simple tracking tool which allows diabetes sufferers to manage their own sugar levels and connect with health teams.



A market place for people with hearing difficulties, which enables real time connection with interpreters and sign language professionals through smartphones.



An application based on pictograms which facilitates communication for those people who, as a result of disability, accident, illness or psychological problems, have problems communicating.

iDisabled

An application which allows people with reduced mobility to notify local authorities about sections of cities that are not accessible to them.



Scienceful.com is an online learning platform which provides exam revision material and content for secondary school and pre-university students.



The Future Techies project was created in order to achieve digital inclusion for everyone, exploring widely accessible 21st century technology from new innovative points of view.



IRISBOND

PRECISE PRECISION

A [system](#) which allows people with mobility and language issues to be able to control a computer with total precision using just the movement of their eyes.

BLUEWAY

A mobile indoor navigation [system](#) for people with visual or cognitive disability.

Renal Help

A web [platform](#) and mobile application to help patients of chronic kidney disease and their families to better cope with the illness. It also connects patients with their healthcare providers.

Taleology

Health Specialist

A [service](#) which provides sufferers of chronic diseases with mobile technology specific to their condition, in the form of biosensory medical devices, which allow them to actively control and track their illness.

ShowLeap

Traduciendo voz a los móviles

A [solution](#) aimed at people with hearing impairments which interprets sign language and reproduces it orally, and vice-versa.

Lazzus

An [application](#) which uses *smart glasses* and mobile devices to help people with sight problems get real time information on points of interest in their immediate vicinity.

SIAR

[Technology](#) that is capable of creating intelligent homes and providing care robots for dependent persons and their families.

JOB^CCOMMODATION

A [service](#) that uses the knowledge of its disabled users to help businesses design their products in a manner which makes them accessible to as many people as possible.

ARG APPS

An [application](#) which connects the families of people with brain damage with contact networks and useful services.





Sustainable *innovation*

At Telefónica, we understand Sustainable Innovation to be the creation and backing of new, innovative ideas (products, services, and models) that address current social needs, such as demographic change, the financial crisis, environmental degradation and poverty, and, at the same time, create new relationships and collaborations between different agents and institutions.

To develop the Sustainable Innovation process, at Telefónica we can count on actors such as:

- ⇒ The **Commercial Digital area (CCDO)**, in which all the R&D&i processes of the Group are developed.
- ⇒ **Telefónica Open Future (TOF)**, the platform that integrates all the entrepreneurial and financial initiatives in the Group.

- ⇒ **Fundación Telefónica**, a channel for social and cultural action at Telefónica in Europe and Latin America.

The aim of the legal framework present within Europe and Latin America is to construct a digital economy that promotes an e-Society, fostering a favourable environment for Sustainable Innovation. All the initiatives along this line must be standardised both within the Company, with initiatives coordinated between the CCDO, TOF and the Fundación, and on an external level, with sustainable partnerships with actors such as industry, government and multilateral organisations.

Being a Digital Telco implies bringing the advantages of technology closer to the people and ensuring that achieving access to services for all our customers is a permanent goal.



Telefónica Accesible is our pledge to developing solutions that make people's lives easier and favours the elimination of a wide range of obstacles that could affect them.

Our management approach means incorporating the "Design for Everyone" concept into all the distinct links in the Company's value chain.

"Design for Everyone" seeks to ensure that the greatest number of people possible can make use of environments, products, services and systems. It is a model based upon human diversity, social inclusion and equality.

Innovation and technology are at the centre of the social agenda, as the characteristics of our environment create important challenges in which innovation and the use of technology can play a key role, offering answers to such relevant questions as the progressively ageing population, the need to uncouple economic growth and the level of resource consumption, environmental conservation, the increase in unemployment and the growing inequality in access to resources within the population.

Aware of the potential social impact of our ability to offer solutions to these future challenges, at Telefónica we have spent years developing a wide array of sustainable and innovative products and services with the goal of minimising the digital divide in the regions where we operate.

At Telefónica we have spent years developing a wide range of sustainable products and services in order to reduce the digital gap in the regions where we operate

To do so, we have focused on developing sustainable and innovative products, services and business models in areas such as disability and dependence, education, health, finance, entrepreneurship and remote and impoverished populations.

Technological innovation in the face of the environmental challenge deploys its potential by means of the introduction of digital technology in the economic sectors, generating very significant energy savings. The transversal and facilitating character of technology allows for and makes it possible to greatly improve efficiency in all sectors of activity, preparing them for a better and more efficient use of resources and, consequently, for a reduction in energy needs and a reduction in greenhouse gas emissions. In turn, this can prompt social change encouraging habits and customs that are energetically efficient and environmentally respectful.

Materiality

The materiality analysis process that we carry out annually enables us to identify issues of particular importance in terms of their impact on Company strategy and of their relevance to our stakeholders, which helps in the establishing of priorities and courses of action.

Every year at Telefónica we carry out a materiality analysis process in order to identify those issues which require special attention for the sustainability of the Company.

Among other aspects, we have based our analysis on the materiality analysis designed by the Global e-Sustainability Initiative (GeSI) in November 2014, which is specifically for the whole value chain of the ICT hypersector. As can be seen via [this link](#), the GeSI analysis preselects 55 potentially material issues, divided into eight categories: digital inclusion, employees, climate change, supply chain, customers, privacy, governance and impact on communities.

At Telefónica we called upon all the stakeholders related to the Company to help us preselect the 55 material issues which have a key impact on our activity. The stakeholders who have collaborated on the project are: Alcatel-Lucent, Amdocs, AT&T, Bell, Bkash, Bolo Phi, Bosch, BSR, BT, Calvert, Deutsche Telekom, Ericsson, ETNO, Everything Everywhere, Forum for the Future, GeSI, Green Electronics Council, Greenpeace, GSMA, HP, Huawei, Institute for Public and Environmental Affairs (IPE), Institute of Contemporary Observation (ICO), ITU, KPN, Nokia, OTE, SACOM, SAM Robeco, SASB, Seagate Technology, Skyworks Solutions

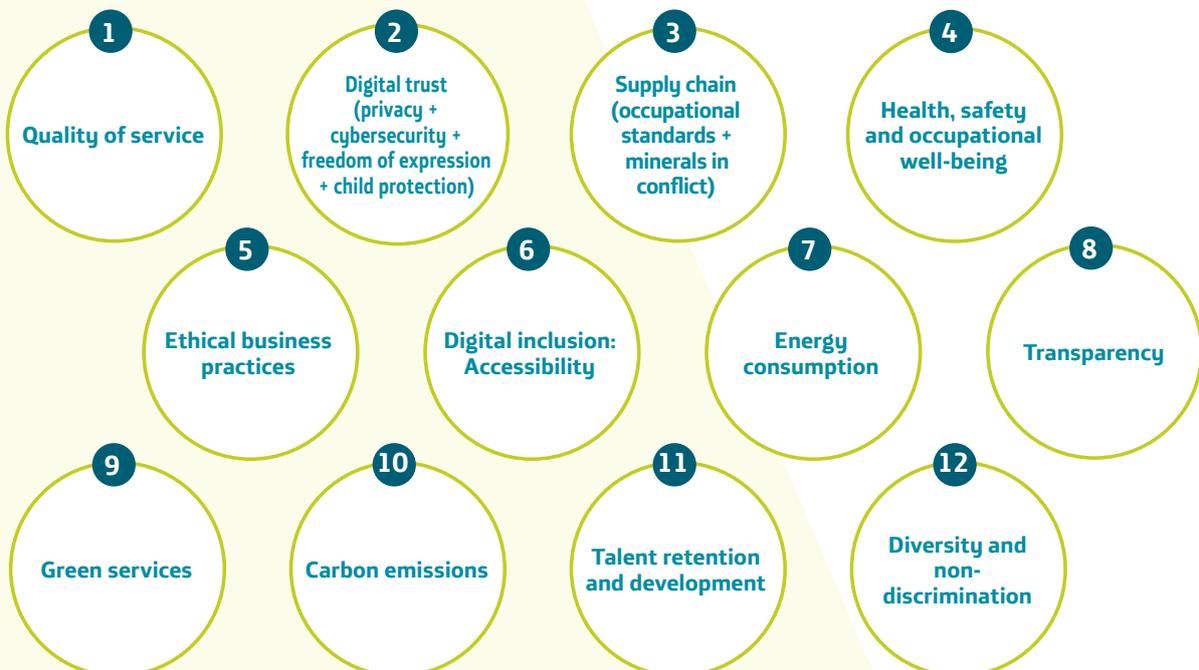
Inc., Solving the e-Waste Problem (StEP), Sony Mobile, Sprint, Swisscom, TDC Group, Telecom Italia, Telefónica, Telenor, TeliaSonera, Telstra, The Consultative Group to Assist the Poor (CGAP), The Energy and Resources Institute (TERI), The Sustainability Consortium, United Nations University, Verizon, VimpelCom, Vodafone, World Resources Forum and WWF.

The results of the external and internal analysis enable us to establish the level of total importance of the material issues for Telefónica, as shown below, to group them according to field - financial, environmental or social - and present them graphically in the matrices which can be seen on the page to the right.

All these issues are material within the organisation. With regard to the scope of the information on external issues, please see the chapter on '[Structure and scope of consolidation](#)' in the Sustainability Report. To learn more about the variations in material relevance by location, please refer to the online version of this Report, where the different materiality tables are available to select and consult according to country.

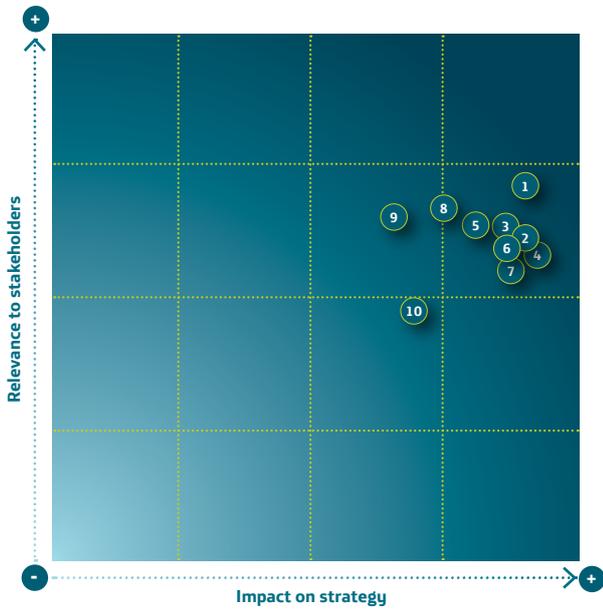
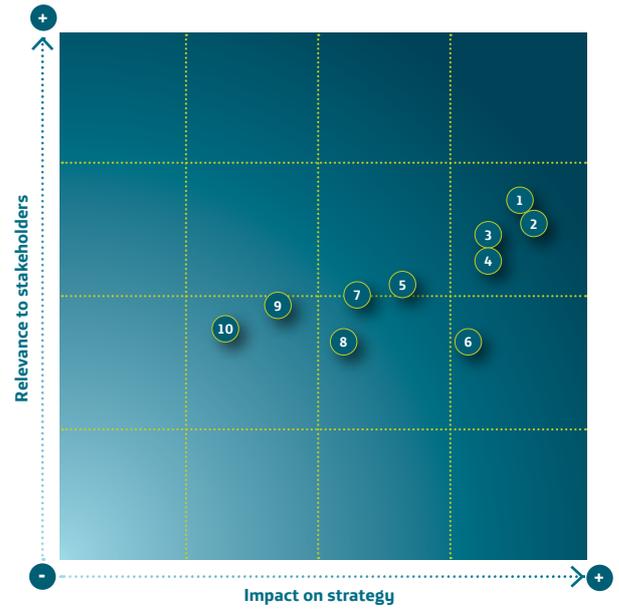
Main material issues for Telefónica

The thorough analysis revealed information which is key to a company in which the interconnection between environmental, social and economic factors is increasingly intense, and concluded that the most important aspects are:



Economic Affairs Matrix

1. Quality of service
2. Data security
3. Ethical business practice
4. Transparency
5. Tax contributions
6. Public policy and relations with public bodies
7. Impact on communities
8. Impact on customers' lifestyles
9. Innovation
10. Corporate governance

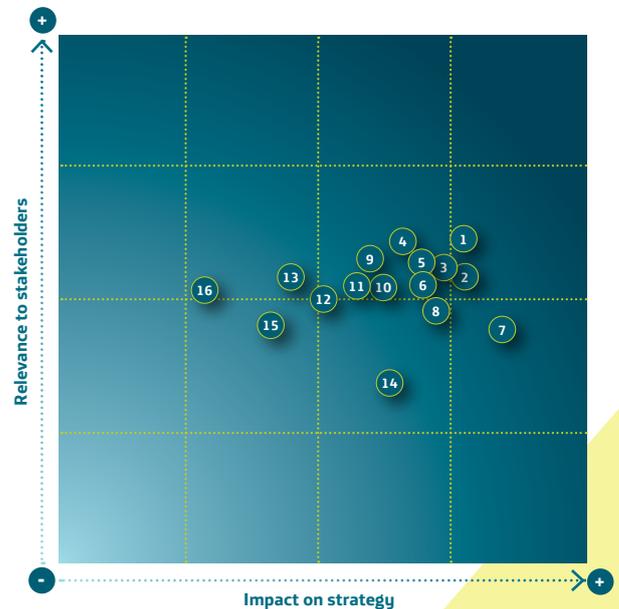


Social Affairs Matrix

1. Privacy
2. Online cybersecurity
3. Occupational standards in the supply chain
4. Freedom of expression
5. Child protection
6. Health, safety and occupational well-being
7. Accessibility
8. Minerals in conflict
9. Talent acquisition and development
10. Diversity

Environmental Affairs Matrix

1. Energy consumption
2. Green and Smart services
3. Carbon emissions
4. Reuse and recycling of devices
5. Waste electrical and electronic equipment (WEEE)
6. Electromagnetic fields in networks
7. Responsible network roll-out
8. Infrastructure sharing
9. Environmental management systems
10. Environment and climate change
11. Electromagnetic fields in devices
12. Adaptation to climate change
13. Water
14. Fluorinated gases
15. Renewable energy
16. Paper



Public positioning *and transparency*

The time has come to accept a global, hyper-connected and intelligent world, where the boundaries between the real and the digital economy are becoming ever more increasingly blurred. At Telefónica we are working to build a digital society for all.



We are immersed in a global, hyper-connected and intelligent world, in which geographical borders are becoming blurred, affecting our way of working, our leisure time, even the way we relate to other people, and soon will affect the way we relate to objects, through the Internet of Things (IoT). At Telefónica we are on the one hand becoming a Digital Telco, leading this industrial change of which we are a part and, on the other, actively contributing towards the sustainable, safe construction of this new digital society with the aim of offering all the possibilities of technology to our customers and users.

A NEW DIGITAL ENVIRONMENT

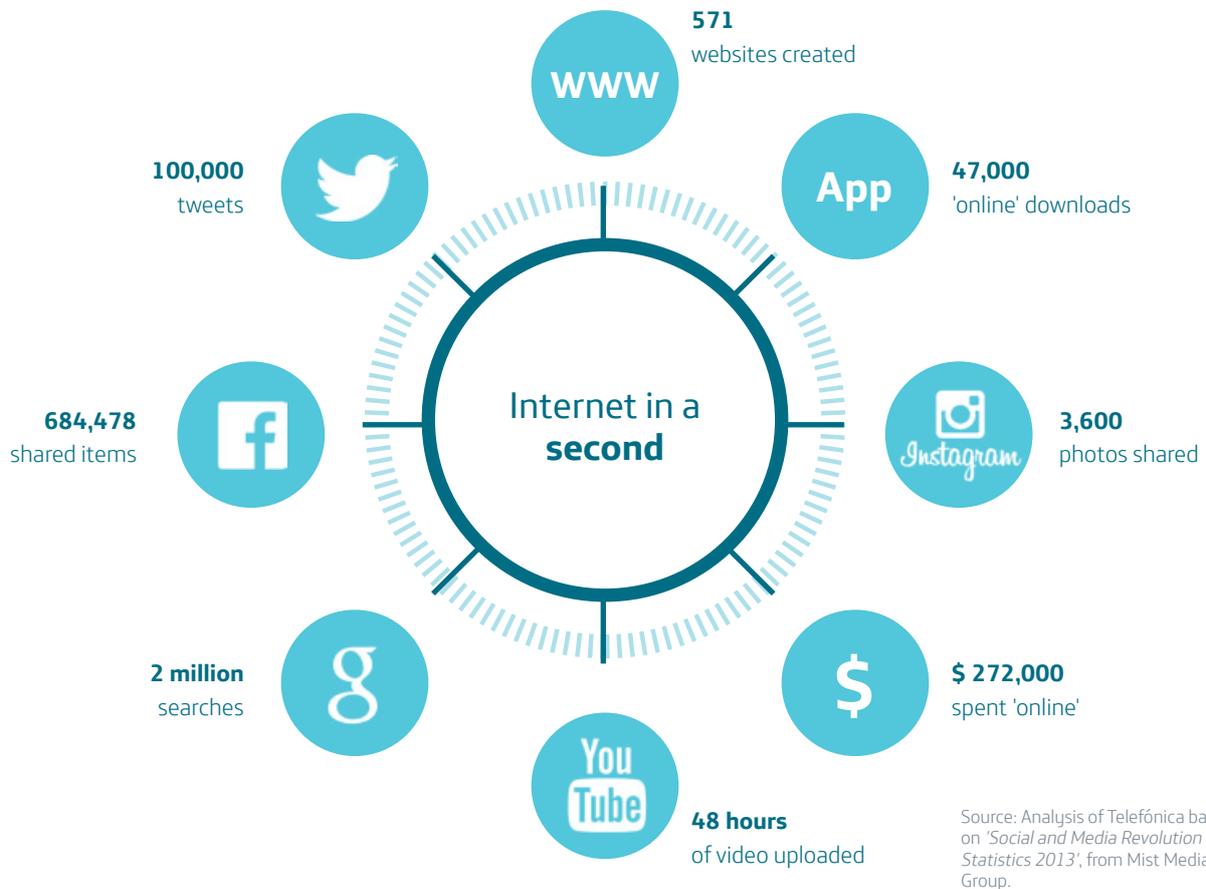
These days there is no longer a distinction between the digital economy and the real economy; the entire economy is digital. This process of the **digitisation of the economy** will have a huge impact on GDP growth, and also employment. No country can allow itself the luxury of missing the train that is this revolution, because it would mean lagging behind economically, in addition to falling behind in the battle for innovation. According to several international studies, an increase of 10 points in the digitisation of the economy leads to an increase of 0.76% in the per capita GDP⁽¹⁾. No one can ignore this tremendous opportunity; we have to seize it.

In this new environment, telecommunications play an absolutely essential role in the digitisation of the economy, as without connectivity, the services offered and the technological innovation generated, such digitisation would be impossible.

Advances in connectivity in the global environment will soon reach an outstanding milestone; the number of mobile connections will exceed for the first time the number of people. However, the penetration of smartphones and mobile broadband, the main driving forces behind future growth, have a long road ahead. In fact, the Internet of Things has enormous potential. In the year 2000, there were 200 million "connected things"; this figure has increased to 10,000 million today. However it is estimated that 99% of physical objects are not yet connected, and it is expected that by 2020 there will be over 50,000 million "connected things".

This explosion in connectivity and the unstoppable development of new digital services implies inexorable disruptive changes to the productive model with the development of Big Data, Cloud Computing, or even 3D printers, which make re-invention and transformation possible in multiple sectors, in addition to the appearance of new innovative business models. Financial, insurance,

(1). 'Using a Digitization Index to measure the Economic and Social Impact of Digital Agendas' (page 23). R. Katz. Columbia Institute of Teleinformation. 21 March 2013



At Telefónica we want to provide our customers with a safe, open way to enjoy all the possibilities that technology offers

The developing technologies, the reduction of technological cycles and the speed of the changes that all this is creating is telling us that we must be prepared for transformations which are even deeper and more radical. The Digital Revolution has just begun. We are only seeing the tip of the iceberg of what awaits us in the not too distant future.

health, education, advertising and content services, as well as those of public administrations, are some of the sectors that are increasing their efficiency and effectiveness, opening new business opportunities in this new digital world. At Telefónica, we want to offer all the possibilities of technology to our customers in an open, safe way.

THE TELEFÓNICA DIGITAL MANIFESTO

At Telefónica, as a **Digital Telco**, we are prepared to lead and drive this process of digital transformation, ensuring a safe, friendly environment for our customers. Technology places in our grasp unimaginable possibilities, and could improve our lives in a thousand ways. For that reason we want to be players in this new ecosystem, and put at the disposal of our customers the best that technology can offer so that everyone can enjoy this fascinating world. And it is for that reason that we believe that the experience in this new digital world for all citizens, and in particular for our customers, must be better. It must be safer and more open.

Concepts such as **the Industrial Internet**, which combines the global industrial system with the power of advanced computing, low cost sensors and new levels of connectivity which broadband and the Internet make possible are also opening the way towards a new industrial model.

In 2013 we published, in various languages, our **Digital Manifesto**, to defend an open and safe experience for all on the Internet (see the Annual Report 2013).



Telefónica has presented the essence and recommendations of the Digital Manifesto at diverse key international forums, both on a global and on a regional scale

In this Digital Manifesto we highlight the challenges facing us now and in the near future, and propose ten essential recommendations for public policy, which, if followed, would ensure the success of this combined transformation in telecommunications and our society, guaranteeing an open, safe Internet experience for all users.

Accordingly, Telefónica has presented the essence and recommendations of the Digital Manifesto at diverse key international forums, on global, regional and national scales, wherever it has a presence. It has also held specific meetings with national delegations and administrations, with the aim of sharing the Company's vision regarding the new digital environment and the actions which must be taken to ensure the best future for society as a whole. Telefónica wants to provide the best of the digital world to its customers in a way that is open and safe for them.

In order to spread this information, various initiatives have been carried out in the area of communication. In March 2014 a website dedicated to the [Digital Manifesto](#) was launched, on which the most relevant Company initiatives in answer to the challenges identified in building an open, safe digital society, are highlighted through the presentation of practical cases and supporting videos. Similarly, a [specific video](#) has been made, containing the main messages from the Manifesto in various languages.

The public positioning of the Company is transmitted through the [Public Policy](#) blog, in which members of the Company actively contribute to the public policy debates related to the new digital environment (blog supported by social network channels) and, in particular, through the Twitter account @tefpublicpolicy.

The construction of the new digital environment is moving ahead rapidly, but today there are still numerous challenges and actions required in order to design a successful digital future for society. These challenges can be grouped into three areas: access to the digital environment, digital expansion and digital trust. Telefónica will continue to work on these concepts in the coming months, with the aim of contributing towards and ensuring the best experience for its customers in the new digital environment.

Today, the privacy and security of our customers continue to be the fundamental points in our public positioning. Telefónica has listened to its customers, and, in response to their requests, continues to defend an open experience on the Internet, where the portability of the digital life of



At Telefónica we are championing digital neutrality: a level playing field for all companies participating in the digital ecosystem



citizens, the capacity to be able to move data, applications and content between platforms, in order not to limit the digital experience of citizens, together with the capacity to ensure the possibility of customer choice, have become the main thrust of our defence to ensure a better Internet experience.

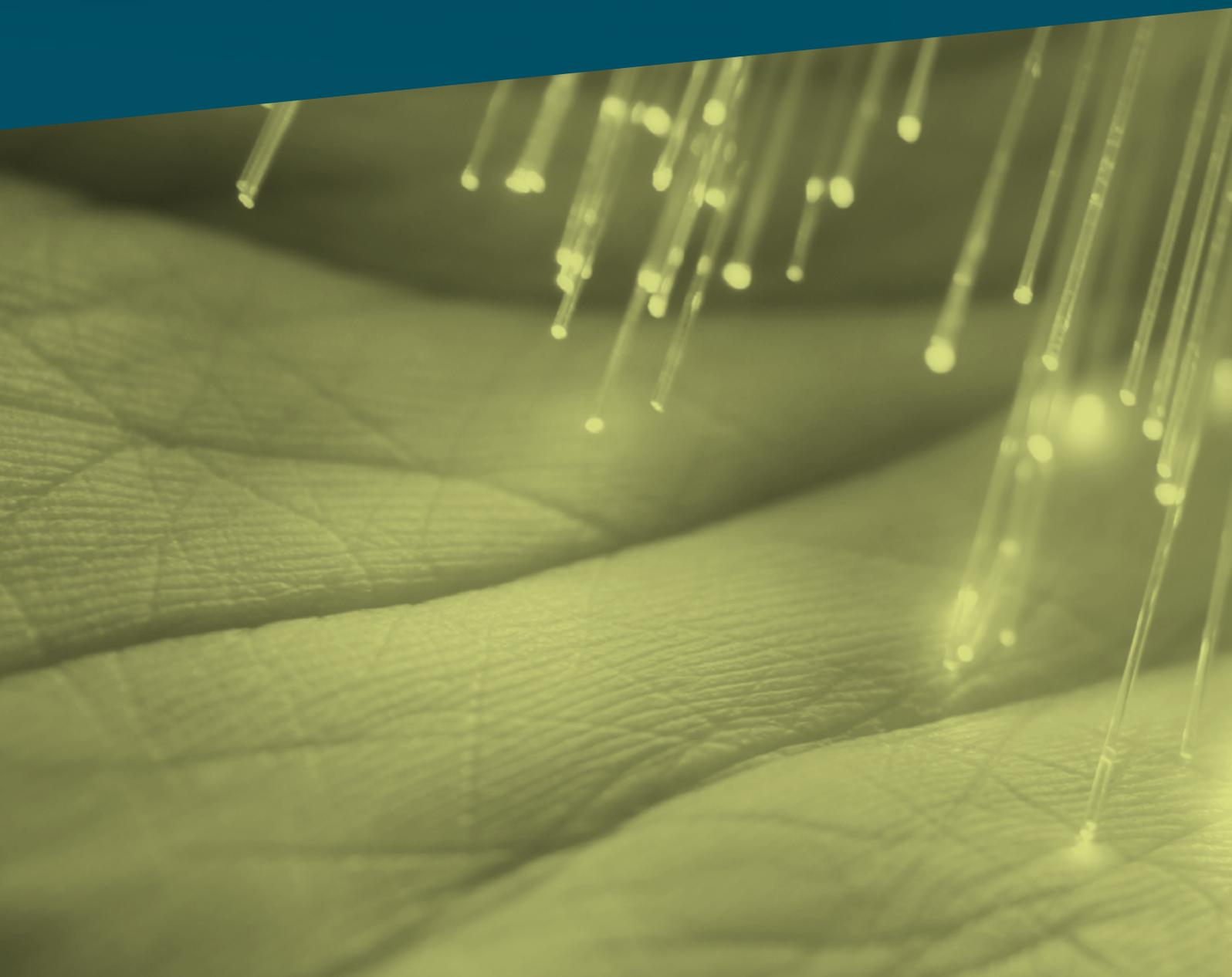
In terms of public policies, these challenges translate into the **need to adapt the rules to the new digital environment**, with the aim of constructing the digital ecosystem adequately and in a sustainable and open way, respecting innovation, the rapid evolution of the sector, and the transnational and global nature of new businesses in the digital environment.

In the same way, Telefónica defends the position that for the balanced development of this digital revolution, balance is needed along the entire Internet value chain, as well as a **level playing field** for all those agents taking part. The current inequalities in the application of sectoral standards,

whether for privacy, security or consumer protection, are working against the experience of the user and the development of innovation, as well as against investment. The concept of "same service - same rules" must be extended and applied throughout the entire value chain. Telefónica champions digital neutrality, a level playing field for all companies participating in the digital ecosystem, which will also guarantee a better Internet experience for all citizens by opening up the possibilities of technology to the whole world. Furthermore, the portability of digital life between platforms and the interoperability of networks and ecosystems will be guaranteed.

Telefónica is working and will continue to work along these lines to provide maximum satisfaction for its customers and offer them the best digital experience in a new environment full of possibilities, thanks to technology.

3. We create value for our stakeholders



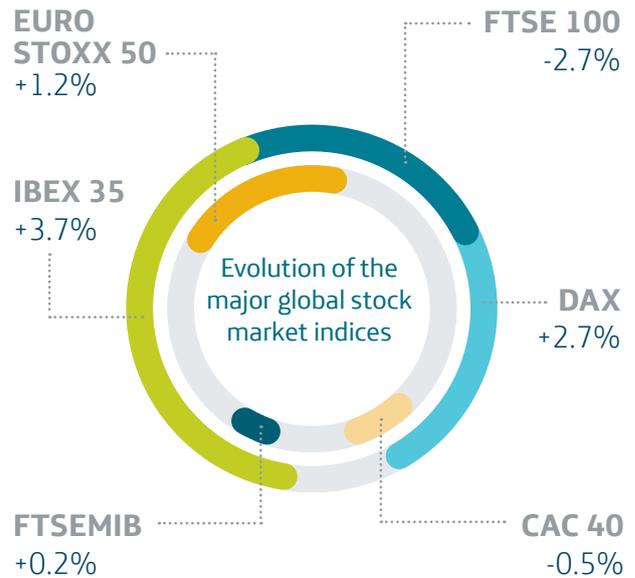


For our *shareholders*

The majority of the world's stock exchanges closed 2014 with gains. It was a positive year for the major stock market indices, and especially for the European telecommunications sector.

The stimulus for these increases has arisen from the gradual recovery of the economic cycle in the US and the expectations of investors that the central banks (the US Federal Reserve and the European Central Bank) were going to maintain or initiate new economic stimulus plans. This, ultimately, means the injection of new money into the economy.

The main index of the Spanish market, the IBEX 35, ended 2014 with a revaluation of 3.7%, well above the 2.2% achieved by the German DAX or the loss of half a point which the French CAC 40 experienced. The positive evolution of the Spanish continuous market is a reflection of the improvement in the macroeconomic expectations of the country and the recovery of international investor confidence. A test of this confidence was the behaviour of the risk premium, which closed on 104.8 basis points with a yield of 1.5 %, compared to 218.3 basis points and a yield of 4.1 % at the end of 2013.



Share emitted by the Telefónica Company on 17 January 1927.

Telefónica ended the year among the top ten telecommunications companies in terms of market capitalisation: **55,514** million euros at the end of 2014



THE TELECOMMUNICATIONS SECTOR

The European telecommunications sector recorded a profit of 7.5%, which was 3.1 percentage points more than the index that reflects the activity of the main companies in Europe, the DJ Stoxx 600, which closed with an increase of 4.4%.

The impetus for investment in technology securities has been supported by:

- ⇒ Intense activity in corporate operations of consolidation in different markets.
- ⇒ Fundamental business improvements, aided by the improved macroeconomic situation: the main positive effects resulting from the technological transformation which have enabled companies to profit from fibre and mobile data.
- ⇒ Expectations for a more favourable regulatory scenario for investment by the new European Commission.
- ⇒ High dividend yield.
- ⇒ Attractive valuation.

In this context, Telefónica shares experienced a revaluation of 0.7%, rising to 11.92 euros. This, coupled with the Company dividend distribution policy, generated a total shareholder return of 7%.

This evolution can be explained by the effective execution of the transformation strategy that Telefónica implemented in order to become a Digital Telco; by the improvement in competitive positioning, thanks to consolidation in the major markets; and by the gradual improvement in results trends, which has offset the negative impact of foreign currencies, mainly in Latin America.

Telefónica ended the year among the top ten companies in the global telecommunications sector in terms of market

capitalisation: 55,514 million euros by the end of 2014. The average volume of daily trading in the Spanish continuous market was 33.6 million shares.

The remaining companies in the European sector experienced a mixed performance. Corporate mergers and acquisitions have benefited some of the firms which began the year with lower-than-average valuations for the sector.

According to the information obtained from the Securities, Recording, Clearing and Settlement Systems Management Company (Iberclear), in April 2015, the number of Telefónica shareholders, according to individualised records of both natural and legal persons, amounted to 1,339,248.

SHAREHOLDERS' OFFICE

Telefónica ensures smooth and transparent communication with their individual shareholders via the Shareholders' Office, providing the same information, at the same time and in the same format, as for institutional shareholders. At the end of 2014, more than 200,000 shareholders were registered with the Shareholder Service, and receive the Shareholder Card which identifies them as such. The Company distributes to all of them the quarterly magazine *Acción Telefónica*, a publication that contains financial news reports and information on the exclusive campaigns that can be accessed. In 2014, around 600,000 copies were sent to shareholders.

Telefónica's Shareholders' Office operates a freephone information line (900 111 004), from which it handled a total of 52,958 calls in 2014, with a monthly average of 4,413. In the period coinciding with the General Meeting of Shareholders call volume increased, reaching a total of 16,632 calls per month. In addition, the Shareholders' Office handled 2,121 queries received via email (accion.telefonica@telefonica.com) and by post.

For our customers

At Telefónica we know that connectivity is a key factor in consumers' digital experience. This is why we aim to provide the best digital solutions, so that they can get more out of it.



The growing importance of the cloud as a centre of operations and connections between terminals and services has presented a great opportunity for our Company. It enables us to provide omnipresent connectivity, and also ICT and video service packages. Our objectives in this context are:

- ⇒ To be a trusted partner for our customers in this new digital era, for both individuals and companies.
- ⇒ To generate a sustainable growth in revenue for Telefónica in the short, medium and long term. To this end, we are promoting initiatives in five key areas for Telefónica:
 - Residential consumers: connectivity and new digital services.
 - Video services.
 - Communication services and new digital services for businesses: corporations, SMEs, multinationals and public administrations.
 - New Communication and Innovation Services. Our commitment to innovation is aimed at positioning our Company and our customers at the forefront of the next generation of communication and digital services.

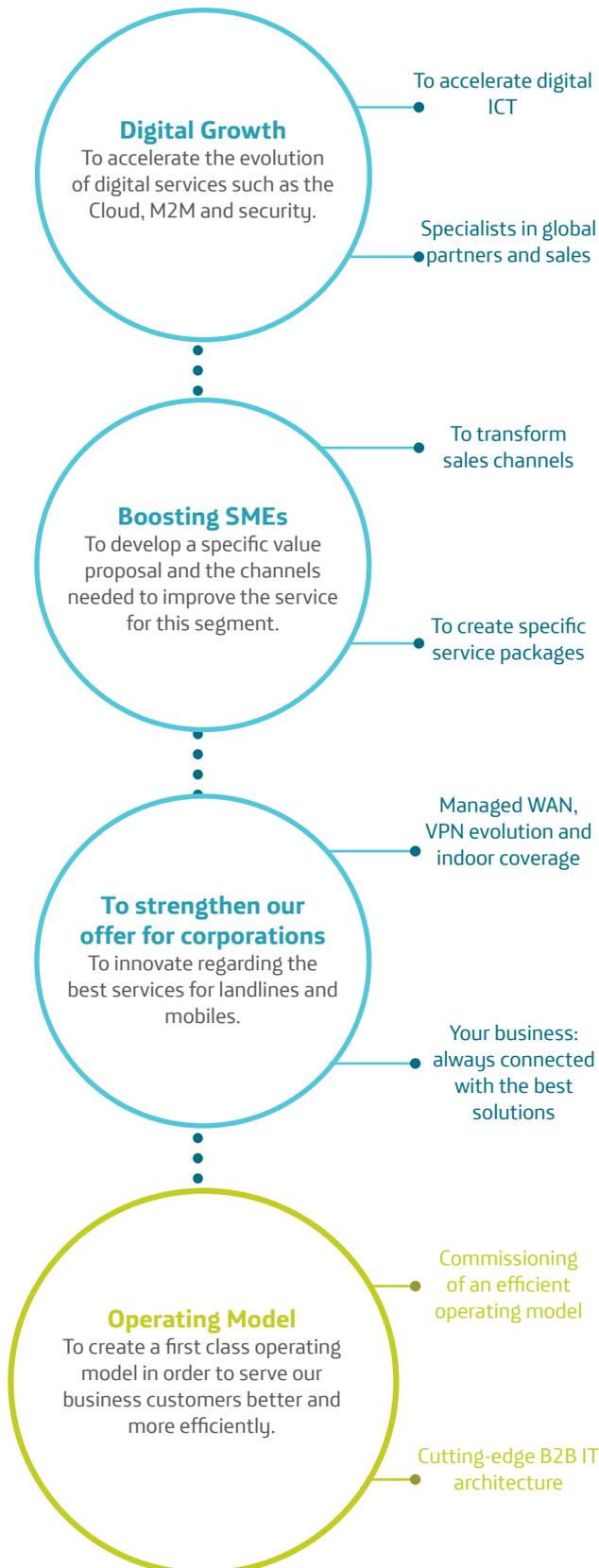
Residential consumers

Our approach



- We aim to get to know our customers better so that we can provide them with a service which is increasingly customised and differentiated.

Priorities for the global Company



CUSTOMER BASE

In 2014, the total number of accesses rose by 6% to 341 million. This increase was made possible as a result of the incorporation of the company E-Plus into Telefónica Deutschland, and the solid growth which Telefónica achieved in Latin America and the UK. Excluding E-Plus from 2014 results, and Telefónica Czech Republic and Telefónica Ireland from 2013 results, then organic growth would sit at 2%.



Telefónica is reaping the benefit from the business effort that it has focused on high value customers. This is reflected in the activity recorded in the last quarter of 2014, in which we achieved sustained growth in smartphone contracts connected to television services, as well as an increase in new fibre and Pay TV contracts.

The *churn* (the total rate of customers who have terminated their contracts) amounts to 2.9 %, which remained practically without change in its year-on-year comparison, since it barely increased by 0.1 p.p.

By business line:

- Mobiles**
274.5 million.
 8% more than in 2013.
 Smartphones: 90.4 million.
 39% more than in 2013.
 35% penetration (up 8 p.p. on last year).
- Retail Broadband**
17.7 million accesses.
 1% organic year-on-year growth.
 138,000 net new accesses in 2014.
- Fibre**
1.8 million accesses.
 2.1 times more than in 2013.
- Pay TV**
5.1 million accesses.
 48% more than in 2013.
 1.6 million accesses (net annual profit).
 6 times more new net accesses than in 2013.

 2014 MILESTONES



Always connected

- The launch of price plans and initiatives aimed at increasing the use of data services for pay-as-you-go customers.
- The launch of services for the purchase of additional data on top of the agreed quota.

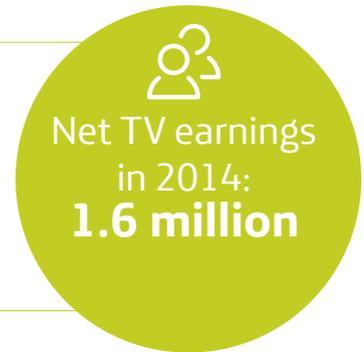


Your digital life and you

- Global agreements with technology and banking industry customers (Napster, McAfee, Evernote). The launch of Yaap Shopping and Yaap Money.



- **The launch of new content in Spain** (Movistar Series, Energía...)
- **High definition plan for Latin America**
- **The launch of Telefónica Studios**, with products such as the films 'Torrente V' and 'Relatos salvajes'...



Digital services

- New security services and implementation of new SOC's in Latin America.
- The launch of virtual Data Centres in Latin America and Data Centre Brazil made available for customers.
- Implementation of the Smart M2M platform and development of vertical solutions for fleet management, energy efficiency, smart cities, and so on.



Boosting SMEs

- The launch of an integrated connectivity and ICT services offer in Spain, Germany and the UK.



The latest communication services:

- TU Go: phone via WIFI using your own phone number and from all devices in Argentina.
- The launch of the new Firefox Hello product.



- The implementation of BI platforms globally.
- Acceleration of Smart Steps in the UK, Spain and Brazil.
- New external money-making product in the UK.

★ CHALLENGES FOR 2015



Always connected

- To increase the use of data services by pay-as-you-go customers, especially in Latin America.
- To strengthen services for the purchase of additional data on top of the agreed quota.
- To offer customers the option of connecting several different devices.



Your devices and you

- Increase smartphones and 4G.
- Include tablets in our offer.



Your digital life and you

- Make new strategic deals in order to provide additional digital services.



- To increase the portfolio of high-value customers
- To greatly increase the spread of multi-functional devices
- To increase the offer of differentiated content in Spain



Digital Services

- To execute a Global Cloud plan for businesses.
- To accelerate vertical M2M solutions.
- To strengthen the portfolio of security services and products.



Boosting SMEs

- To launch an integrated offer of connectivity and ICT services in Latin America.
- To strengthen the sales channels throughout our footprint.



- To boost the number of TU Go users, and launch it in the rest of Latin America.
- To boost the numbers of Firefox Hello users.



- To improve BI projects and implement Advanced Analytics projects.
- To expand Smart Steps.
- To launch a talent plan so as to recruit new capabilities.

For our *employees*

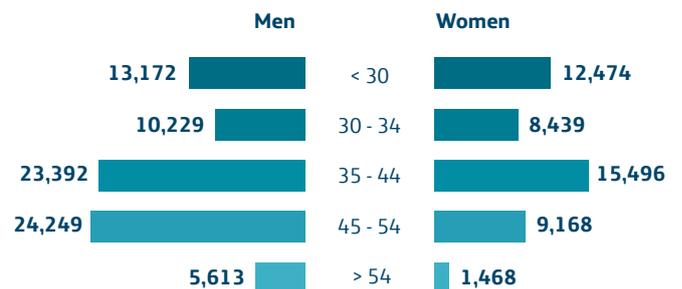
To maximise performance in the digital transformation, we need to be able to count on the best team of professionals. Therefore, good management that fosters a deep involvement from the teams is essential, as is an understanding that every role is important in reaching goals.



At Telefónica we know that the key to our transformation and leadership is having the best team of professionals. As well as taking on the best profiles, we have developed a form of management that maximises their expertise and our results. This is achieved by involving the team in the Company's digital transformation, sharing principles about how to do things and understanding that everyone plays an important role in attaining the entire organisation's objective of achieving long-term success and sustainability.

Age of the workforce

Number of employees





To this end, people management in Telefónica is based on four fundamental pillars that support the strategic transformation programme, **Be More**:

1. HAVE THE BEST HUMAN RESOURCES

At the end of 2014, Telefónica had 123,700 employees, with an average age of 39, and fewer than 1% of whom were managers. The workforce has decreased (including E-Plus) by 2.4% compared with the previous year due to the drive for simplification and the organisation's efficiency. The aim is to maintain the innovative capacity of Telefónica in spite of the difficult environment surrounding the sector.

We have 101 different nationalities in the Telefónica Group's team of workers. Latin America continues to account for the largest percentage of the workforce.

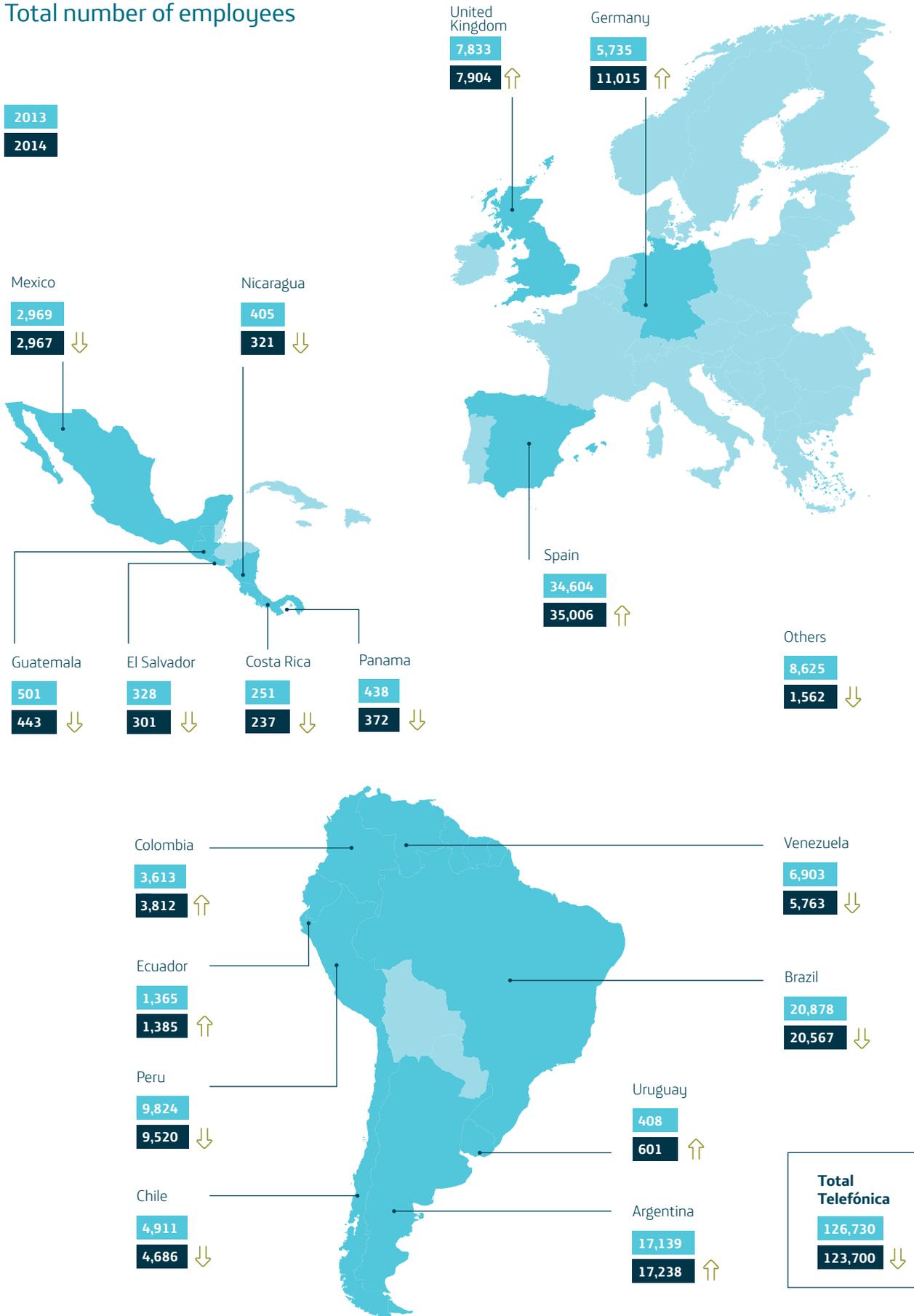
Spain is the country that has the most employees, with 35,006, followed by Brazil with 20,567, Argentina with 17,238 and Germany with 11,015 (including E-Plus).

95% of our personnel have indefinite employment contracts, which demonstrates our backing of sustainable employment policies.

The presence of women in the workforce stands at 38%. Meanwhile, the number of managers in 2014 remained at 21% of the total, a figure that in the past four years has increased by over 1.5 percentage points.

In line with our commitment to conciliation with our workers, we are encouraging the formalisation of teleworking contracts, which in 2014 amounted to 7,048.

Total number of employees



2. DESIGN A SIMPLER ORGANISATION

At Telefónica, we have unified all the existing corporate centres of the Company. The new structure and model of governance introduced led to a reduction in the time needed to make decisions on global initiatives and projects, and brought various local operations closer to the Company's decision centres.

3. BE MORE: SUITABLE COMPANY CULTURE

In 2014 we continued to focus our efforts on conveying to the entire organisation the need for transformation and therefore guaranteeing the commitment and alignment of employees to the global transformation programme, Be More. As a result of the above, over 78% of our employees are aware of the transformation programme and believe that it is driving the transformation of the Company. Meanwhile, the level of commitment increased for another year, reaching 79% (+1 p.p.).

4. PROMOTING TALENT

At Telefónica we continue to drive the transformation of the Company with the aim of advancing in the challenge of consolidating ourselves as a Digital Telco. Therefore, we are focusing on attracting and developing the desired leaders and professionals and maintaining high levels of commitment and energy throughout the team, as well as reinforcing the globalisation of Company management through three worldwide coordination hubs: Madrid, London and São Paulo.



BEST PRACTICE EXTERNAL RECOGNITION

- In 2014 Telefónica again occupied notable positions on the lists of the best places to work, which are produced by the Great Place to Work® (GPTW) institute, an internationally recognised organisation with over 25 years' experience in the analysis and assessment of workplaces. In preparing its rankings, the institute performs surveys of the work environment among employees, and analyses the practices and policies of personnel management in companies.
- Being among the 20 best multinationals in the world to work for (14th place) for the fourth consecutive year is, without a doubt, a privilege, but is also a challenge for Telefónica: to prove every day that we deserve this recognition.

A light green circle containing a person icon at the top. Below the icon, the text reads: 'The average age of the staff is 39 and fewer than 1% are managers'. The number '39' is significantly larger than the other text.

- In addition, Telefónica figures among the top 15 companies in the 'Best Companies for Leadership' global ranking by Fortune magazine. This year 2,100 organisations from 115 countries took part in the study.

Training time for employees

Data for 2014	Total	Spain	United Kingdom	Germany	Brazil	LatAm (excl. Brazil)
Number of training hours	3,519,877	2,255,150	89,631	180,707	209,879	727,573

For society: *the planet and the community*

At Telefónica we understand corporate sustainability as a business focus which strives towards the long-term creation of value for shareholders by taking advantage of opportunities and effectively managing risks inherent to economic, environmental and social development.

The Telefónica sustainability strategy is embedded within the entire business model, as it is a source of competitiveness and progress due to its capacity to create value from all non-financial capital in the Company: in the markets because it reduces the risk premium; for the customers because it increases the value of the brand and its differentiation; for employee loyalty levels because it guarantees a stable Company project; and for society, strengthening the legitimacy to operate and allowing sustainable development of the communities where we are present, from which we obtain our resources and generate our revenue.

SUSTAINABILITY MANAGEMENT AT TELEFÓNICA

Our vision is for technology to be within everybody's reach, so that we can do more, live better and be more. This means that the Company has resolved to contribute towards ensuring that the use of technology and technological innovation has a positive impact on the development of society, well-being, communication, accessibility and the protection of the environment.

Our customers want simpler, quality products that make their lives easier; and above all else they value our transparency and integrity in our dealings with them. They also value the innovation and security that we offer through the services we provide, as well as the way we collect and handle their personal data. Our investors demand that we follow a sustainability policy which guarantees our long-term profitability. And, finally, the societies in which we operate ask that we not only act as a responsible company, but also that we make a contribution towards the social and economic development in the communities we are part of.

In order to respond to our main stakeholders' expectations in matters of CSR, the objectives of economic, social, and environmental sustainability are being continually incorporated into the Company's business objectives and processes.

LINES OF PROGRESS IN 2014

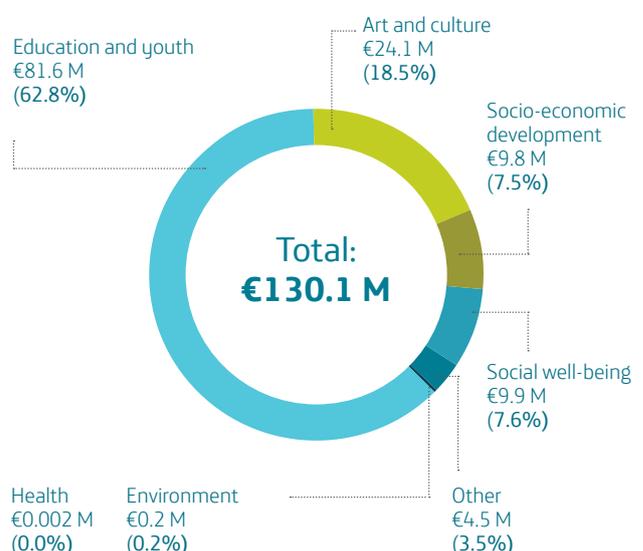
Economic impact

We have developed a set of Business Principles in matters of tax compliance based on which we promise to act with the greatest transparency in the management of fiscal affairs. These principles are public and can be seen on our website.

In relation to the code of ethics, in 2014 we developed a compulsory online course for all employees, which in only seven months has reached 42.5% of the workforce. With respect to our supply chain, Telefónica maintains its firm commitment to support local suppliers, which meant that in 2014, 85% of purchases were allocated to local suppliers. In the coming years we are committed to extending implementation of the EcoVadis evaluation process in the supply chain across all our subsidiaries in Latin America.

Finally, in matters of privacy, the Telefónica Privacy Policy, approved by the Board of Directors, has established the basis for action which must be followed by Group companies in the protection of privacy for all those who entrust us with their data through the use of our products and services. As part of its privacy and freedom of expression policy, in 2015 Telefónica is working on improvements to the mechanisms of communication with its stakeholders.

Contribution towards social actions in 2014



Social impact

In 2014, the attainment of the occupational health and safety certificate in accordance with OHSAS 18001 standards for all 36 companies in Spain stood out. Likewise, our backing of youth employment has been demonstrated by hiring 9,047 people under 30 years of age throughout the Group, 3.5% more than in 2013.

In relation to good use of the Internet by children, in 2014 we launched, through Movistar, the Digital Family portal, which establishes good practices and allows parents and teachers to exchange experiences. In 2015 we put forward the challenge of making the Digital Family portal the benchmark portal within the Spanish-speaking world.

Lastly, we should point out the sustainable innovation projects developed by the Group, such as the Ability Challenge, developed by Telefónica Open Future to find innovation projects for accessibility.

Environmental impact

Last year we remained within the Top 5 leading companies in the sector, with a rating of 98 points in the Carbon Disclosure Project.

We developed the Global Efficiency Plan to reduce our energy costs by 50 million euros by 2017. These 50 million imply a reduction of 350 GWh in our energy consumption and the prevention of the emission of 100,000 tonnes of CO₂.

Telefónica is contributing towards the circular economy with the recycling or reuse of 99% of waste from its networks and customers.

All the information regarding the advances in matters of Sustainability during 2014 can be found in the [Sustainability Report](#) which complements this Report.



External evaluation



Member of the Europe Index



Member



98 points Top 5



8th out of 124



Leader Award Global 800



Member of the RobecoSam Sustainability Yearbook



Rating Prime



Euronext 120

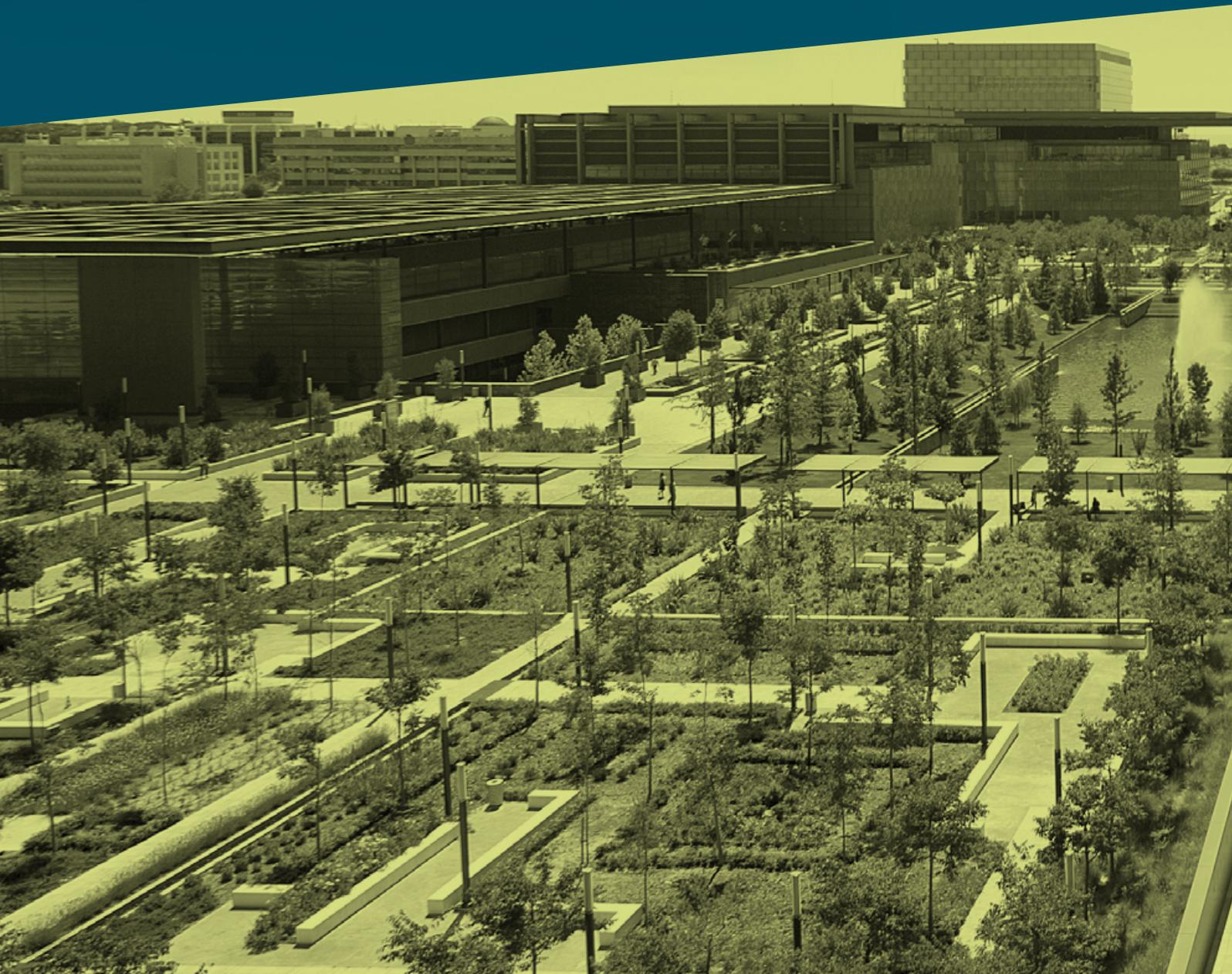


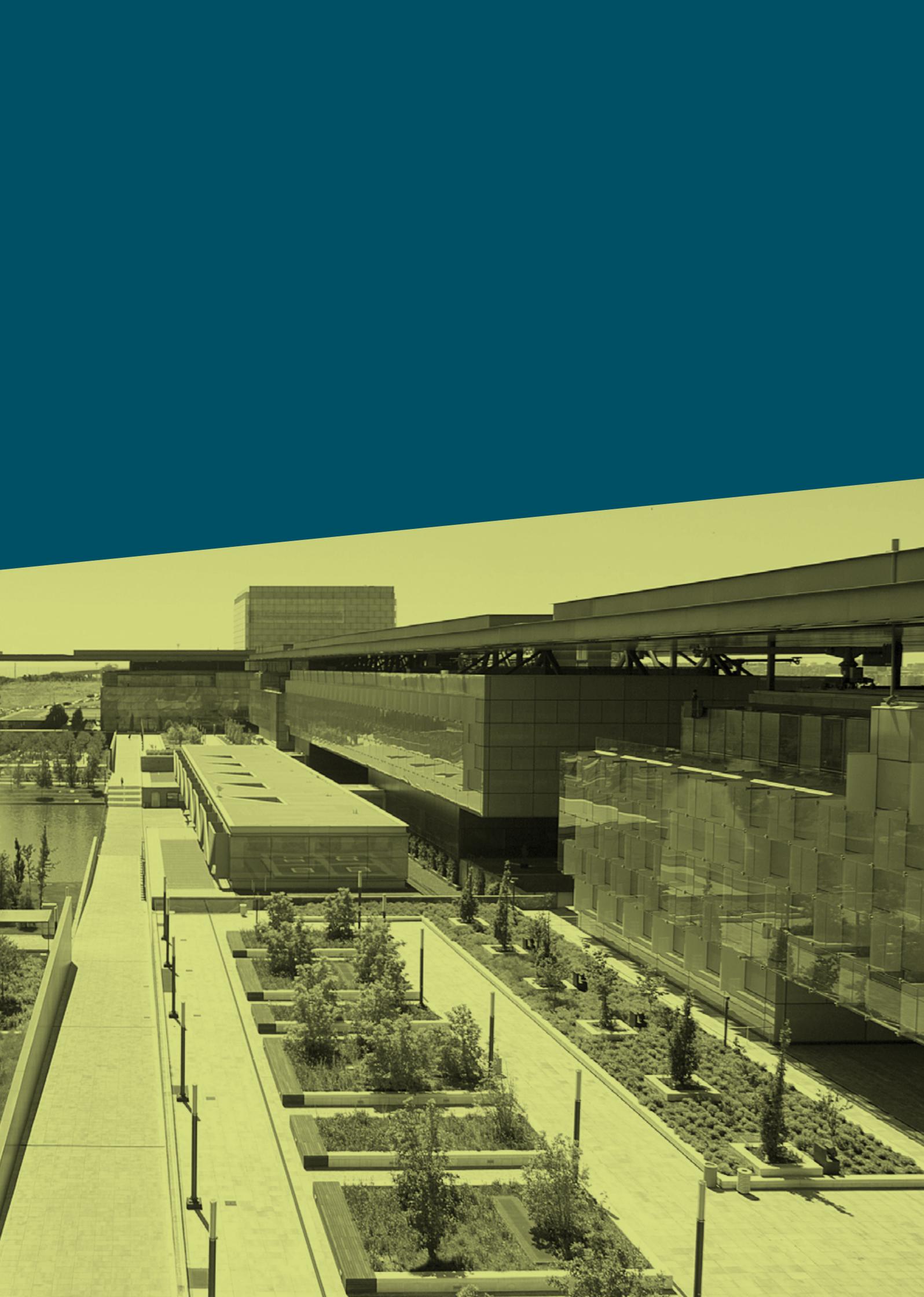
Excellence Register



Rating A (upgrade)

4. Governance at Telefónica





Management *team*

Telefónica is led by a group of professionals dedicated to a new operating model. The aim: to continue to be a benchmark Digital Telco, leading in efficiency.

Institutional
Communication and
Marketing
Marisa Navas



Strategy
**Santiago Fernández
Valbuena**



Finance and Corporate
Development
Ángel Vilá



Executive
Chairman
César Alierta



Managing Director
**José María
Álvarez-Pallete**



Chief of Staff
María García-Legaz



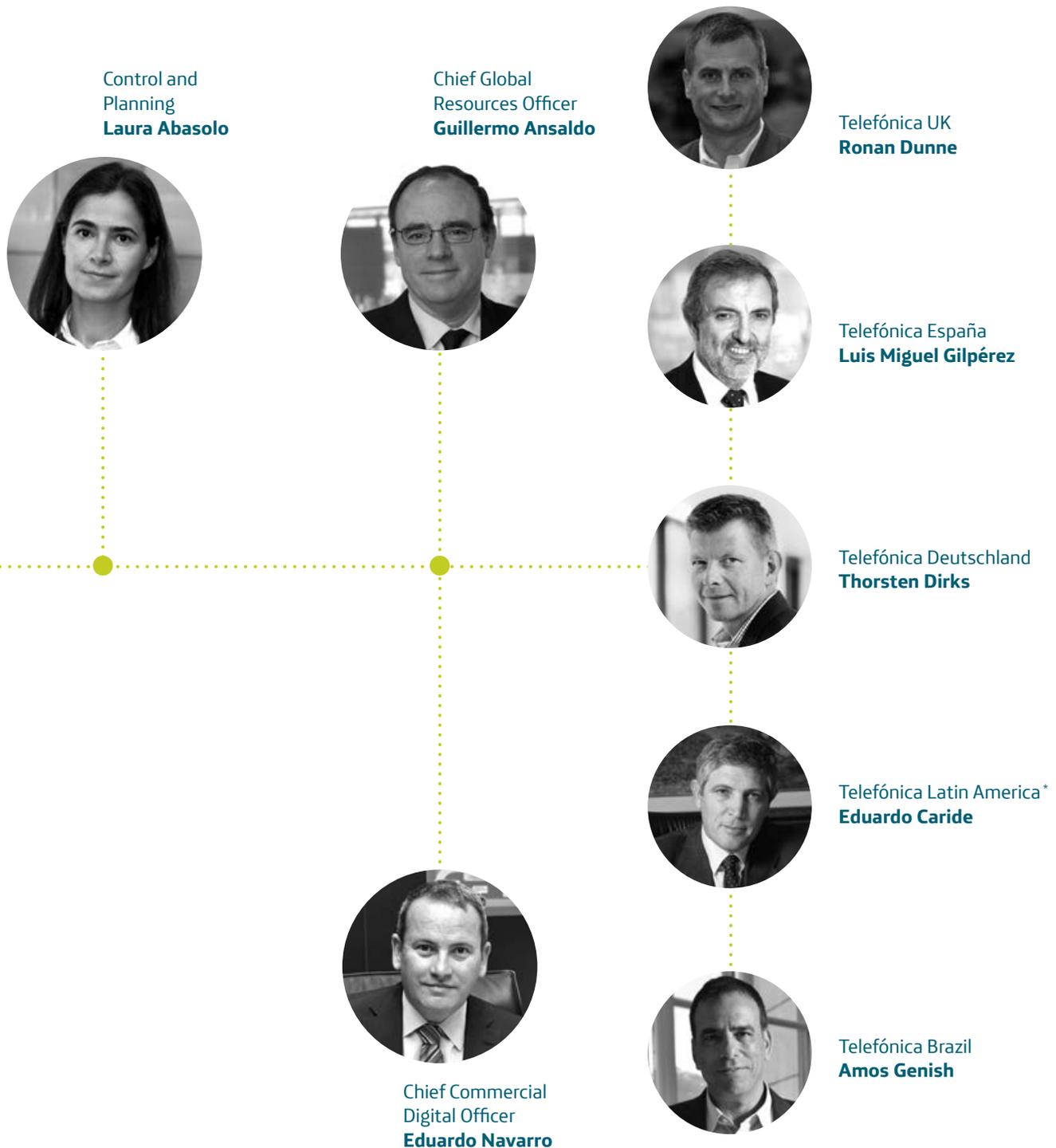
General and Board
Secretary
**Ramiro Sánchez
de Lerín**



Public Affairs and
Regulation
Carlos López Blanco

Telefónica has set up a new organisational structure focused on the customer. The system provides more visibility for local operators, bringing them closer to the centre of corporate decision-making. It also simplifies the global organisational chart

and strengthens transverse areas in order to improve flexibility and agility in decision-making. The organisation revolves around a management team which has as its main focuses the definition of strategy and the monitoring of business evolution.



* All countries in Latin America in which Telefónica is present, excluding Brazil.



Composition of the Board of Directors

The Telefónica Board of Directors responds to the needs of an international Company which operates globally, in order to make the possibilities offered by the new digital world a reality.

With the help of its Committees, the Telefónica S.A. Board of Directors carries out its work in accordance with regulations covering Corporate Governance, which are primarily contained in the Corporate Statutes, in the Regulations for the General Shareholders' Meeting and in the Regulations of the Board of Directors.

The Board of Directors is the body which supervises and controls Company business, bearing sole responsibility, among other things, for the general policies and strategies of the Company, which include those related to Corporate Governance, Corporate Responsibility, remuneration of Directors and Senior Management and shareholder remuneration, together with strategic investments.

To strengthen the Corporate Governance of the Company, the Telefónica S.A. Board of Directors has eight Committees, to which it entrusts the study and monitoring of areas of particular relevance.

Furthermore, in accordance with its Regulations, the Board of Directors entrusts the ordinary management of the business to its executive bodies and to the Telefónica S.A. management team.

[More detailed information](#) regarding this matter can be found in the Annual Corporate Governance Report and in the Annual Report on the Remuneration of Directors, both available on the corporate website.

Composition of the Board of Directors and its Committees

	Executive Committee	Audit and Control	Appointments, Remuneration and Corporate Governance	Institutional Affairs	Regulation	Quality of Service and Customer Care	Innovation	Strategy
Mr. César Alierta Izuel (Executive Chairman)	●							
Mr. Isidro Fainé Casas (Vice-Chairman)	●							
Mr. José María Abril Pérez (Vice-Chairman)	●						●	
Mr. Julio Linares López (Vice-Chairman)				●			●	●
Mr. José María Álvarez-Pallete López (CEO)	●							
Ms. Eva Castillo Sanz					●	●		●
Mr. Carlos Colomer Casellas	●	●	●			●	●	
Mr. José Fernando de Almansa Moreno-Barreda				●	●			●
Mr. Francisco Javier de Paz Mancho	●			●	●	●		
Mr. Peter Erskine	●		●				●	●
Mr. Santiago Fernández Valbuena								
Mr. Alfonso Ferrari Herrero	●	●	●	●	●	●		●
Mr. Luiz Fernando Furlán								
Mr. Gonzalo Hinojosa Fernández de Angulo	●	●	●	●	●	●		●
Mr. Pablo Isla Álvarez de Tejera			●					
Mr. Antonio Massanell Lavilla		●		●		●	●	
Mr. Ignacio Moreno Martínez		●			●	●		
Mr. Chang Xiaobing								
Mr. Ramiro Sánchez de Lerín García-Ovies (Non-voting Secretary)								
Ms. María Luz Medrano Aranguren (Non-voting Vice-Secretary)								

Members of the Board

Mr. César Alierta Izuel

Executive Chairman

Law degree from the University of Zaragoza, and Masters of Business Administration from the University of Columbia, New York.

Board member of China Unicom (Hong Kong) Limited and International Consolidated Airlines Group (IAG). Trustee of the Caixa d'Estalvis i Pensions de Barcelona Banking Foundation ("la Caixa").

Member of Columbia Business School Board of Overseers, President of the Social Council of the National University of Distance Learning ("Universidad Nacional de Educación a Distancia" (UNED)), and the Competitiveness Business Council.

Among other offices held, he was the Founding President of the Beta Capital Society, President of the Spanish Institute of Financial Analysts, and President of Tabacalera, S.A.

Mr. Isidro Fainé Casas

Vice-Chairman

Doctor of Economic Sciences. Diploma in Senior Management from IESE. ISMP in Business Administration from the University of Harvard. Financial Analyst and Member of the Royal Academy of Economics and Finance.

He is President of the Trustees of the Caixa d'Estalvis i Pensions de Barcelona Banking Foundation ("la Caixa"), of Caixabank, S.A., of Criteria Caixaholding, S.A., and of the Spanish Confederation of Savings Banks; 1st Vice-President of Repsol, S.A. of the European Savings Banks Group (ESBG) and of the World Savings Banks Institute (WSBI). Furthermore, he is a member of the Board of the Banco Português de Investimento, S.A. (BPI), Non-executive Director of "The Bank of East Asia", of Suez Environment Company and of Gas Natural SDG, S.A.

Mr. José María Abril Pérez

Vice-Chairman

Degree in Economic Sciences from the Commercial University of Deusto, and Professor, for nine years, at said University.

Among other offices, he has been Managing Director of Wholesale Banking and Investments at BBVA, S.A. and member of its Directorate Committee. Furthermore, he has been Financial Director of SAAL and Sancel-Scott Ibérica, Executive Coordinator of Banco Español de Crédito, S.A., Managing Director of the BBV Industrial Group, Board member at Repsol, Iberia and IBV Corporation, and Vice-President of Spanish Stock Markets ("Bolsas y Mercados Españoles" (BME)).

Mr. Julio Linares López

Vice-Chairman

Telecommunications engineer, he joined the Telefónica Group in May 1970 in the Research and Development Centre, and since then he has had various responsibilities at Telefónica, such as CEO of Telefónica Multimedia, Executive Chairman of Telefónica España, Chairman of the Supervisory Board of Cesky Telecom, Managing Director of Coordination, Business Development and Synergy, and CEO of Telefónica, S.A.

He is a member of the Board and Executive Committee of the GSM Association. Furthermore he is a Trustee of the Mobile World Capital Barcelona Foundation, of the Spanish Confederation of Directors and Executives Foundation (CEDE), and of Fundación Telefónica. Furthermore, he is a member of the Steering Committee of the Association for Progress in Management and the Social Council of the Complutense University of Madrid.

Mr. José María Álvarez-Pallete López

Chief Executive Officer

Degree in Economic Sciences from the Complutense University of Madrid. Studies in Economic Sciences at the Université Libre of Brussels, in Belgium. International Management Program (IMP) from the Pan-American Institute of Management Development (IPADE). Diploma in Advanced Studies (DEA) from the Faculty of Financial Economics and Accountancy of the Complutense University.

Currently he is CEO of Telefónica, S.A., having previously held various positions within the Telefónica Group since 1999, including Chairman of Telefónica Europe, Chairman of Telefónica Latin America and COO of Corporate Finance at Telefónica, S.A., among others.

He previously worked at Arthur Young Auditores, Benito & Monjardín/Kidder, Peabody & Co. and Cementos Portland (Cemex). He has been a Board member of Cemex Singapur, China Netcom Group Corporation Limited and Portugal Telecom SGPS, S.A.

Ms. Eva Castillo Sanz

Board member

Degree in Law and Business from the Comillas Pontifical University, ICADE (E-3) in Madrid.

Currently she is Chair of the Supervisory Board of Telefónica Deutschland Holding, AG, and Independent Board member of Bankia and Visa Europe. Furthermore, she is a Trustee of Fundación Telefónica, the Comillas-ICAI Foundation and the Entreculturas Foundation.

Among other positions, she has been Chair and CEO of Telefónica Europe, Chair of the Supervisory Board of Telefónica Czech Republic, a.s. and Board member of Old Mutual, Plc.

She held various offices at Merrill Lynch until she was named Head of Merrill Lynch Private Bank for Europe, the Middle East and Africa (EMEA), a position which she held until December 2009.

Mr. Carlos Colomer Casellas

Board member

Graduated in Economic Sciences from the University of Barcelona, and holds a degree in Business Administration from IESE (Barcelona).

He is President of Ahorro Bursátil, S.A. SICAV, of Inversiones Mobiliarias Urquiola, S.A. SICAV, and of Haugron Holdings, S.L.

Furthermore, he is an independent Board member of Abertis Infraestructuras, S.A. and MDF Family Partners.

Until 2013 he was President and CEO of The Colomer Group, having previously held other positions, such as President CEO of Henry Colomer, S.A. and Haugron Cientifical S.A., President of Revlon for Europe and International, and Executive Vice-President and CEO of Revlon in New York.

Mr. José Fernando de Almansa Moreno-Barreda

Board member

Degree in Law from the University of Deusto (Bilbao).

Joined the Diplomatic Service in 1974. From 1976 to 1992 he held various positions in Spanish diplomatic missions: Brussels, Mexico, The Atlantic Alliance and the USSR. From 1993 to 2002 he was appointed Head of Household with Ministerial Rank by His Majesty King Juan Carlos I, being designated Private Advisor to His Majesty King Juan Carlos I.

Furthermore, he is a Board member of Telefónica Brazil, S.A. and of Telefónica Móviles México, S.A. In addition, he is acting Board member of the Financial Group BBVA Bancomer, S.A. and BBVA Bancomer, S.A.

Mr. Francisco Javier de Paz Mancho

Board member

Degree in Information and Marketing. Studies in Law. Programme for Senior Management of Companies from IESE (University of Navarra).

He is Chairman of Telefónica Management of Shared Services Spain, S.A.U. Furthermore, he is a Board member of Telefónica Argentina, S.A. and Telefónica Brazil, S.A. and Member of the Executive Committee of the Higher Council of Chambers.

Among other positions held, he has been Chairman of Atento Inversiones y Teleservicios, S.A.U., of the National Company MERCASA, Board member of Tabacalera, S.A., Deputy to the President and Director of Corporate Strategy of the Panrico Donuts Group, Managing Director for Internal Trade at the Ministry of Trade and Tourism, and Board member of the Panrico Group.

Mr. Peter Erskine

Board member

Degree in Psychology from the University of Liverpool.

He is President of Ladbrokes, PLC, is on the Advisory Board of Henley Management Centre, and is a member of the Board of Reading University.

He worked at Polycell, at Colgate Palmolive, at the MARS Group and at UNITEL. Furthermore, he held various positions of responsibility at BT Mobile until being appointed CEO and Chairman of O2 PLC, a position which he held until December 2007.

Mr. Santiago Fernández Valbuena

Board member

Degree in Economic Sciences from the Complutense University, and Doctorate (PhD) and Masters Degree in Economics from the Northeastern University of Boston.

He is Managing Director for Strategy since February 2014. Furthermore, he is Vice-Chairman and Board member of Telefónica Brazil, S.A.

He has been a Member of the Audit Committee of Ferrovial, S.A. since 2008. Previously, he was Chairman of Telefónica Latin America, Managing Director of Finance and Strategy, and Managing Director of Finances and Corporate Development. He was also CEO of Fonditel, the Group's Pensions Fund manager. Before joining Telefónica he was Managing Director of Société Générale Valores and Stock market Director at Beta Capital. He was Senior Professor of Applied Economics at the Complutense University and the University of Murcia, and Professor at the Institute of Business (IE Business School).

Mr. Alfonso Ferrari Herrero

Board member

Doctor in Industrial Engineering, specialist in Electronics, from the Higher Technical School of Industrial Engineers at the Polytechnic University of Madrid. Master in Business Administration from the University of Harvard (USA).

He is a Board member of Telefónica Peru, S.A.A. and acting Board member of Telefónica Chile, S.A.

He has been Deputy to the Financial Director of Hidroeléctrica del Cantábrico, S.A., Director of Industrial Investment at Banco Urquijo, and founding member, President and CEO of Beta Capital, S.A.

Mr. Luiz Fernando Furlán

Board member

Degrees in Chemical Engineering from FEI (Faculty of Industrial Engineering of Sao Paulo) and in Business from the University of Santana de São Paulo, specialising in Financial Administration from the Getúlio Vargas Foundation of São Paulo.

He is President of the Board of Directors of the Amazon Sustainability Foundation and member of the Global Ocean Commission.

Furthermore, he is a member of the Board of Directors of Brasil Foods S.A. (BRF), Telefónica Brazil S.A., AGCO Corporation and member of the Consultation Committee of Abertis Infraestructuras, S.A.

From 2003 to 2007 he was Minister for Industry, Development and Commerce in the Brazilian Government. Prior to that he was a member of the Board of Directors and Advisor to numerous companies, such as Sadia, S.A., Panamco, and ABN Amro Bank in Brazil.

Mr. Gonzalo Hinojosa Fernández de Angulo

Board member

Doctor in Industrial Engineering from the Higher Technical School of Industrial Engineers in Madrid.

He is a Board member of Telefónica Peru, S.A.A.

He was Managing Director, CEO and President of the Cortefiel Group until 2006. Furthermore, he was a Board member of Banco Central Hispano Americano, of Portland Valderribas, and Altadis, S.A.

Mr. Pablo Isla Álvarez de Tejera

Board member

Degree in Law from the Complutense University of Madrid and State Attorney.

He has been President and CEO of INDITEX Group since 2011.

Since 2005 he was Vice-President and CEO.

Previously he was director of Legal Services at Banco Popular (1992-1996), Managing Director of State Heritage at the Ministry of Economy and Tax, and President of the Altadis Group (2000-2005).

Mr. Antonio Massanell Lavilla

Board member

Degree in Economic and Business Sciences from the University of Barcelona.

He is Vice-President of CaixaBank. He is also President of Barcelona Digital Centre Tecnològic (*formerly Barcelona Digital Foundation*) and non-executive President of Cecabank. Furthermore, he is a member of the Board of Directors of Boursorama, S.A., of Mediterranea Beach & Golf Community, S.A., of Banco Português de Investimento, S.A. (BPI) and of SAREB (Management Company for Shares originating from Bank Restructuring).

He is a member of the Plenary of the Barcelona Chamber of Commerce and the Euro Retail Payments Board (ERPB).

During his professional career he has held positions as Board member of various companies, such as Visa Spain, Inmobiliaria Colonial, and as President of Port Aventura Entertainment, S.A.

Mr. Ignacio Moreno Martínez

Board member

Degree in Economic and Business Sciences from the University of Bilbao. Masters in Marketing and Commercial Management from the Business Institute. Masters in Business Administration (MBA) from INSEAD.

Currently, he is CEO of Metrovacesa, S.A. He has worked at Banco de Vizcaya, Banco Santander Business, Mercapital, Corporación Bancaria de España, S.A., Argenteria Bolsa, Sociedad de Valores and Banco Bilbao Vizcaya Argenteria, S.A., where he was Managing Director of the Presidential Area. Furthermore, he was CEO of N+1 Private Equity and a Board member of Secuoya, Grupo de Comunicación, S.A.

Mr. Chang Xiaobing

Board member

Professor of Higher Engineering. Degree in Telecommunications Engineering from Nanjing Institute of Posts and Telecommunications, Masters in Business Administration from Tsinghua University on 2001, and Doctor in Business Administration from Hong Kong Polytechnic University. He is Chairman of China United Network Communications Limited, Chairman and CEO of China Unicom (Hong Kong) Limited, Chairman of China United Network Communications Group Company Limited and Chairman of China United Network Communications Corporation Limited.

Committees of the Board of Directors

Executive Committee

Functions. The Board of Directors, while always adhering to current legal requirements, has delegated its powers, except those which cannot be delegated for legal, statutory, or regulatory reasons, to a Executive Committee.

This Committee provides the Board of Directors with greater operational efficiency in carrying out its functions, as it meets with more frequency than the Board.

Composition	
Mr. César Alierta Izuel	Chairman
Mr. Isidro Fainé Casas	Vice-Chairman
Mr. José María Abril Pérez	Vice-Chairman
Mr. José María Álvarez-Pallete López	CEO
Mr. Carlos Colomer Casellas	Member
Mr. Francisco Javier de Paz Mancho	Member
Mr. Peter Erskine	Member
Mr. Alfonso Ferrari Herrero	Member
Mr. Gonzalo Hinojosa Fernández de Angulo	Member
Mr. Ramiro Sánchez de León García-Ovies	Secretary

Appointments, Remuneration and Corporate Governance Committee

Functions. It performs the tasks of reporting, in accordance with criteria of objectivity and adaptation to social interests, on appointment proposals, re-election and termination of Board Membership and Senior Management positions in the Company and in its subsidiaries, evaluating competences, knowledge and the experience necessary for candidates to cover vacancies. Furthermore, it proposes to the Board of Directors, within the framework established in the Corporate Statutes, the range and amount of remunerations, rights and economic compensation to be allocated to the Chairman, the Executive Directors and the Senior Management of the Company, including the basic conditions of their contracts in regards to contractual implementation. It also oversees compliance with Telefónica internal codes of conduct and the Corporate Governance regulations in force at all times.

Composition	Date of appointment
Mr. Alfonso Ferrari Herrero (Chair)	30 May 2001
Mr. Carlos Colomer Casellas	23 January 2008
Mr. Peter Erskine	27 February 2008
Mr. Gonzalo Hinojosa Fernández de Angulo	30 November 2005
Mr. Pablo Isla Álvarez de Tejera	26 June 2002

Audit and Control Committee

Functions. Among other functions, it supports the Board of Directors in its supervision tasks and assumes the power to report on questions formulated by the shareholders in matters within the Committee's competence; it proposes the appointment and contractual conditions of the accounts auditor; it supervises the internal audit and the process of preparation and presentation of regulated financial information; it puts forward the policy of control and management of risks, and establishes and maintains an adequate relationship with the accounts auditor.

Composition	Date of appointment
Mr. Carlos Colomer Casellas (Chair)	24 April 2013
Mr. Alfonso Ferrari Herrero	27 February 2008
Mr. Gonzalo Hinojosa Fernández de Angulo	26 June 2002
Mr. Antonio Massanell Lavilla	30 August 2000
Mr. Ignacio Moreno Martínez	31 May 2013

Regulation Committee

Functions. Among other powers, it assumes the role of carrying out permanent supervision of the main matters and affairs relating to regulatory order which affect the Telefónica Group at any one time. In addition, it serves as a channel of communication and information on regulatory matters between the Management Team and the Board of Directors and, when required, raises matters with the latter regarding issues considered important or relevant to the Company or for any of the businesses within the Group, as well as those matters for which it is necessary or convenient to make a decision or set out a specific strategy.

Composition	Date of appointment
Mr. Gonzalo Hinojosa Fernández de Angulo (Chair)	24 April 2013
Ms. Eva Castillo Sanz	16 December 2009
Mr. José Fernando de Almansa Moreno-Barreda	25 January 2006
Mr. Francisco Javier de Paz Mancho	23 January 2008
Mr. Alfonso Ferrari Herrero	05 July 2007
Mr. Ignacio Moreno Martínez	31 May 2013

Quality of Service and Customer Care Committee

Functions. Among other aspects, it carries out the examination, analysis and periodical monitoring of quality indices for the main services provided by companies in the Telefónica Group. In addition, it evaluates the levels of customer care delivered by the companies of the Group to its customers.

Composition	Date of appointment
Mr. Antonio Massanell Lavilla (Chair)	26 March 1999
Ms. Eva Castillo Sanz	16 December 2009
Mr. Carlos Colomer Casellas	26 June 2002
Mr. Francisco Javier de Paz Mancho	31 May 2013
Mr. Alfonso Ferrari Herrero	16 December 2009
Mr. Gonzalo Hinojosa Fernández de Angulo	26 June 2002
Mr. Ignacio Moreno Martínez	31 May 2013

Institutional Affairs Committee

Functions. Notwithstanding other functions which may be attributable to the Board of Directors, the Institutional Affairs Committee will have as its main function the study and analysis of the questions and aspects related to Institutional Affairs of the Telefónica Group.

Composition	Date of appointment
Mr. Julio Linares López (Chair)	31 May 2013
Mr. José Fernando de Almansa Moreno-Barreda	31 May 2013
Mr. Francisco Javier de Paz Mancho	31 May 2013
Mr. Alfonso Ferrari Herrero	31 May 2013
Mr. Gonzalo Hinojosa Fernández de Angulo	31 May 2013
Mr. Antonio Massanell Lavilla	31 May 2013

Strategy Committee

Functions. Among other roles, it primarily provides support for the Board of Directors in the analysis and monitoring of the strategic policy of the Telefónica Group at a global level.

Composition	Date of appointment
Mr. Peter Erskine (Chair)	17 December 2008
Mr. Julio Linares López	31 May 2013
Ms. Eva Castillo Sanz	17 December 2008
Mr. José Fernando de Almansa Moreno-Barreda	17 December 2008
Mr. Alfonso Ferrari Herrero	23 June 2010
Mr. Gonzalo Hinojosa Fernández de Angulo	17 December 2008

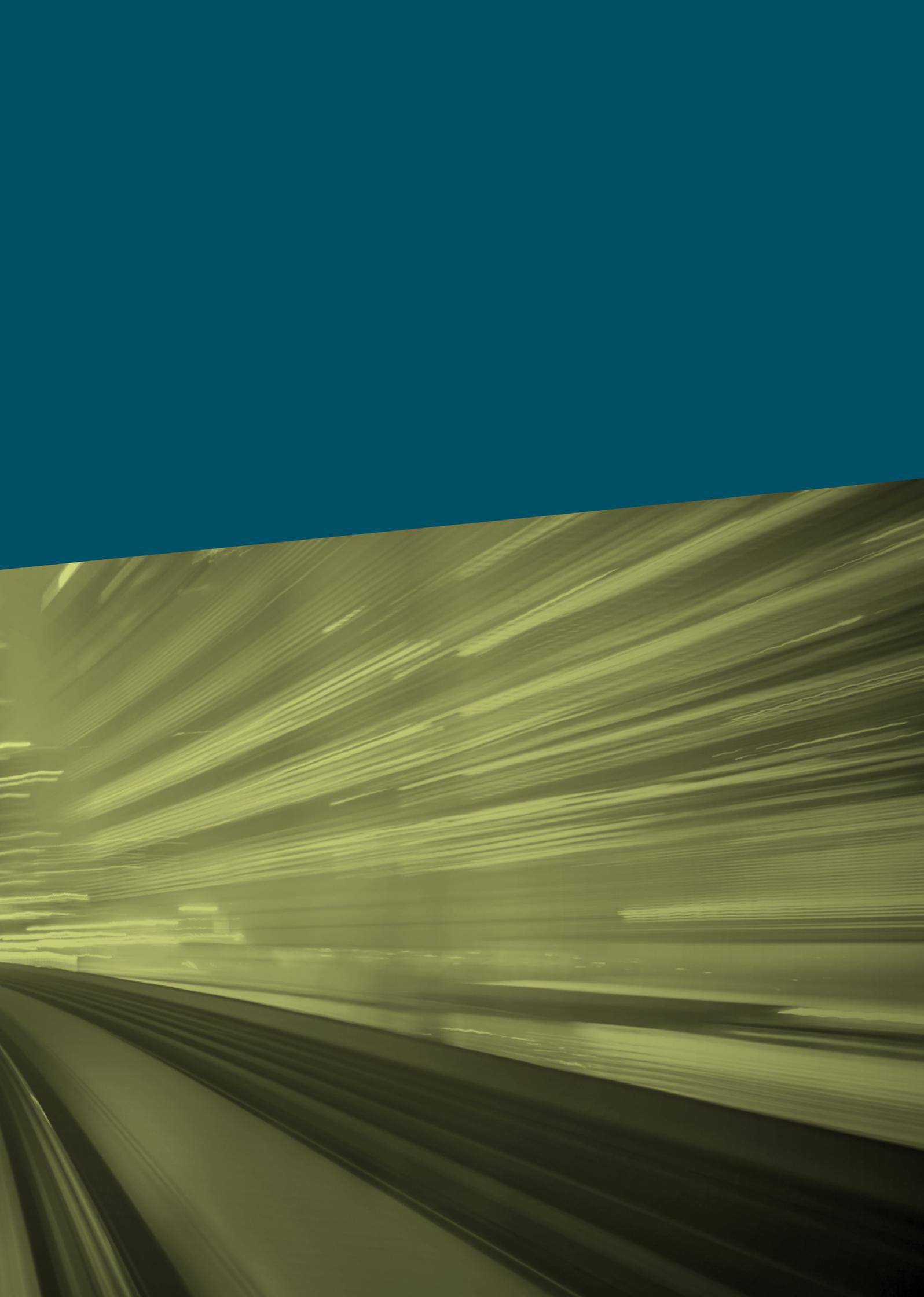
Innovation Committee

Functions. Its fundamental mission is to assess and provide support in all matters relating to innovation, carrying out analysis, studies and periodic monitoring of Company innovation projects, providing criteria and lending support in order to guarantee their adequate implementation and development throughout the Telefónica Group.

Composition	Date of appointment
Mr. Carlos Colomer Casellas (Chair)	30 July 2008
Mr. José María Abril Pérez	18 May 2011
Mr. Peter Erskine	30 July 2008
Mr. Julio Linares López	18 December 2013
Mr. Antonio Massanell Lavilla	30 July 2008

5. Annexes





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Financial situation

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More information is available in the "Shareholders and Investors" section of the corporate website.

The financial information contained in this document has been prepared under the International Financial Reporting Standards (IFRS) adopted by the European Union, and for the purposes of the Telefónica Group, it does not present differences with those published by the International Accounting Standards Board (IASB). This information has not been audited. The Telefónica regional and integrated management model states that the legal structure of the societies will be irrelevant to the Company's presentation of financial information. Therefore, operating results of every one of these business units are presented independently from its legal structure. In order to present the information by region, operating results for every region have excluded income and expenditure derived from invoices between companies that are part of the Telefónica perimeter of consolidation through the use of the brand and management agreements, and, at a regional level, projects that are managed centrally are incorporated. This form of presentation does not affect Telefónica's consolidated results.

Financial highlights

- ⇒ **Fulfilment of operating guidance set for 2014.**
- ⇒ **Recovery of the commercial drive in 2014, focused on high-value services.**
 - Strong year-on-year growth of pay TV accesses (1.5 times organic), mobile contracts (+11%), smartphones (+39%) and fibre (2.1 times).
 - The average revenue per access increased 0.3% compared to 2013 in organic terms (+2.6% year-on-year in the fourth quarter).
- ⇒ **Acceleration of growth in revenue in the fourth quarter (+5.0% organic year-on-year) in nearly all countries.**
 - Improvement in the monetisation of data, with a significant increase in revenue from mobile data in the quarter (+10.6% year-on-year), driven by non-SMS data revenues (+22.8%).
 - T. Latin America (+18.2% organic year-on-year) remains the main lever of growth in the quarter.
 - In 2014, revenue reached 50,377 million euros (+2.6% organic year-on-year).
- ⇒ **Strong profitability; return to OIBDA organic growth in 2014.**
 - In January-December, OIBDA was 15,515 million euros (+0.2% year-on-year in organic terms) and the year-on-year margin was only 0.8 p.p.
 - The OIBDA in the fourth quarter (3,190 million euros) was significantly affected by non-recurring effects, with a negative net impact of 1,379 million euros, mainly associated with the adoption of the SICAD II rate in Venezuela and a provision for restructuring costs.
- ⇒ **Growth in Capex in 2014 (+16.9% year-on-year organic) aimed at accelerating the modernisation and differentiation of the networks and increasing the customer base.**
- ⇒ **The creation of free cash flow climbed to 3,817 million euros in 2014 and to 4,748 million euros, excluding spectrum investments.**
 - The free cash flow per share reached 0.83 euros in 2014. In terms of the dividend, the Company credited 0.35 euros per share through the 'scrip dividend' method in December (84.2% take-up rate) and will pay 0.40 euros per remaining share in cash in the second quarter of 2015, where the cash dividend pay-out will assume just 55% of the cash flow per share.
- ⇒ **Significant improvement in the financial position after recently announced operations.**
 - Net financial debt was reduced by 294 million euros in the last twelve months to 45,087 million euros, affected by the adoption of the SICAD II fixed exchange rate in Venezuela, which involves a debt increase of 1,231 million euros.
 - The debt would be 31,705 million euros and the debt ratio (net financial debt over OIBDA) 2.15 times that, after the expected completion of the sale of O2 UK and the currency adjustment in Venezuela.
- ⇒ **The net profit increased to 3,001 million euros in 2014 (4,462 million euros underlying) and the basic earning per share to 0.62 euros (0.93 euros underlying).**
 - In the fourth quarter, net profit was affected by extraordinary endowments, notable among these: the impact of adopting the SICAD II rate in Venezuela (-399 million euros), the provision of restructuring costs (-405 million euros) and the adjustment in the valuation of Telco, S.p.A (-257 million euros).
- ⇒ **Active participation in the consolidation of the main markets (Brazil, Spain and Germany), strengthening our competitive positioning and improving on a local scale.**
- ⇒ The results of **Telefónica España** in 2014 are an important turning point for the Company, having improved the competitive positioning and the differentiation in the commercial offer. The Company is the leader in the pay TV market with 1.9 million customers (x3 year-on-year); fibre customers exceed 1.3 million (>x2 year-on-year) and the mobile contract platform showed positive annual net gains for the first time since 2011. Thus, this revenue confirms a gradual recovery in the last quarter (-4.9% year-on-year; +1.7 p.p. compared to the previous quarter), supported in the service revenue, while there is an improvement in the



evolution of the OIBDA in organic terms (-7.8% year-on-year in the fourth quarter; -14.4% in the third).

- ⇒ In **Brazil**, the Company reinforced its leadership in the contract segment by capturing over half of new accesses in the market, fibre rollout accelerated to 4.1 million wireless units restored and pay TV customers grew by 20% year-on-year. Revenue reached 11,231 million euros in 2014 (+0.5% year-on-year organic) and the OIBDA (3,543 million euros) returned to year-on-year growth (+0.9% organic), despite the negative regulatory impact. Furthermore, the purchase of GVT (subject to final approval by regulatory authorities), will consolidate Telefónica Brazil as an integral operator with national coverage.
- ⇒ In **Germany**, the fourth quarter of 2014 was the starting point for the new Telefónica Deutschland, with the integration of E-Plus from October 1. The new Company leads the market in mobile accesses (42.1 million to December),

after registering a high level of commercial activity in mobile contracts. Revenue stabilised in the fourth quarter, emphasising the strong advance in the monetisation of the data fundamentally driven by higher LTE coverage (62% to December) and the demand for LTE handsets.

- ⇒ **Telefónica announces its operational and financial guidance⁽¹⁾ for 2015 and its ambition for 2016.**
- ⇒ **Telefónica will support the adoption of appropriate corporate agreements in order to:**

2014 Base	2015 Operating Targets and 2016 Ambition	2015 Guidance	2016 Ambition
42,853	Revenues	>0.7%	>5% Compound annual growth rate 2014-16E
32.6%	OIBDA margin	Erosion limited to around 1 p.p. (allowing commercial flexibility, if needed)	Becoming stable in 2016
16.7%	CapEx/Sales	Approx. 17%	Approx. 17% (-2 p.p 2017E vs. 2016E)

2015 Operational Targets and 2016 Ambition	2015 Guidance	2016 Ambition
Net Financial Debt/ OIBDA	<2.35x	<2.35x

(1). 2015 Operating guidance and 2016 Ambition criteria:

- 2014 adjusted base figures:
 - They exclude:
 - T. UK results from January-December 2014.
 - T. Venezuela results from January-December 2014.
 - The OIBDA also excludes the sale of towers and provision for restructuring costs.
 - The CAPEX also excludes spectrum investments, the property efficiency plan and investment in the Telefónica offices in Barcelona.
 - They include:
 - E-Plus results consolidated in T. Deutschland results from the fourth quarter of 2014.
 - T. Ireland results from January-June 2014.
- 2015 guidance and 2016 ambition.
 - They assume constant exchange rates in 2014 (2014 average).
 - They exclude:
 - T. UK results.
 - T. Venezuela results.
 - The OIBDA also excludes: writedowns, capital gains/ losses for the sale of companies, sales of towers, non-recurrent material impacts and restructuring costs mostly related to the integration processes in Germany and Brazil and the simplification programme.
 - The CAPEX also excludes spectrum investments and the property efficiency plan.
 - They include:
 - GVT results consolidated in T. Brazil results from July 2015.
- 2015 financial target criteria and 2016 Ambition
OIBDA/ net financial debt both adjusted for the expected completion of the sale of O2 UK.

- **Amortise treasury stock in 2015 for a total of 1.5% of share capital and distribute a dividend of 0.75 euros per share.**

Payable in the fourth quarter of 2015 (0.35 euros per share under the voluntary scrip dividend model) and in the second quarter of 2016 (0.40 euros per share in cash).

- **Amortise treasury stock in 2016 for a total of 1.5% of shares representative of the share capital and distribute a dividend of 0.75 euros per share in cash, in both cases subject to the completion of the planned sale of O2 UK.**

Selected financial data

Telefónica. Selected financial data

Non-audited data (millions of euros)	January-December	% Variation	
	2014	Reported	Organic
Revenues	50,377	(11.7)	2.6
Telefónica España	12,023	(7.2)	(7.2)
Telefónica UK	7,062	5.5	0.2
Telefónica Deutschland ⁽¹⁾	5,522	12.4	(3.5)
Telefónica Brazil	11,231	(8.1)	0.5
Telefónica Latin America (excl. Brazil)	13,155	(22.0)	14.6
Other companies and eliminations	1,384	(59.6)	
Telefónica Ireland ⁽²⁾	259	n.a.	
Telefónica Czech Republic ⁽³⁾	-	n.a.	
OIBDA	15,515	(18.7)	0.2
Telefónica España	5,671	(10.6)	(12.6)
Telefónica UK	1,744	6.5	1.1
Telefónica Deutschland ⁽¹⁾	733	(44.0)	(22.1)
Telefónica Brazil	3,543	(10.1)	0.9
Telefónica Latin America (excl. Brazil)	4,068	(26.5)	16.4
Other partners and eliminations	(243)	n.a.	
Telefónica Ireland ⁽²⁾	51	n.a.	
Telefónica Czech Republic ⁽³⁾	-	n.a.	
OIBDA margin	30.8%	(2.6 p.p.)	(0.8 p.p.)
Telefónica España	47.2%	(1.8 p.p.)	(2.8 p.p.)
Telefónica UK	24.7%	0.2 p.p.	



Telefónica. Selected financial data

Non-audited data (millions of euros)	January-December	% Variation	
	2014	Reported	Organic
Telefónica Deutschland ⁽¹⁾	13.3%	(13.4 p.p.)	(5.1 p.p.)
Telefónica Brazil	31.5%	(0.7 p.p.)	0.1 p.p.
Telefónica Latin America (excl. Brazil)	30.9%	(1.9 p.p.)	0.5 p.p.
Operating income (OI) (1)(2)(3)	6,967	(26.3)	1.9
Net income (1)(2)(3)	3,001	(34.7)	
Basic earnings per share (euros) (1) (2) (3)	0.61	(38.1)	
CAPEX	9,448	0.6	16.9
Telefónica España	1,732	13.3	15.2
Telefónica UK	755	(45.5)	7.5
Telefónica Deutschland ⁽¹⁾	849	27.5	(6.4)
Telefónica Brazil	2,933	37.9	15.0
Telefónica Latin America (excl. Brazil)	2,842	(8.8)	29.1
Other partners and eliminations	338	(40.8)	
Telefónica Ireland ⁽²⁾	27	n.a.	
Telefónica Czech Republic ⁽³⁾	-	n.a.	
Spectrum	1,294	5.8	39.5
Telefónica España	-	n.a.	n.a.
Telefónica UK	-	n.a.	n.a.
Telefónica Deutschland ⁽¹⁾	-	n.a.	n.a.
Telefónica Brazil	889	n.a.	n.a.
Telefónica Latin America (excl. Brazil)	405	n.a.	n.a.
OpCF (OIBDA-CapEx)	6,067	(37.3)	(12.7)
Telefónica España	3,939	(18.1)	(21.0)
Telefónica UK	989	n.a.	(3.2)
Telefónica Deutschland ⁽¹⁾	(116)	c.s.	(38.3)
Telefónica Brazil	610	(66.4)	(13.0)
Telefónica Latin America (excl. Brazil)	1,226	(49.2)	2.2
Other partners and eliminations	(580)	n.a.	
Telefónica Ireland ⁽²⁾	24	n.a.	
Telefónica Czech Republic ⁽³⁾	-	n.a.	

- Conciliation information included in the published excel support.

Notes:

- OIBDA and OI of the businesses are presented before management and brand expenses.
- OIBDA is calculated as OIBDA over net turnover.
- The figures reported in 2012 and 2013 include adjustments for hyperinflation in Venezuela for both years.
- Since 1 January 2014, and due to the implementation of the new organisation announced in February 2014, activities performed before this date by Telefónica Digital, Telefónica Europe and Telefónica Latin America are integrated into the Global Corporate Centre, which simplifies the organisation. Moreover, since the beginning of the year, the new organisational structure comprises T. España, T. Brazil, T. Deutschland, T. UK, T. Latin America (Argentina, Chile, Peru, Colombia, Mexico, Venezuela and Central America, Ecuador and Uruguay). All those that are not specifically included in these segments are part of the 'Other companies and eliminations'. Therefore, the results of T. España, T. Brazil, T. Deutschland, T. UK, T. Latin America and 'other companies and eliminations' have been revised for the year 2013 to reflect the new aforementioned organisation. As an intragroup change,
- Organic criteria: constant 2013 average exchange rates are assumed (2013 average); the impact of the adjustment for hyperinflation in Venezuela is excluded from both years and the perimeter of consolidation is deemed constant. At an OIBDA and OI level, writedowns, capital gains/ losses for the sale of companies, sales of towers and non-recurrent material impacts are excluded. In 2014, the provision for restructuring costs, mostly accrued in the fourth quarter, in line with the simplification initiatives that the Group is implementing, was excluded. Additionally, CAPEX excludes spectrum investments and in 2014 it excludes changes in the urban classification of properties and investment in the Telefónica offices in Barcelona.

(1) The results include E-Plus in Telefónica Deutschland as of 1 October 2014.

(2) Telefónica Ireland was removed from the perimeter of consolidation as of 1 July 2014.

(3) Telefónica Czech Republic was removed from the perimeter of consolidation as of 1 January 2014.

Consolidated Results

In 2014, Telefónica took key steps and obtained visible results in its transformation strategy towards being a Digital Telco aimed at accelerating long-term sustainable growth. Both the investment and the management of the assets portfolio have focused on increasing its competitive positioning in higher-value sectors and markets, translating into an acceleration in income growth throughout the year. At the same time, it has maintained its strict cost management and obtained significant savings from the simplification of the new operating model. In this way, the OIBDA for the year has returned to growth in organic terms.

Total Telefónica **accesses** reached 341 million in December 2014, and grew 6% year-on-year after incorporating E-Plus customers in T. Deutschland and recording strong growth in T. Latin America, T. Brazil and T. UK. Excluding E-Plus accesses from the 2014 base, and T. Czech Republic and T. Ireland accesses from the 2013 base, the organic growth would be 2%. The total churn of 2.9% is almost totally stable when compared year-on-year (+0.1 p.p.).

- ⇒ **Mobile accesses** rose to 274.5 million and increased by 8% compared to 2013 (+2% organic), aided by the strong growth in mobile contracts (+11% reported; +8% organic), that continue to increase in weight towards 36% of mobile accesses (+1 p.p. year-on-year).
- ⇒ **Smartphones** maintain their strong growth rate (+39% year-on-year) at 90.4 million, reaching a penetration of 35% of total accesses (+8 p.p. year-on-year), a reflection of the Company's strategic focus on the growth of data services.
- ⇒ **Retail broadband accesses** reached 17.7 million (+1% organic year-on-year), with 138 thousand accesses in 2014 in organic terms.

There were 1.8 million fibre accesses in December 2014 (2.1 times as many compared to December 2013).

- ⇒ **Pay TV accesses** reached 5.1 million and year-on-year growth accelerated for the seventh consecutive quarter to 48% organic, after recording a quarterly net gain of 437 thousand customers, 2.7 times more than in October-December 2013. Thus, the annual net gain rose to 1.6 million accesses in organic terms (more than 6 times higher than the previous year). The net gain of 305 thousand T. España accesses in the fourth quarter and the acceleration of the net gain compared to the previous quarter of T. Latin America (1.8 times greater) stand out.

It is important to emphasise the decision of the Company to adopt the exchange rate of the Venezuelan bolívar, fixed to SICAD II at the end of 2014, as the most representative among existing exchange rates at that time, for the currency conversion of the accounting figures of flows and stocks, affecting economic and financial results. In the last transaction of the quarter, this rate was fixed at 30 bolívares per dollar.

The negative impact of exchange rate variation on year-on-year growth of income and OIBDA rose to 20.4 p.p. and 23.9 p.p., respectively (12.1 p.p. and 13.1 p.p., in January-December 2014).

At the same time, the exchange rate variation reduced the payment in euros of CAPEX, taxes and minority interests, practically completely compensating for the negative impact on OIBDA and neutralising its effect on cash generation in January-December 2014.

In addition, since 1 October E-Plus results have been consolidated in T. Deutschland, which, along with the deconsolidation of results of T. Czech Republic (since January 2014) and T. Ireland (since July 2014), affected the year-on-year variations reported in Company results. Therefore, the changes in the perimeter of consolidation during the fiscal year remove 2.1 p.p. from the revenue. The OIBDA deducts 3.5 p.p. in the year.



Revenues totalled 50,377 million euros in 2014 and organic growth accelerated in the fourth quarter to 5% year-on-year (+2.8% in the third quarter; +2.6% in January-December), with overall acceleration in all segments, except T. Brazil.

In reported terms, revenue has decreased year-on-year (-11.7% in January-December), affected by the negative impact of the exchange rates and the changes in the aforementioned perimeter of consolidation.

For services, revenue from mobile data continues to be one of the main levers for the Company's growth, with a 9.9% organic increase in 2014, and already represents 41% of the mobile service revenue, 3 p.p. more than in 2013. Revenue from non-SMS data grew an organic 23.9% in 2014, reaching 73% of data revenue.

Moreover, in the fourth quarter a provision of 644 million euros was made for restructuring costs and other non-recurring costs, in order to increase future efficiency of the Company (adjusting the structure to reduce complexity and achieve agility in execution), which affected operating expenditure items (557 million euros) and other expenses and net income (87 million euros). By segment, restructuring costs rose to 401 million euros in T. Deutschland, 99 million euros in T. Latin America, 68 million euros in T. Brazil, and 76 million euros in Other Companies and Eliminations.

Operating expenses rose to 36,149 million euros in January-December 2014 and grew an organic 3.8% year-on-year (-7.6% earned), mostly through higher commercial, network and systems expenses, despite the savings derived from the simplification and scale of Telefónica.

By items:

⇒ **Suppliers** (15,182 million euros in 2014) decreased by 0.5% compared to 2013 in organic terms (-10.9% earned), mostly due to lower mobile interconnection costs. In the fourth quarter it increased 4.1% organically year-on-year (-7.2% earned) due to greater activity of high range terminals and greater TV content expenses.

⇒ **Personnel** expenditure, 7,098 million euros in January-December, increased by 5.2% year-on-year in organic terms (+7.7% compared to the fourth quarter of 2013), mainly affected by price increases in certain countries. The variation produced in personnel expenses (-1.5% in January-December) is affected by the aforementioned provision.

The average workforce in 2014 was 120,497 employees, 7.2% less than in 2013 (-2.9% excluding changes in the perimeter of consolidation).

⇒ **Other operating expenses**, 13,869 million euros to December 2014, increased to 8.0% in organic terms, compared to the same period of the previous year (-6.7% earned), mostly due to commercial costs associated with the greater commercial drive, network costs related to traffic growth, as well as costs associated with modernisation of the network. In the fourth quarter there was an organic 10.4% year-on-year increase (-6.1% earned).

Other net **income and expenditure** totalled 200 million euros in 2014 (11 million euros in the fourth quarter) and were strongly affected in the quarter by the provision for non-recurring restructuring costs and the adoption of the previously mentioned fixed SICAD II exchange rate in Venezuela.

Gains on sales of fixed assets in 2014 rose to 327 million euros (208 million euros in the fourth quarter) and mainly reflects the non-strategic sale of towers (with an impact of 196 million euros on the OIBDA in January-December; 138 million euros in the fourth quarter, mostly in T. España), the sale of buildings in T. España (with an impact of 41 million euros on the OIBDA in the fourth quarter) and recording a profit related to the sale of fixed business assets in the United Kingdom once all the conditions established in the sales agreement have been fulfilled (49 million euros in the third quarter).

In 2013 this item rose to 161 million euros (58 million euros in the fourth quarter) and was mostly collected through the non-strategic sale of towers in T. Latin America, T. Brazil and T. España (with an impact of 111 million euros on the OIBDA from January-December; 71 million euros in the fourth quarter), the capital gains for the sale of fixed business assets in the United Kingdom (83 million euros, mostly in the second quarter), the capital gain for the sale of assets in Germany (76 million euros in the fourth quarter), the capital gain from the sale of Hispasat (21 million euros in the second quarter), the valuation adjustment of Telefónica Ireland (-16 million euros in the second quarter) and the valuation adjustment of Telefónica Czech Republic (-176 million euros from January-December; -120 million euros in the fourth quarter).

Operating Income before Depreciation and Taxes (OIBDA) totalled 15,515 million euros from January-December 2014 and increased by 0.2% year-on-year in organic terms, reflecting the growth in revenue and profits through the efficiency measures that were implemented and despite the higher business and network expenses, mentioned above. By region, T. Latin America stands out. It had 16.4% year-on-year organic growth, 2.1 p.p. more than in 2013 and contributed 4.8 p.p. to the OIBDA growth, leverage in the acceleration of growth in Mexico and Colombia.

In the fourth quarter, the OIBDA reached 3,190 million euros, remaining stable year-on-year in organic terms (-35.9% earned) and was affected by non-recurring factors, with a negative impact of 1,379 million euros: the adoption of the SICAD II exchange rate (-915 million euros), the provision of 644 million euros for restructuring costs, the sale of non-strategic towers

(+138 million euros impact on OIBDA) and the extraordinary sale of buildings in T. España (+41 million euros impact on OIBDA).

If the negative impact of regulation is excluded, the OIBDA grew in organic terms by 1.3% in 2014, and by 0.8% year-on-year in the fourth quarter.

In reported terms, the OIBDA has decreased by 18.7% in 2014, affected by the development in exchange rates, changes in the perimeter of consolidation and the previously mentioned non-recurring factors.

The **OIBDA margin** was 30.8% from January-December 2014 and had narrow organic erosion compared to 2013 (-0.8 p.p.). In the fourth quarter the OIBDA margin reached 25.7% (-1.6 p.p. year-on-year organic), strongly affected by the aforementioned non-recurring factors.

Depreciation and amortisation rose to 8,548 million euros in 2014, a reduction of 1.6% compared to 2013 in organic terms (-11.2% earned) by the lesser amortisation of fixed assets, mostly in Brazil. The total endowment to depreciations derived from the processes of assigning purchasing prices to assets was 708 million euros from January-December 2014 (-17.3% year-on-year), including, since 1 October, provisions related to the purchase of E-Plus.

The **operating income (OI)** reached 6,967 million euros in 2014 and increased by 1.9% compared to 2013 in organic terms. In earned terms, it decreased by 26.3% compared to 2013 and by 66.2% from October-December compared to the same period of the previous year, also affected by the aforementioned non-recurring factors.

Share of profit (loss) of investments accounted for by the equity method results was -510 million euros from January-December 2014, primarily explained by the losses recorded after classifying the stake in Telco, S.p.A. as an asset held for sale in the fourth quarter (-367 million euros). In 2013, this item totalled -304 million euros, mainly due to the value adjustments of Telco, S.p.A. in their participation in Telecom Italia.

Net financial expenses in 2014 rose to 2,822 million euros (-1.6% year-on-year) and include 293 million euros corresponding to the negative exchange rate differences mainly associated with the Company's decision to adopt the SICAD II fixed exchange rate for the Venezuelan bolívar. Excluding this impact, net financial expenses decreased by 8.2% year-on-year, helped by the 9.1% reduction in average debt, bringing the real cost of debt in the last twelve months to 5.40%, 6 p.p. above that of December 2013. The greater weight of foreign currency debt and the repayment and maturity of cheap debt in euros increased the average cost by 47 p.p., while the lesser currencies in Europe and Latin America decreased by 41 p.p.

The **corporate income tax** from January-December in 2014 rose to 383 million euros. In 2014 the effective rate reached 10.5%, 10.3 p.p. less than in 2013 due to the aforementioned impacts and the effect of the review of deferred taxes in Brazil, as a consequence of the legislative change in the second quarter of 2014.

The **results attributable to minority interests** in 2014 decreased the net profit by 251 million euros, and show a reduction of 33.2% compared to 2013, affected by the negative results from T. Deutschland in the fourth quarter, despite the greater result attributed to the minorities of Telefónica Brazil and Telefónica Colombia as a consequence of the improved business operating performance and the aforementioned fiscal impacts.

Therefore, and as a result of all the previously explained non-recurring factors and items, the consolidated net profit in 2014 reached 3,001 million euros (4,462 million euros in underlying terms), a decrease of 34.7% compared to the previous year (-18.6% underlying).

The **basic earnings per share** in underlying terms totalled 0.93 euros in 2014, a reduction of 21.2% compared to 2013 (-38.1% in earned terms).

During 2014, the Company continued to make advances in the modernisation and differentiation of the networks, dedicating 75% of the total investment, excluding spectrum, in the year to transformation and growth, 6 p.p. more than in 2013 in organic terms. Therefore, **CAPEX** grew 16.9% year-on-year in organic terms and totalled 9,448 million euros, including 1,294 million euros of spectrum acquisition (mainly in Brazil, Argentina and Venezuela in the fourth quarter and in Colombia and Central America in the first quarter), 49 million euros corresponding to changes in the urban classification of property in July-December, -40 million in restructuring costs and 29 million euros for the purchase of the Telefónica offices in Barcelona in the third quarter.

The **operating cash flow (OIBDA-CAPEX)** was 6,067 million euros in 2014 (-12.7% year-on-year organic; -37.3% earned).

Interest payments (2,530 million euros) rose by 4.8% compared to 2013 for non-recurring impacts (emphasising the differences in the debt payment calendar of 2014 compared to 2013, interest payments in 2014 of a 15-year zero coupon bond and charging interest in 2013 associated with the settlement returns of tax audit procedures), despite the average debt reduction allowing for a decrease in interest payments of 8.9% year-on-year.

Payment of taxes rose to 1,187 million euros in 2014 (1,806 million euros in 2013) and their year-on-year growth was affected by the development of exchange rates, especially by the adoption of the SICAD II fixed exchange rate in Venezuela, lower payments on account in 2014 and changes in the perimeter of consolidation.



In 2014 the **working capital** has positively contributed 2,107 million euros to the generation of cash, 1,451 million euros more than in 2013. The strong creation of working capital in the fourth quarter stands out at 2,483 million euros (+37.6% compared to the fourth quarter of 2013), mainly explained by: (i) the seasonality of the investment, (ii) receipts from divestment, (iii) receipts from trade agreements in the Czech Republic (advance deferred income) and (iv) restructuring expenses, to be paid in subsequent years. In January-December 2014, cash generation by working capital was driven by these factors, as well as by: (i) management methods performed to ensure the monetisation of income (factoring in deferred charges from sales of terminals), (ii) the reduction of payments in 2014 related to total operating expenses accrued in the year, through various management methods, and (iii) charges for trade agreements in Germany, Mexico and Brazil.

Operations with minority shareholders totalled 327 million euros in 2014, 277 million euros less than in 2013, mainly due to lower dividend payments for T. Brazil minorities, affected by the evolution of the Brazilian *real*, and changes in the perimeter of consolidation (sale of T. Czech Republic).

As a result of this, **free cash flow** climbed to 3,817 million euros in 2014 and to 4,748 million, excluding spectrum payments.

Net financial debt was 45,087 million euros as of December 2014, decreasing by 294 million euros compared to December 2013. Excluding the development of the exchange rate in Venezuela, which caused a 2,341 million euro increase in debt, debt would have decreased by 2,635 million euros. This decrease is mainly due to the generation of free cash before spectrum payments of 4,748 million euros, the issuance of capital instruments for a total amount of 4,699 million euros (including minority shareholders corresponding to the capital increase in Germany) and receipts of 3,981 million euros for the divestment of T. Czech Republic, T. Ireland and 2.5% of the holding in China Unicom. On the contrary, the factors that have increased the debt include net financial investments of 4,949 million euros, 3,382 million euros for the remuneration of capital instruments (including, among other things, the purchase of treasury shares, and payment of equity instrument coupons), spectrum payments for 932 million euros, payment of work-related commitments (789 million euros) primarily early retirements and other factors that increase the debt by 741 million euros.

The net financial debt increased by 3,887 million euros in the last quarter of 2014. This increase is mainly due to the net

financial investments in the amount of 3,838 million euros (which includes payment for the acquisition of E-Plus and the sale charge of 2.5% of the China Unicom holding), the impact of adopting the SICAD II exchange rate in Venezuela, which involved a debt increase of 1,231 million euros, spectrum payments in the amount of 753 million euros, 528 million euros for remuneration of capital instruments (including, among other things, treasury share acquisitions and payment for equity instrument coupons), the payment of work-related commitments (190 million euros) and other factors that increase the debt to 465 million euros. Conversely, the factors that have reduced the debt include the generation of free cash before the spectrum payment of 1,731 million euros, issuance of equity instruments in the amount of 850 million euros and the impact of changes in the exchange rate on the debt in the amount of 537 million euros.

The **debt ratio (net debt over OIBDA¹)** over the last 12 months to the end of 2014 is 2.74 times. Taking the expected completion of the sale of O2 UK into account, the ratio would be 2.15 times.

In 2014, Telefónica's **financial activity** in capital markets was approximately equivalent to 14,740 million euros and has mainly focused on completing the financing of the acquisition of E-Plus (through the issuance of a mandatory convertible bond in Telefónica shares for a notional amount of 1,500 million euros and the execution of the capital increase of T. Deutschland), strengthening the liquidity position, actively managing the cost of debt and smoothing the maturity composition of Telefónica, S.A. debt in the next few years. In this way, at the end of 2014, the Group shows a comfortable liquidity position to confront future debt maturities. In Latin America, Telefónica's subsidiaries turned to the financial markets in the period from January-December 2014 for an approximate equity sum of 267 million euros.

In T. Deutschland the capital increase of 3,700 million euros fully subscribed by Telefónica, S.A. and other minority shareholders for over 800 million euros stands out, as well as the 500 million euros bond placement by T. Deutschland in January.

After the close, in February 2015, a syndicated line of credit was signed with 33 financial entities for 2,500 million euros and maturity in February 2020. In parallel, the economic conditions of the syndicated line of credit have been modified to 3,000 million euros, signed in February 2014.

Telefónica S.A. and its holding companies have continued their issuance activities under various (Domestic and European)

1. Adjusted by the sale of companies, restructuring expenses and also including the OIBDA of E-Plus from January-September (homogenised under Telefónica accounting policies).

Commercial Paper Programmes, maintaining an outstanding balance of 502 million euros to December.

Telefónica has available credit lines committed to different banks for an approximate value of 11,545 million euros, approximately 10,618 million euros of which have a maturity greater than twelve months, which together with the adjusted cash position places liquidity at 19.4 billion euros.

Digital Services

The following developments stand out in the CCDO (Chief Commercial Digital Officer) department:

⇒ In the area of **Consumers (B2C)**, the **Video** business income reached 954 million euros in 2014 and grew 29% organically year-on-year, sequentially accelerating (+24% in January-September) due to the higher quality of service, continuous development of new and exclusive content and greater pay TV accesses. The latter increased 48% year-on-year in December, 7 p.p. more than in September, highlighting Spain, where it almost tripled compared to the previous year, Brazil (+20%) and Latin America (+14%).

It is worth mentioning the launch of 'Movistar Series' in Spain in December, which enables successful (sometimes exclusive) TV shows to be enjoyed from a day after their release in the United States.

In the area of **Financial Services**, both 'Yaap Shopping' (after a pilot test in Valladolid and Palma, the service currently operates at a national level in Spain) and 'Yaap Money' (launched with national coverage in September) strengthened customer loyalty. In Peru, the '*Movistar: tu dinero móvil*' service continues its expansion at a national level to capture the remittance business opportunity.

The department of **Global Device Management** continues to drive the adoption of smartphones, with special focus on LTE terminals. Therefore, in the fourth quarter, 75% of total devices acquired by the company were smartphones and 41% LTE (+24 p.p. year-on-year).

In the area of **Security** for end customers, at the end of the year there were 6.5 million customers in Brazil (x2 year-on-year). In the last quarter, new products were launched, among which 'Personnel Cloud' in Spain and device security products in Chile, Ecuador, Costa Rica and Colombia, are particularly noteworthy. Moreover, Telefónica has signed an agreement with Qustodio, a leading company in security solutions, that enables the digital life of minors to be protected and managed, and which has already been commercially launched in Spain ('Movistar Protege').

Furthermore, as a result of **Global Partnerships** formed by the Company, active subscribers to Evernote and Rhapsody reached 1.1 million and 0.2 million respectively as of December.

⇒ In the area of **Businesses (B2B)**, **M2M** revenue totalled 183 million euros in January-December 2014 and rose by 41% organic year-on-year due to greater M2M accesses (+16% year-on-year organic). During this quarter, an agreement was signed to launch a 'Plug and Play' option for Europe with Geotab, a leading provider of telematic fleet management technology.

Revenue from **Cloud** business is 342 million, 25% more than 2013 in organic terms. In the last three months, the 'Cloud storage' service was introduced in Spain, and the VDC (virtual data centre) service introduced in Argentina.

In the area of **Information Security**, revenues reached 115 million euros and year-on-year growth accelerated to 57% in organic terms (+42% in January-September) due to strong development in Spain and the United Kingdom. The management service of mobile devices stands out, multiplying the number of devices managed compared to the previous year by three, as well as developments in the Cybersecurity agreement reached with Etisalat. Also, the INCIBE (Spanish National Cybersecurity Institute) signed an agreement in Spain with ElevenPaths (a company specialising in the development of innovative security systems for



Telefónica), to drive the integration of cybersecurity services among SMEs.

Telefónica Global Resources

During 2014, Telefónica Global Resources obtained tangible results in the Company's technological transformation strategy, making significant advances in the modernisation of networks and systems towards a completely IP company. This process is framed in an effective management model centred on the simplification of operations and a reduction in legacy costs, which, in turn, allows the possibility of differentiating our product and service offers, improving customer satisfaction.

In the **global Network and Operations area** the deployment of ultra broadband (UBB) infrastructures continues to accelerate. Therefore, units of property with fibre reached 14.7 million as of December, doubling from the previous year; locations with LTE in service exceeded 20,100 (10,500 in 2013), and over 80% of LTE and 3G base stations have high speed connections to the transmission network. 4G coverage in Spain is 60% and the rollout of LTE in Latin America increased to 10 countries, having secured LTE spectrum in Argentina and Venezuela in the fourth quarter. This increase in UBB coverage contributed to fibre customers reaching 1.8 million in the Group in total (2.1x year-on-year) while there are 13.2 million LTE customers.

In relation to the expansion of network capacity, the following advances stand out:

- ⇒ First operator in Spain to deploy LTE-A (allowing speeds of up to 300 Mbps).
- ⇒ Renewal of the mobile network with SingleRAN technology in Spain and the United Kingdom.
- ⇒ Preparation of the mobile network in Germany for VoLTE (starting point for high definition voice services and other Multimedia IP services).

- ⇒ Patented design of Optical Termination Boxes for the deployment of fibre, which enable the availability of optical connectivity elements.

Thus, the development of the network anticipated a significant growth in all data traffic (+40% year-on-year in the fourth quarter; +36% in 2014), primarily explained by greater mobile broadband traffic (+65% year-on-year in the fourth quarter; +55% in 2014) and fixed broadband traffic (+38% year-on-year in the fourth quarter; +34% in 2014).

To accelerate the modernisation of the network to a UBB model that is completely IP, the execution of global projects has been crucial, structured under four areas of action:

- ⇒ Transformation of Operations Support Systems (OSS), with a focus on overall standardisation, simplification and optimisation of the support processes and systems.
- ⇒ Homogenisation of processes in various network areas, from the acceleration of efficiency projects to the integration of all operations in the global roaming technical unit.
- ⇒ Development of fixed access projects, such as operations adhering to the end-to-end management project of customer equipment specifications.
- ⇒ Virtualisation of the network (UNICA infrastructure) and customer equipment (vCPE, virtual *Customer Premises Equipment*).

The **area of global IT** continues to successfully manage and perform simplification and transformation through system processes, applications and integrations.

The acceleration of the transformation is reflected in the launch of 'Full Stack' projects in various Latin American countries (multichannel access, a unique range of products and services, reduction in Time to Market and 360 degree customer vision). Accordingly, 20 million customers have already migrated to this system in Argentina. Likewise, the launch of projects related to digital skills and customer experience in this fourth quarter should also be noted, such as:

- ⇒ 'TV Everywhere' service in Brazil, with TV content for Vivo fibre customers available on multiple devices (mobile, PC or tablet).
- ⇒ Single billing in Brazil for mobile, fixed, broadband and TV.
- ⇒ Rollout of a unified e-commerce solution for various countries in Latin America.
- ⇒ In Mexico, the Residential Activation System improves customer satisfaction, as it enables a reduction in the operating times and costs of activation equipment.
- ⇒ In Germany a systems platform has been set up to support the launch of MVNO.
- ⇒ In the United Kingdom the Shared Data platform has been launched, which offers flexibility to use data on various devices and between different people.

Also, through the range, shared IT services have been used, in order to develop by "doing things once", providing efficiencies and improvements in quality.

The advance of IT simplification in 2014 as a key factor in streamlining the transformation is summarised as:

- ⇒ Continuous progress in the reduction of applications, with over 430 applications removed since December 2013.
- ⇒ An increase in virtualised servers to 46% (+11 p.p. more than in December 2013), supported in the consolidation process by leading Data centre infrastructures, which reduce physical servers by 13%.
- ⇒ Closure of five Data centres, notably in Brazil, Spain and Chile.

Finally, the operational stability of systems has been improved, reducing the number of critical incidents by more than half, and increasing the availability of critical systems for business.

Definitions

2014 guidance criteria: organic growth excluding Venezuela.

Organic growth: constant 2013 average exchange rates are assumed (2013 average); the impact of the adjustment by hyperinflation in Venezuela is excluded from both years and the perimeter of consolidation is deemed constant. At an OIBDA and OI level, writedowns, capital gains/ losses for the sale of companies, sales of towers and non-recurrent material impacts are excluded. In 2014 the provision for restructuring costs, mostly accrued in the fourth quarter, in line with the simplification initiatives that the Group is implementing, was excluded. Additionally, CAPEX excludes spectrum investments, and in 2014 it excludes changes in the urban classification of properties and investment in the Telefónica offices in Barcelona.

Underlying growth: Reported figures excluding the effect of net income from writedowns, capital gains/losses from the sale of companies, sales of towers and non-recurring material impacts, such as the amortisation of assets that arose in assignation of purchasing price processes. In 2014, the following were excluded: the provision of restructuring costs, mainly accrued in the fourth quarter, the valuation adjustments of Telco S.p.A., as well as the impact of the adoption of the SICAD II exchange rate system in Venezuela.



Accesses

Telefónica. Accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Final Customer Accesses	309,785.3	311,331.2	314,141.6	316,759.9	306,816.6	309,332.7	309,561.4	334,526.9	5.6
Fixed telephone accesses ^{(1) (2) (3)}	39,764.2	39,520.8	39,399.8	39,338.5	37,593.5	37,544.0	37,325.4	36,830.0	(6.4)
Data and Internet accesses	19,404.6	19,023.3	19,112.4	19,102.0	18,121.9	18,168.2	18,168.1	18,151.7	(5.0)
Narrowband	618.2	590.0	567.7	510.8	421.0	411.9	397.8	373.1	(27.0)
Broadband ⁽⁴⁾	18,633.7	18,287.3	18,395.6	18,447.8	17,585.5	17,642.6	17,657.9	17,668.5	(4.2)
Other ⁽⁵⁾	152.7	145.9	149.1	143.4	115.4	113.6	112.4	110.1	(23.3)
Mobile accesses	247,312.0	249,460.0	252,188.1	254,717.2	247,534.1	249,428.6	249,417.9	274,458.0	7.8
Prepay ^{(6) (7)}	164,500.5	164,550.6	165,133.3	165,557.0	161,410.9	161,299.0	160,535.5	175,720.4	6.1
Contract ⁽⁸⁾	82,811.5	84,909.4	87,054.9	89,160.3	86,123.3	88,129.6	88,882.5	98,737.6	10.7
M2M ⁽⁹⁾	7,142.7	7,768.0	8,175.8	8,631.8	8,307.0	8,761.2	8,957.5	9,787.4	13.4
Pay TV ⁽¹⁰⁾	3,304.5	3,327.1	3,441.2	3,602.2	3,567.1	4,191.9	4,650.0	5,087.2	41.2
Wholesale Accesses	5,866.1	6,003.2	6,173.9	6,358.5	6,327.7	6,438.6	6,585.6	6,521.6	2.6
Unbundled Loop	3,404.8	3,522.0	3,665.4	3,833.4	3,910.8	3,979.1	4,034.1	4,087.3	6.6
Shared ULL	169.5	157.6	147.3	130.6	116.1	105.5	96.6	94.1	(27.9)
Full ULL	3,235.3	3,364.4	3,518.1	3,702.9	3,794.7	3,873.7	3,937.5	3,993.3	7.8
ADSL Wholesaler	854.7	857.6	864.0	866.9	746.8	751.3	849.5	750.1	(13.5)
Other	1,606.7	1,623.6	1,644.5	1,658.2	1,670.1	1,708.1	1,702.0	1,684.1	1.6
Total Accesses	315,651.4	317,334.4	320,315.5	323,118.4	313,144.3	315,771.3	316,147.0	341,048.5	5.5

Telefónica. Mobile accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Prepay percentage (%)	66.5%	66.0%	65.5%	65.0%	65.2%	64.7%	64.4%	64.0%	(1.0 p.p.)
Contract percentage (%)	33.5%	34.0%	34.5%	35.0%	34.8%	35.3%	35.6%	36.0%	1.0 p.p.
MBB accesses (thousands)	55,249.2	63,300.5	67,420.1	72,844.0	76,191.3	81,304.4	89,112.6	98,220.5	34.8%
MBB penetration (%)	22%	25%	27%	29%	31%	33%	36%	36%	7.2 p.p.
Smartphones (thousands)	46,925.1	55,083.3	59,370.6	65,029.9	68,907.0	74,171.9	82,282.2	90,365.7	39.0%
Smartphone penetration (%)	20%	24%	25%	27%	30%	32%	35%	35%	7.9 p.p.

Note:

The accesses stopped consolidating T. Czech Republic data in the first quarter of 2014 and T. Ireland data in the third quarter of 2014, and have been consolidating E-Plus accesses since the fourth quarter of 2014.

(1) PSTN (including Public Use Telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 digital Access x30. Includes self-consumption. Fixed wireless voice accesses are included.

(2) In the first quarter of 2014, 45 thousand inactive fixed wireless accesses were disconnected in Mexico.

(3) In the second quarter of 2014, fixed telephone accesses included 50 thousand additional fixed wireless customers in Peru.

(4) It includes ADSL, satellite, optical fibre, cable modem and broadband circuits.

(5) Remaining retail circuits that are not broadband.

(6) In the first quarter of 2014, 1.9 million inactive accesses were disconnected in Mexico.

(7) In the fourth quarter of 2014, 1.8 million inactive accesses were disconnected in Central America.

(8) 428 thousand E-Plus accesses were excluded in the fourth quarter of 2014, before its integration by the harmonisation of criteria and disconnection of a partner.

(9) In the first quarter of 2014, 569 thousand inactive accesses were disconnected in Spain.

(10) In the second quarter of 2014, pay TV accesses included 131 thousand 'TV Mini' customers in Spain.

Consolidated Results

Telefónica. Consolidated Results

Unaudited data (millions of euros)	January-December		% Variation	
	2014	2013	Reported	Organic
Revenues	50,377	57,061	(11.7)	2.6
Internal expense capitalised	774	794	(2.5)	1.0
Operating expenses	(36,149)	(39,112)	(7.6)	3.8
Supplies	(15,182)	(17,041)	(10.9)	(0.5)
Personnel costs	(7,098)	(7,208)	(1.5)	5.2
Other operating expenses	(13,869)	(14,863)	(6.7)	8.0
Other net revenues (expenses)	200	212	(6.0)	37.7
Result of disposal of fixed assets	327	161	n.a.	(39.5)
Impairment and goodwill	(13)	(39)	(65.8)	(66.5)
Telefónica Operating Income Before Depreciation and Amortisation (OIBDA)	15,515	19,077	(18.7)	0.2
OIBDA margin	30.8%	33.4%	(2.6 p.p.)	(0.8 p.p.)
Depreciation and amortization	(8,548)	(9,627)	(11.2)	(1.6)
Operating income (OI)	6,967	9,450	(26.3)	1.9
Share of investment results by the equity method	(510)	(304)	68.2	
Net financial income	(2,822)	(2,866)	(1.6)	
Pre-tax income	3,635	6,280	(42.1)	
Income tax	(383)	(1,311)	(70.8)	
Earnings in the fiscal year from continued operations	3,252	4,969	(34.6)	
Results attributable to minority interests	(251)	(376)	(33.2)	
Net income	3,001	4,593	(34.7)	
Weighted average number of ordinary shares outstanding (millions)	4,606	4,628	(0.5)	
Basic net earnings per share (euros)	0.61	0.99	(38.1)	

Notes:

- Basic earnings per share were calculated by dividing the amount of income in the period attributed to shareholders of the parent company, adjusted by the imputation of the net income for the year corresponding to 'other equity instruments', between the weighted average of ordinary shares outstanding during the period.
- To calculate the basic net income per share, the weighted average of the shares outstanding during the period was obtained by applying IAS 33 Earnings per Share. Therefore the weighted average of treasury shares during the period are not calculated as shares outstanding.
- In the calculation of earnings per share (basic and diluted), the denominators have been adjusted to reflect transactions that caused a change in the number of shares outstanding without variation associated with the net equity figure, as though they had taken place at the beginning of the first period presented. This is the case for the capital increases freely conducted in 2014 and 2012 to meet the scrip dividend. Likewise, ordinary shares that would be issued for the conversion of mandatory convertible bonds issued on 24 September 2014 have been included in the calculation from that date.
- The figures reported in 2013 and 2014 include adjustments for inflation in Venezuela in both years.
- The consolidated results of the Telefónica Group consolidate the results of E-Plus since the fourth quarter of 2014 and deconsolidate the results of Telefónica Czech Republic since the first quarter of 2014 and Telefónica Ireland since the third quarter of 2014.



Reported vs. organic

Telefónica. Reported vs. organic

	January - December				%
	2014 Reported	2014 Organic	2013 Organic	Year-on-year organic variance	
Revenues	50,377	55,959	54,523	2.6	(11.7)
OIBDA	15,515	18,156	18,129	0.2	(18.7)
OIBDA margin	30.8%	32.4%	33.2%	(0.8 p.p.)	(2.6 p.p.)
Operating Income (OI)	6,967	9,378	9,203	1.9	(26.3)
CAPEX	9,448	9,119	7,866	16.9	0.6
OpCF (OIBDA-CAPEX)	6,067	8,957	10,263	(12.7)	(37.3)

	2014	2013
Reported revenue	50,377	57,061
Impact of exchange rate	6,549	
Hyperinflation in Venezuela	(187)	(556)
Changes in the perimeter of consolidation	(780)	(1,983)
Organic revenue	55,959	54,523
OIBDA reported	15,515	19,077
Impact of exchange rate	2,360	
Hyperinflation in Venezuela	(69)	(203)
Sale of towers	(197)	(111)
Provision of restructuring costs	670	
T. Ireland value adjustment		16
T. Czech Republic value adjustment		176
Sale of Hispasat		(21)
Sale of TMAS		(7)
Changes in the perimeter of consolidation	(122)	(798)
Organic OIBDA	18,156	18,129
CAPEX reported	9,448	9,395
Impact of exchange rate	1,796	
Hyperinflation in Venezuela	(35)	(58)
Spectrum acquisition	(1,706)	(1,223)
Urban classification of properties	(49)	
Telefónica Barcelona offices	(29)	
Provision of restructuring costs	(40)	
Changes in the perimeter of consolidation	(185)	(248)
Organic CAPEX	9,119	7,866

- The opening of the effects for the 2014 reported organic reconciliation excludes the impacts derived from the exchange rate and therefore assumes average exchange rates, constant as of December 2013. The impact of the exchange rate on these effects is included in its entirety in the section 'Impact of Foreign Exchange'.

- Organic criteria: constant 2013 average exchange rates are assumed (2013 average); the impact of the adjustment by inflation in Venezuela is excluded from both years and the perimeter of consolidation is deemed constant. At an OIBDA and OI level, writedowns, capital gains/losses for the sale of companies, sales of towers and non-recurrent material impacts are excluded. In 2014 the provision for restructuring costs, mostly accrued in the fourth quarter, in line with the simplification initiatives that the Group is implementing, was excluded. Additionally, CAPEX excludes spectrum investments and in 2014 it excludes changes in the urban classification of properties and investment in the Telefónica offices in Barcelona.

Consolidated statement of financial position

Telefónica. Consolidated statement of financial position

Unaudited data (millions of euros)	December 2014	December 2013	% Var
Non-current assets	99,435	89,597	11.0
Intangible	22,353	18,548	20.5
Goodwill	25,111	23,434	7.2
Tangible fixed assets and investment properties	33,343	31,040	7.4
Equity accounted investments	788	2,424	(67.5)
Non-current financial assets	10,973	7,775	41.1
Deferred tax assets	6,867	6,376	7.7
Current assets	22,864	29,265	(21.9)
Stocks	934	985	(5.2)
Debtors and other receivables	10,606	9,640	10.0
Tax receivables	1,749	1,664	5.1
Current financial assets	2,932	2,117	38.5
Cash and cash equivalents	6,529	9,977	(34.6)
Non-current assets held for sale	114	4,882	(97.7)
Total Assets = Total Liabilities	122,299	118,862	2.9
Net worth	30,289	27,482	10.2
Net worth attributable to parent Company shareholders and other equity instrument holders	21,115	21,185	(0.3)
Net worth attributable to minority interests	9,174	6,297	45.7
Non-current liabilities	62,311	62,236	0.1
Long-term financial debt	50,688	51,172	(0.9)
Creditors and other accounts payable in the long term	2,377	1,701	39.8
Deferred tax liabilities	2,566	3,063	(16.2)
Long-term provisions	6,680	6,300	6.0
Current liabilities	29,699	29,144	1.9
Short-term financial debt	9,094	9,527	(4.5)
Creditors and other accounts payable in the short-term	16,943	15,221	11.3
Tax payables	2,026	2,203	(8.1)
Short-term provisions	1,595	1,271	25.5
Liabilities associated with non-current assets held for sale	41	922	(95.6)
Financial data			
Net Financial Debt ⁽¹⁾	45,087	45,381	(0.6)

Note:

- The figures reported in 2013 and 2014 include adjustments by hyperinflation in Venezuela in both years.

(1) Figures in millions of euros. The net financial debt in December 2014 includes: Long term financial debt + Creditors and other long term accounts payable (1,276) + Short-term financial debt + Creditors and other short term accounts payable (210) - Non-current financial assets (6,267) - Current financial assets - Debtors and other short-term accounts payable (453) - Cash and cash equivalent.



Cash flow and change in debt

Telefónica. Cash flow and change in debt

Unaudited data (millions of euros)		January - December		
		2014	2013	% Var
I	Operating cash flow	15,940	18,566	(14.1)
II	Net interest payments ⁽¹⁾	(2,530)	(2,415)	
III	Corporation tax payment	(1,187)	(1,806)	
A=I+II+III	Net operating cash flow before investments	12,224	14,346	(14.8)
B	Net payments for investment in tangible and intangible assets	(8,870)	(9,140)	
	Spectrum ⁽²⁾	(932)	(1,499)	
C=A+B	Operating cash flow withheld	3,354	5,206	(35.6)
D	Net proceeds from property divestment	5	26	
E	Net payments for financial investment ⁽³⁾	(536)	(110)	
F	Net payments for operations with minority shareholders and treasury stock ⁽⁴⁾	144	397	
G=C+D+E+F	Free cash flow after dividends	2,967	5,519	(46.3)
H	Effects of exchange rate on net financial debt	2,405	(168)	
I	Effects of perimeter changes on net financial debt and others	268	(191)	
J	Net financial debt at the beginning of the period	45,381	51,259	
K=J-G+H+I	Net financial debt at the end of the period	45,087	45,381	(0.6)

- Note: The figures reported in 2013 and 2014 include adjustments by hyperinflation in Venezuela in both years.

(1) Includes the payment of dividends of subsidiaries that are not globally consolidated.

(2) In 2014 includes the following spectrum payments: 545 million euros in Brazil, 166 million euros in Argentina, 93 million euros in Colombia, 82 million euros in Panama, 39 million euros in Venezuela, 5 million euros in the United Kingdom, and 2 million euros in Nicaragua. In 2013: 669 million euros in the United Kingdom, 531 million euros in Brazil, 119 million euros in Peru, 73 million euros in Colombia, 69 million euros in Spain, 24 million euros in Uruguay, 8 million euros in Ireland, 4 million euros in Mexico and 1 million euros in Nicaragua.

(3) In 2014 it includes the receipt of 2,163 million euros for the sale of T. Czech Republic, 754 million euros for the sale of T. Ireland, 814 million euros for the Telefónica Deutschland capital increase and the receipt of 687 million euros for the sale of 2.5% of China Unicom. It also includes the payment of 4,569 million euros for the acquisition of E-Plus and 325 million euros for the acquisition of 22% of Mediasat in DTS.

(4) Payment of dividends by Telefónica S.A., treasury stock operations, subordinated perpetual bond issues, issues of mandatory bonds convertible into Telefónica S.A. shares and transactions with minority shareholders for subsidiaries consolidated by global integration.

Reconciliations of cash flow plus OIBDA minus CAPEX

Telefónica. Reconciliations of cash flow plus OIBDA minus CAPEX

Unaudited data (millions of euros)	January - December		
	2014	2013	% Var
OIBDA	15,515	19,077	(18.7)
- CAPEX accrued during the period	(9,448)	(9,395)	
+ Payments for amortisation of commitments	(789)	(789)	
- Net interest payments	(2,530)	(2,415)	
- Corporation tax payment	(1,187)	(1,806)	
- Result of disposal of assets, goodwill and fixed assets	(314)	(122)	
- Investment in capital and other deferred income and expenses	2,107	656	
= Operating cash flow withheld	3,354	5,206	(35.6)
+ Net proceeds from property divestment	5	26	
- Net payments for financial investment	(536)	(110)	
- Operations with minority shareholders and own stock	144	397	
= Free cash flow after dividends	2,967	5,519	(46.3)

Unaudited data (millions of euros)	January - December		
	2014	2013	% Var
Operating cash flow withheld	3,354	5,206	(35.6)
+ Payments for amortisation of commitments	789	789	
- Operations with minority shareholders	(327)	(604)	
= Free cash flow	3,817	5,391	(29.2)
Weighted average number of ordinary shares outstanding (millions)	4,606	4,628	
= Free cash flow per share (euros)	0.83	1.16	(28.9)

Notes:

- The "Free Cash Flow" concept reflects the amount of cash flow available to remunerate Telefónica S.A. shareholders, to protect solvency levels (financial debt and commitments) and to accommodate strategic flexibility.
- The differences with the 'withheld operating cash flow' in the previous table are due to the 'Free cash flow' being calculated before amortisation of commitments (for payment of work-related commitments) and after transactions with minority shareholders, as a result of the recirculation of funds within the Group.
- In the calculation of free cash flow per share, the denominators have been adjusted to reflect transactions that caused a change in the number of shares outstanding without variation associated with the net equity figure, as though they had taken place at the beginning of the first period presented. This is the case in the capital increases freely conducted in 2014 and 2012 to meet the scrip dividend. Likewise, ordinary shares that would be issued for the conversion of mandatory convertible bonds issued on 24 September 2014, have been included in the calculation from that date.
- The figures reported in 2013 and 2014 include adjustments by hyperinflation in Venezuela in both years.



Telefónica España

The results of Telefónica España in 2014 have been a turning point in the transformation of the Company, reflecting a gradual recovery of revenue that allows an increase in the sustainability of the business model and commitment to future growth, in a more favourable macroeconomic and competitive environment.

Thus, the revenue has confirmed a clear trend of improvement quarter by quarter, supported by a differential competitive position that has driven the level of commercial activity, the penetration of growing services (fibre, TV and 4G), the level of customer loyalty and satisfaction, and has enabled the base of higher value accesses to be stabilised.

In this way, at the end of 2014 the Company became the market leader in pay TV with 1.9 million customers (x3 year-on-year), 100 Mb fibre exceeded one million customers (x2 year-on-year) and the mobile contract base had positive net gains in the year for the first time since 2011 (excluding the deactivation of M2M accesses in the first quarter).

Throughout the year, the commercial offer has continually improved, offering the customer better value. In this regard, in the convergent portfolio of 'Fusión', the following are notable: the launch of 'Movistar Fusión TV' in April, the increase in volume of mobile data and the more flexible content package contracts in the third quarter, and the launch of 'Movistar Series' in December, an 'a la carte' and multi-screen TV service, which for a fee of 7 euros per month (including VAT) enables customers to enjoy successful (sometimes exclusive) TV series only days after their release in the United States. In terms of the offer for mobile only contracts, the October launch of the new 'VIVE' portfolio should be mentioned, as well as its renewal in February 2015, with an increased volume of data and the introduction of new value-added services.

Telefónica España manages 41.2 million **accesses**, 1% less than at the end of 2013, due to the deactivation of 569 thousand inactive M2M mobile contract lines in the first quarter of the year.

⇒ **'Movistar Fusión'**, with a following of 3.7 million customers and 1.4 million additional mobile lines, continues to show strong growth (+27% compared to 2013) and increased penetration levels (73% fixed broadband and 57% mobile contract in the residential segment).

The registrations which incorporate new services represent 80% of those of that quarter (78% in the previous quarter and 64% in the same quarter of 2013), while the contracting of higher quality products (fibre and TV) continues to increase. Thus, 21% of 'Fusión' customers already have 100 Mb Fibre (+8 p.p. year-on-year) and 45% enjoy IPTV (+31% year-on-year).

'Movistar Fusión' churn is 1.1% and ARPU 69.3 euros.

⇒ **Retail broadband accesses** rose to 5.9 million, with year-on-year growth of 1% (39 thousand in the year), driven by the good fibre performance and the reduction in the churn (1.5%, -0.1 p.p. year-on-year).

Fibre customers already represent 22% of broadband use, with 1.3 million accesses (more than double the previous year) and with 100 Mb accesses exceeding over a million customers. Likewise, the customers' greater preference for high speed is noticeable, as 141 thousand of the new accesses in the final quarter of the year correspond to the 100 Mb modality, with a lesser churn than ADSL (x0.5 times) and greater ARPU (10 euros premium price, 12 euros with VAT).

The strong rate of fibre deployment reached 10.3 million property units by the end of the year, fulfilling the set target, although the pace of future deployment is dependent on future regulation.

⇒ The installation of **pay television accesses** totalled 1.9 million, almost triple that of December 2013, confirming the success of 'Movistar TV' as a key lever in the differentiation of the converging offer with quality content and innovative features. Net gain rose to 1.2 million in the year, and good churn performance should be noted (1.0%; -1.9% p.p. year-on-year), which remains at historic lows.

⇒ Total mobile accesses stood at 17.6 million, 8% less than December 2013, affected by the disconnection of 569 thousand inactive M2M contract accesses in the first quarter, as previously mentioned.

It is important to emphasise the recovery of the contract reserve, with a positive net gain of 77 thousand accesses in 2014 (excluding the impact of M2M disconnections) that marks the return to year-on-year growth for the first time since 2011 (+0.5% year-on-year), supported by the churn

reduction (-0.2 p.p. compared to 2013) as well as the lower loss of customers for portability (-30% year-on-year) and the growth in registrations (+10% year-on-year).

78% of mobile voice service contract customers in the residential segment have already migrated to 'Fusión' or to the new mobile rates launched since 2013.

Smartphones already account for 61% of the mobile voice service, 10 p.p. more than in December 2013, driven by the growth in data traffic (+28% for the entire year). The deployment of the LTE network continues to develop satisfactorily, and in December 2014 it reached a coverage of 58% of the population.

The improvement in commercial performance, the growth in value customers and the lesser impact of the repositioning has consolidated the stabilisation of **revenue** of Telefónica España throughout the year. Thus, in 2014 revenue totalled 12,023 million euros, recording a year-on-year fall of 7.2% (6.4 p.p. less than the decline in 2013).

Given the high level of convergence, the breakdown of revenue by business is becoming less representative. However:

- ⇒ **Revenue from fixed business** (8,543 million euros) decreased by 3.6% year-on-year in 2014, thanks to improved performance of broadband and new services (TV and data).
- ⇒ **Revenue from mobile business** (4,556 million euros) fell by 11.0% year-on-year in January-December, mainly due to the improvements in the development of customer revenue.

Operating expenses stood at 6,965 million euros in 2014 and decreased by 1.1% year-on-year thanks to cost controls and the transformation efficiencies that the Company introduced several years ago. By items:

- ⇒ **Supply costs** (2,592 million euros) increased by 4.2% compared to 2013 despite the savings in interconnection costs of the first two quarters, and mainly reflect a higher expenditure on mobile terminals and TV content.
- ⇒ **Personnel expenses** (2,139 million euros) grew by 1.2% compared to 2013, mainly due to the completion of the workforce restructuring plan in 2013 (a saving of 95 million euros in 2014) and the temporary cancellation of the pension

plan contribution by the Company, beginning in April 2013 and ending on 1 July 2014 (a saving of 28 million euros in 2014). At year end, the Telefónica España workforce was made up of 35,006 employees.

- ⇒ **Other operating expenses** (2,234 million euros) decreased by 8.5% compared to 2013 and their rate of decline increased in the fourth quarter up to 13.6% year-on-year, reflecting the savings obtained through the simplification processes, redefining channels and internationalisation of activities, and despite a greater commercial effort in advertising and sales of terminals.

The **OIBDA** in 2014 rose to 5,671 million euros (-10.6% year-on-year) and was affected by the greater commercial effort made to capture the growth and value opportunity offered by the market.

OIBDA development is affected by the sale of towers, both in 2014 (191 million euros) and in 2013 and by the extraordinary sale of buildings.

In 2014, the OIBDA decreased by 12.6% year-on-year in organic terms and the margin stood at 47.2% (-2.8 p.p. year-on-year organic).

CAPEX reached 1,732 million euros in 2014 (+13.3% year-on-year reported) and grew in organic terms by 15.2% year-on-year (without counting the 69 million euros associated with the extension of the 900 MHz spectrum licence in 2013 and 49 million euros related to changes in the urban classification of properties in 2014, 6 million in the final quarter). The year-on-year increase reflects the greater pace of connection for fibre and TV customers, as well as the rapid deployment of the fibre



Accesses

Telefónica España. Accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Final Customer Accesses	38,196.6	37,695.5	37,171.2	36,663.6	35,588.4	35,702.4	35,845.3	35,836.7	(2.3)
Fixed telephone accesses ⁽¹⁾	11,587.2	11,420.3	11,261.3	11,089.8	10,883.9	10,715.4	10,595.2	10,447.8	(5.8)
Free ADSL	22.9	22.5	22.4	22.8	22.1	21.9	21.9	21.3	(6.6)
Data and Internet accesses	5,830.2	5,860.5	5,872.6	5,899.0	5,909.5	5,913.8	5,920.9	5,928.7	0.5
Narrowband	53.2	50.2	46.1	38.5	35.9	39.0	35.9	30.9	(19.6)
Broadband ⁽²⁾	5,761.7	5,795.6	5,812.3	5,846.8	5,860.3	5,862.0	5,872.7	5,885.9	0.7
Fibre	372.0	430.9	494.0	593.7	701.3	861.0	1,068.9	1,316.8	n.a.
Other ⁽³⁾	15.3	14.7	14.3	13.7	13.3	12.8	12.3	11.9	(13.7)
Mobile accesses	20,119.3	19,782.3	19,428.0	19,002.1	18,064.7	17,863.6	17,749.7	17,575.4	(7.5)
Prepay	4,966.5	4,769.5	4,560.0	4,262.7	3,996.7	3,767.8	3,559.2	3,328.1	(21.9)
Contract	15,152.7	15,012.8	14,867.9	14,739.3	14,068.0	14,095.8	14,190.5	14,247.3	3.3
M2M ⁽⁴⁾	1,927.2	1,961.3	1,979.4	1,991.3	1,446.6	1,491.9	1,566.9	1,612.4	(19.0)
Pay TV ⁽⁵⁾	659.9	632.5	609.3	672.7	730.3	1,209.5	1,579.4	1,884.7	n.a.
Wholesaler accesses	4,502.0	4,626.5	4,792.2	4,990.1	5,150.3	5,238.0	5,309.0	5,366.0	7.5
AMLT (Wholesaler access to the Telefónica line) ⁽⁶⁾	485.9	488.6	506.6	525.8	541.7	556.0	564.0	570.6	8.5
Unbundled Loop	3,358.1	3,475.3	3,619.0	3,787.1	3,910.8	3,979.1	4,034.1	4,087.3	7.9
Shared ULL	169.5	157.6	147.3	130.6	116.1	105.5	96.6	94.1	(27.9)
Full ULL ⁽⁷⁾	3,188.6	3,317.6	3,471.7	3,656.5	3,794.7	3,873.7	3,937.5	3,993.3	9.2
ADSL Wholesaler	657.6	662.2	666.2	676.8	697.5	702.5	710.6	707.8	4.6
Other ⁽⁸⁾	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	(28.5)
Total Accesses	42,698.6	42,322.0	41,963.3	41,653.6	40,738.7	40,940.4	41,154.3	41,202.7	(1.1)

Note:

(1) PSTN (including Public Use Telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 Digital Access x30. Includes self-consumption. Includes VoIP and free ADSL.

(2) Includes ADSL, satellite, optical fibre and broadband circuits.

(3) Leased circuits.

(4) In the first quarter of 2014, 569 thousand inactive accesses were disconnected.

(5) In the second quarter of 2014, pay TV accesses included 131 thousand 'TV Mini' customers.

(6) Wholesale line rental.

(7) Includes naked shared loop.

(8) Wholesale circuits.

Telefónica España. Mobile accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Prepay percentage (%)	24.7%	24.1%	23.5%	22.4%	22.1%	21.1%	20.1%	18.9%	(3.5 p.p.)
Contract percentage (%)	75.3%	75.9%	76.5%	77.6%	77.9%	78.9%	79.9%	81.1%	3.5 p.p.
MBB accesses (thousands)	7,888.8	8,375.8	8,486.8	8,761.5	9,055.8	9,271.7	9,259.0	9,754.4	11.3%
MBB penetration (%)	39%	42%	44%	46%	50%	52%	52%	56%	9.4 p.p.
Smartphones (thousands)	7,230.7	7,841.8	8,027.3	8,382.6	8,738.2	8,989.7	9,008.8	9,535.9	13.8%
Smartphone penetration (%)	41%	45%	47%	50%	54%	56%	57%	61%	10.2 p.p.

Telefónica España. Fusión accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Fusión Customers	1,733.7	2,190.7	2,566.2	2,916.3	3,221.3	3,389.3	3,557.5	3,716.9	27.5
Mobile add-ons	704.2	864.6	1,012.2	1,139.9	1,245.0	1,303.6	1,352.9	1,394.9	22.4

Telefónica España. Consolidated results

Unaudited data (millions of euros)	January-December		% Variation	
	2014	2013	Reported	Organic
Revenues	12,023	12,959	(7.2)	(7.2)
Net amount of turnover excluding the sale of mobile terminals	11,355	12,417	(8.6)	(8.6)
Mobile Business	4,556	5,121	(11.0)	(11.0)
Mobile service revenue	3,888	4,580	(15.1)	(15.1)
Data revenue	1,508	1,606	(6.1)	(6.1)
Revenue from terminals	668	542	23.4	23.4
Fixed business	8,543	8,861	(3.6)	(3.6)
Revenue from BA and new services ⁽¹⁾	4,368	4,289	1.8	1.8
Voice and access revenue	3,547	4,096	(13.4)	(13.4)
Other	627	476	31.9	31.9
Fixed assets works	316	286	10.5	10.5
Operating expenses	(6,965)	(7,042)	(1.1)	(1.1)
Provisioning	(2,592)	(2,486)	4.2	4.2
Personnel costs	(2,139)	(2,113)	1.2	1.2
Other operating expenses	(2,234)	(2,442)	(8.5)	(8.5)
Other net revenues (expenses)	32	50	(35.7)	(30.2)
Result of disposal of assets	268	97	n.a.	n.a.
Disposal of fixed assets and goodwill	(3)	(9)	(67.3)	(67.3)
Operating Income Before Depreciation and Amortisation (OIBDA)	5,671	6,340	(10.6)	(12.6)
OIBDA margin	47.2%	48.9%	(1.8 p.p.)	(2.8 p.p.)
CAPEX ⁽²⁾	1,732	1,529	13.3	15.2
Spectrum	-	69	n.a.	n.a.
OpCF (OIBDA-CAPEX) ⁽²⁾	3,939	4,811	(18.1)	(21.0)

Note:

- OIBDA before management and brand expenses.

(1) Includes BA connectivity services (retail and wholesale), value-added services, TV services, data and IT revenues and other connectivity services.

(2) In the third and fourth quarters of 2014, the organic variance also excludes changes in the urban classification of properties.



Telefónica España. Mobile operators' operating data

Unaudited data (thousands)	2013		2014			% Local M Var
	4Q	1Q	2Q	3Q	4Q	
Voice traffic (millions of minutes)	8,768	8,588	8,988	8,992	9,033	3.0
Data traffic (TB) ⁽¹⁾	13,579	14,058	15,197	18,295	22,278	64.1
ARPU (EUR)	16.4	16.1	16.0	16.0	15.5	(5.5)
Prepay	6.5	6.3	6.0	6.6	5.9	(9.5)
Contract ⁽²⁾	22.3	21.0	20.8	20.6	20.0	(10.3)
Data ARPU (EUR)	6.8	6.9	6.9	7.1	7.1	4.6
% non-SMS revenue s/ing data	93.8%	94.8%	95.4%	94.5%	95.3%	1.5 p.p.
Churn	2.3%	3.5%	2.0%	1.8%	1.9%	(0.4 p.p.)
Contract ⁽²⁾	2.0%	2.2%	1.7%	1.5%	1.5%	(0.5 p.p.)

Unaudited data (thousands)	2013		2014			% Local M Var
	Jan-Dec	Jan-Mar	Jan-June	Jan-Sept	Jan-Dec	
Voice traffic (millions of minutes)	34,428	8,588	17,575	26,567	35,600	3.4
Data traffic (TB)	54,590	14,058	29,255	47,549	69,827	27.9
ARPU (EUR) ⁽¹⁾	17.7	16.1	16.0	16.0	15.9	(10.1)
Prepay	7.3	6.3	6.1	6.3	6.2	(14.5)
Contract ⁽²⁾	24.0	21.0	20.9	20.8	20.6	(14.2)
Data ARPU (EUR) ⁽¹⁾	6.8	6.9	6.9	7.0	7.0	3.6
% non-SMS revenue s/ing data	92.1%	94.8%	95.1%	94.9%	95.0%	2.8 p.p.
Churn ⁽¹⁾	2.2%	3.5%	2.8%	2.5%	2.3%	0.1 p.p.
Contract ⁽²⁾	2.0%	2.2%	1.9%	1.8%	1.7%	(0.3 p.p.)

Notes:

- ARPU: average monthly revenue divided between the ratios of average accesses for the period.

- Voice traffic is defined as the minutes used by the Company's customers, both incoming and outgoing. On-net traffic is calculated once (as outgoing), and includes promotional traffic. Traffic that is not associated with the Company's mobile customers is excluded (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

- Data traffic such as Terabytes used by Company customers, both in uploading and downloading (1TByte = 10¹² bytes). Promotional traffic is included. Traffic that is not associated with the Company's mobile customers is included (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

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

(2) Excludes M2M.

Telefónica UK

(Year-on-year variations in local currency)

and LTE network, differential assets of the Company to remain quality leader.

In January 2015, Telefónica and Hutchison Whampoa agreed to begin non-binding exclusive negotiations for the possible acquisition of O2 UK for a target price of 10,250 million pounds sterling in cash.

Telefónica UK showed solid trends, based on the stability of the O2 brand, the success of commercial offers and customer loyalty. Thus, the Company records positive year-on-year revenue growth, strong commercial activity for contract and prepay, and a stable OIBDA margin throughout the year.

The rapid deployment of LTE continues, reaching 58% outdoor coverage as of December (+20 p.p. year-on-year), representing an important opportunity to continue increasing data traffic (the use of data by LTE customers is three times greater than that of 3G) and translates into an increase in ARPU of just under 10%. Thus, LTE customers represent 19% of the mobile base at the end of December.

Total accesses grew by 3% year-on-year and stood at 24.7 million at the end of 2014. It is worth emphasising:

⇒ Total **mobile accesses** reached 24.5 million by the end of 2014 (+4% year-on-year). **Mobile contract customers** grew by 6% year-on-year to represent 56% of the base in December (+2 p.p. year-on-year). **Mobile prepay customers** remain stable year-on-year, reversing the downward trend of previous quarters (-1% to the end of September).

⇒ Net gain in 2014 rose to 830 thousand (+6% year-on-year).

⇒ **Contract churn**, excluding M2M continues at a market leading level of 1.0%, with a 0.1 p.p. year-on-year improvement.

⇒ **Smartphones** stood at 11.3 million at the end of December, with a penetration of 52% (+3 p.p. year-on-year),

⇒ **Data traffic** increased 72% year-on-year in 2014 and accelerated its growth to 87% in the fourth quarter, thanks to the greater smartphone penetration and greater use by the customer.

⇒ The **ARPU**¹ continues to show a trend of year-on-year improvement.

Revenue in the period of October-December accelerated its growth to 5.4% year-on-year, excluding the impact of 'O2 Refresh', up to a positive increase of 0.6% for the year. Revenue generated reached 7,062 million euros (+0.2% year-on-year in 2014) thanks to the improved trends in mobile revenue and the growth in terminal revenue, supported by the strong commercial activity of high end terminals.

Mobile service revenue, excluding the impact of 'O2 Refresh', improved its growth to 2.9% year-on-year in the fourth quarter through the large increase in accesses, the increase in data usage and the stabilising of prices. Mobile service revenue rose to 5,397 million euros in 2014 (-6.2% year-on-year).

Data revenue grew by 1.5% throughout the year, driven by the continued growth of non-SMS data revenue (+18.6% year-on-year). Thus, non-SMS data revenue increased in weight by 8 p.p. year-on-year to account for 58% of data revenue, while data revenue accounts for 57% of mobile service revenue (+4 p.p. year-on-year).

1. Revenue from the 'O2 Refresh' model is not recorded in mobile services revenue, but rather in revenue from sales of terminals, and therefore the increase in smartphone sales is not reflected in the ARPU trend.



Operating expenses reached 5,485 million euros in the year, 0.9% less than in 2013.

- ⇒ **Provisioning** (3,520 million euros) decreased in 2014 by 1.8% year-on-year, due to lower mobile termination fees. It should also be mentioned that in the first quarter of 2014, it recorded a non-recurring positive impact of 24 million euros (adjustment for past commissions).
- ⇒ **Personnel expenses** stood at 460 million euros and decreased by 1.2% year-on-year, due to the annualisation of profits by outsourcing customer care services. The performance of the year (-19.6% year-on-year) was also affected by non-recurring restructuring expenses (5 million euros in the first quarter of 2014 and 48 million euros in the first half of 2013).
- ⇒ **Other operating expenses** increased by 9.1% year-on-year in the year to 1,505 million euros, due to the outsourcing of customer care activities.

The **OIBDA** reached 1,744 million euros in 2014 (+1.1% year-on-year) and was affected by non-recurring effects, primarily the

sale of fixed business shares in 2013 (73 million in the second quarter of 2013; 10 million euros in the fourth quarter of 2013 and 34 million euros in the third quarter of 2014). Excluding these effects, as well as the aforementioned adjustment for commissions and restructuring expenses, the OIBDA in the fourth quarter remained practically stable (-0.6% year-on-year compared to -4.8% year-on-year in the third quarter) and grew by 1.3% throughout the entire year.

All this translates into an **OIBDA margin** of 24.7% in 2014 (+0.2 p.p. year-on-year; +0.3 p.p. excluding the previously mentioned non-recurring effects). 'O2 Refresh' contributes 3.7 p.p. to the annual OIBDA margin, but has an almost neutral impact on year-on-year growth.

CAPEX reached 755 million euros in 2014, an increase of 7.5% year-on-year, excluding the spectrum acquisition (719 million euros in 2013), essentially emphasising the LTE expansion.

The **operating cash flow (OIBDA-CAPEX)** stands at 989 million euros.

Accesses

Telefónica UK. Accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Final Customer Accesses	23,814.0	23,326.8	23,639.5	23,872.0	23,803.9	24,001.3	24,324.5	24,726.4	3.6
Fixed telephone accesses ⁽¹⁾	384.5	192.7	198.7	208.2	211.4	217.9	221.5	228.0	9.5
Data and Internet accesses	519.4	10.4	13.6	14.8	16.4	16.8	17.8	19.2	29.8
Broadband	519.4	10.4	13.6	14.8	16.4	16.8	17.8	19.2	29.8
Mobile accesses	22,910.1	23,123.7	23,427.2	23,649.0	23,576.1	23,766.6	24,085.2	24,479.1	3.5
Prepay	10,758.0	10,680.0	10,764.7	10,764.7	10,556.7	10,548.6	10,658.4	10,761.2	(0.0)
Contract	12,152.1	12,443.7	12,662.4	12,884.3	13,019.4	13,218.0	13,426.7	13,717.9	6.5
M2M	1,750.5	1,872.3	1,943.3	1,974.5	2,038.0	2,096.1	2,116.2	2,192.0	11.0
Wholesale Accesses⁽²⁾	42.4	36.8	40.7	31.6	-	-	-	-	-
Total Accesses	23,856.4	23,363.6	23,680.2	23,903.6	23,803.9	24,001.3	24,324.5	24,726.4	3.4

Telefónica UK. Mobile accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Prepay percentage (%)	47.0%	46.2%	45.9%	45.5%	44.8%	44.4%	44.3%	44.0%	(1.6 p.p.)
Contract percentage (%)	53.0%	53.8%	54.1%	54.5%	55.2%	55.6%	55.7%	56.0%	1.6 p.p.
MBB accesses (thousands)	10,214.3	10,354.3	10,647.7	10,955.8	11,044.9	10,979.5	11,338.9	11,880.2	8.4%
MBB penetration (%)	45%	45%	45%	46%	47%	46%	47%	49%	2.2 p.p.
Smartphones (thousands)	9,718.0	9,866.1	10,158.3	10,478.0	10,566.8	10,501.2	10,835.1	11,338.0	8.2%
Smartphone penetration (%)	47%	48%	48%	49%	50%	50%	50%	52%	2.7 p.p.

(1) PSTN (including Public Use Telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 Digital Access x30. Includes self-consumption. Includes VoIP and free ADSL.

(2) In the first quarter of 2014, the Company stopped offering wholesale services.

Telefónica UK. Consolidated results

Unaudited data (millions of euros)	January-December		% Variation	
	2014	2013	Reported	Organic
Revenues	7,062	6,692	5.5	0.2
Mobile service revenue	5,397	5,461	(1.2)	(6.2)
Data revenue	3,096	2,897	6.9	1.5
Terminals and other revenue	1,665	1,231	35.3	28.4
Fixed assets works	122	113	8.6	3.1
Operating expenses	(5,485)	(5,256)	4.4	(0.9)
Provisioning	(3,520)	(3,403)	3.4	(1.8)
Personnel costs	(460)	(543)	(15.3)	(19.6)
Other operating expenses	(1,505)	(1,310)	14.9	9.1
Other net revenues (expenses)	(4)	0	n.a.	n.a.
Result of disposal of assets	59	88	(33.8)	(37.1)
Disposal of fixed assets and goodwill	(10)	0	c.s	c.s
Operating Income Before Depreciation and Amortisation (OIBDA)	1,744	1,637	6.5	1.1
OIBDA margin	24.7%	24.5%	0.2 p.p.	
CAPEX	755	1,385	(45.5)	7.5
Spectrum	-	719	n.a.	n.a.
OpCF (OIBDA-CAPEX)	989	252	n.a.	(3.2)

Note:

-OIBDA before management and brand expenses.



Telefónica UK. Mobile operators' operating data

Unaudited data (thousands)	2013		2014			% Local M Var
	4Q	1Q	2Q	3Q	4Q	
Voice traffic (millions of minutes)	12,238	11,973	12,361	12,252	12,510	2.2
Data traffic (TB)	14,684	15,978	20,550	24,199	27,524	87.4
ARPU (EUR)	19.0	18.5	18.9	19.3	18.6	(7.8)
Prepay	7.4	7.0	7.3	7.6	7.4	(6.8)
Contract (1)	33.6	32.8	33.3	33.7	32.5	(9.2)
Data ARPU (EUR)	10.3	10.6	10.9	11.1	10.7	(2.3)
% non-SMS revenue s/ing data	50.1%	56.5%	58.0%	58.5%	58.7%	8.6 p.p.
Churn	2.2%	2.1%	1.8%	1.9%	1.8%	(0.5 p.p.)
Contract (1)	1.1%	1.1%	1.0%	1.0%	1.0%	(0.1 p.p.)

Unaudited data (thousands)	2013		2014			% Local M Var
	Jan-Dec	Jan-Mar	Jan-June	Jan-Sept	Jan-Dec	
Voice traffic (millions of minutes)	48,479	11,973	24,334	36,587	49,096	1.3
Data traffic (TB)	51,319	15,978	36,528	60,727	88,251	72.0
ARPU (EUR)	19.6	18.5	18.7	18.9	18.8	(8.8)
Prepay	7.7	7.0	7.2	7.3	7.3	(9.3)
Contract (1)	35.0	32.8	33.0	33.3	33.1	(10.1)
Data ARPU (EUR)	10.4	10.6	10.7	10.8	10.8	(1.5)
% non-SMS revenue s/ing data	50.0%	56.5%	57.3%	57.7%	57.9%	7.9 p.p.
Churn	2.3%	2.1%	2.0%	1.9%	1.9%	(0.4 p.p.)
Contract (1)	1.1%	1.1%	1.0%	1.0%	1.0%	(0.1 p.p.)

Notes:

- ARPU: average monthly revenue divided between the ratios of average accesses for the period.

- Voice traffic is defined as the minutes used by the Company's customers, both incoming and outgoing. On-net traffic is calculated once (as outgoing), and includes promotional traffic. Traffic that is not associated with the Company's mobile customers is excluded (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

- Data traffic such as Terabytes used by Company customers, both in uploading and downloading (1TByte = 10¹² bytes). Promotional traffic is included. Traffic that is not associated with the Company's mobile customers is included (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

(1) Excludes M2M.

Telefónica Deutschland

The fourth quarter of 2014 reflects the beginning of a new Telefónica Deutschland, after the integration of the E-Plus Group from 1 October 2014. The aim of the new company is to become the leading telecommunications operator in Germany, starting with a clear first position in mobile customers, with 42.1 million accesses by the end of December.

The Company expects to generate over 5,000 euros in synergies, with an annual contribution to the operating cash flow of 800 million euros from the fifth year after its integration, coming mainly from the combination of networks, a reduction in the number of shops, a decrease in personnel and new opportunities to generate revenue.

Since 3 February 2015, the Company has given LTE access to all O2 customers on contracts, and has begun a marketing campaign in the country to drive this technology as the main lever in a more digital environment. From the same date, 'O2 Blue' rates were renewed, increasing the available data limit. Additionally, a new European package, 'Roam like home', is included under the 'L' rate and it includes a new function of automatic data expansion that ensures the quality of the service contracted and without interruptions when the available monthly limit is reached.

At the end of December, **total Telefónica Deutschland accesses** stood at 47.7 million, with strong commercial activity for mobile contracts in the quarter and an improved trend of DSL retail accesses, which reflects increased demand for higher speeds.

The most notable operational aspects are:

⇒ **Mobile contract customers** reached 18.8 million at the end of December, while **prepaid accesses** stood at 23.4 million, with a solid performance by the main partners. **Total mobile accesses** (42.1 million) doubled compared to the previous year (a result of the incorporation of E-Plus), and contract customers accounted for 45% of the base total.

⇒ **Smartphone penetration** reached 29% at the end of the fourth quarter as a result of a sustained commercial focus on rate exchanges and packages for smartphones with terminals.

Revenue stood at 5,522 million euros in January-December 2014, 12.4% higher than the same period of the previous year due to the consolidation of the E-Plus Group since 1 October 2014.

For the whole of 2014 (including the new Telefónica Deutschland in the fourth quarter), **mobile service revenue** rose to 3,580 million euros, and consolidated its positive year-on-year evolution (including revenue from both Companies in the final quarter of 2013). This is primarily due to the momentum of premium brands, with a continuously favourable composition both in new acquisitions and in rate renewals and the increased demand for LTE.

Mobile data revenue stood at 1,793 million euros in 2014, accounting for 50% of mobile service revenue. **Revenue from non-SMS data** grew to 1,277 million euros in January-December, increasing its weight in data revenues to 71%.

Revenue from terminals rose to 795 million euros in 2014, due to the good performance of new terminals and pay packages.

Fixed business revenue reached 1,138 million euros in 2014 (-7.8% year-on-year).

The 2014 fiscal year was significantly affected by a restructuring provision, without a cash impact, of 409 million euros, following the acquisition of the E-Plus Group. The workforce restructuring programme for 321 million euros throughout the year affects the development of personnel expenses.



Operating expenses reached 4,817 million euros in 2014, significantly affected by the aforementioned provision.

By items:

- ⇒ **Provisioning**, 2,144 million euros in January-December, is mainly affected by the increased sale of terminals, in the context of intense commercial activity.
- ⇒ **Personnel expenses** stood at 828 million euros in 2014, greatly affected by the restructuring expenses derived from the aforementioned acquisition of the E-Plus Group.
- ⇒ **Other operating expenses** (1,846 million euros in January-December) increased due to the ongoing commercial expense of capturing opportunities for increased LTE demand in the market.

The **OIBDA** in 2014 rose to 733 million euros. The OIBDA margin, excluding restructuring costs, reached 13.3% for the year. It should also be mentioned that the OIBDA in the fourth quarter of 2013 was affected by the positive impact of the capital gains obtained through the sale of 76 million euros of assets.

CAPEX for the whole of 2014 stands at 849 million euros, and is clearly focused on the accelerated deployment of LTE (outdoor coverage of 62% at the end of December; +20 p.p. year-on-year), and initial integration activities of the two companies.

Accesses

Telefónica Deutschland. Accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Final Customer Accesses	24,218.9	24,216.2	24,306.2	24,042.0	23,875.7	23,964.3	24,113.2	46,548.3	93.6
Fixed telephone accesses ⁽¹⁾	2,212.8	2,176.0	2,144.9	2,124.9	2,109.1	2,078.2	2,050.9	2,036.4	(4.2)
Data and Internet accesses	2,630.2	2,583.1	2,543.5	2,516.1	2,491.7	2,450.2	2,413.4	2,387.0	(5.1)
Narrowband	294.6	287.9	277.2	271.7	265.8	258.8	252.5	243.2	(10.5)
Broadband	2,335.6	2,295.1	2,266.2	2,244.3	2,225.9	2,191.4	2,160.8	2,143.8	(4.5)
Mobile accesses	19,324.5	19,411.1	19,576.4	19,401.0	19,274.9	19,435.9	19,648.9	42,124.9	117.1
Prepay	9,123.6	9,150.6	9,260.7	9,114.9	8,910.9	8,919.7	8,989.3	23,350.7	156.2
Contract ⁽²⁾	10,200.9	10,260.5	10,315.7	10,286.1	10,364.0	10,516.1	10,659.6	18,774.1	82.5
M2M	82.9	84.7	89.9	90.5	94.6	97.5	106.0	414.0	n.a.
Pay TV ⁽³⁾	51.3	46.0	41.5	-	-	-	-	-	-
Wholesale accesses	1,112.9	1,127.2	1,130.4	1,125.0	1,128.0	1,151.8	1,137.6	1,113.3	(1.0)
Total Accesses	25,331.8	25,343.3	25,436.6	25,166.9	25,003.7	25,116.1	25,250.8	47,661.5	89.4

Telefónica Deutschland. Mobile accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Prepay percentage (%)	47.2%	47.1%	47.3%	47.0%	46.2%	45.9%	45.7%	55.4%	8.5 p.p.
Contract percentage (%)	52.8%	52.9%	52.7%	53.0%	53.8%	54.1%	54.3%	44.6%	(8.5 p.p.)
MBB accesses (thousands)	6,142.9	6,339.2	6,559.5	6,780.1	6,994.0	7,120.5	7,341.7	13,697.5	102.0%
MBB penetration (%)	32%	33%	34%	35%	36%	37%	37%	33%	(2.4 p.p.)
Smartphones (thousands)	5,059.8	5,260.5	5,491.4	5,738.0	5,957.2	6,057.2	6,230.7	11,422.2	99.1%
Smartphone penetration (%)	28%	29%	30%	31%	33%	33%	34%	29%	(2.4 p.p.)

- E-Plus accesses from the fourth quarter of 2014 are consolidated.

(1) PSTN (including Public Use Telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 Digital Access x30. Includes self-consumption. Includes VoIP and free ADSL.

(2) 428 thousand E-Plus accesses were excluded in the fourth quarter of 2014, before its integration by the harmonisation of criteria and disconnection of a partner.

(3) In the fourth quarter of 2013, the Company stopped offering TV services.



Telefónica Deutschland. Consolidated results

Unaudited data (millions of euros)	January-December		% Variation	
	2014	2013	Reported	Organic
Revenues	5,522	4,914	12.4	(3.5)
Mobile Business	4,375	3,673	19.1	(2.2)
Mobile service revenue	3,580	2,989	19.8	(2.3)
Data revenue	1,793	1,443	24.3	(1.6)
Revenue from terminals	795	684	16.2	(1.7)
Fixed business	1,138	1,235	7.8	(7.8)
Revenue from BA and new services ⁽¹⁾	815	869	(6.2)	(6.2)
Voice and access revenue	306	355	(13.8)	(13.7)
Other	18	11	61.6	61.6
Fixed assets works	92	74	24.3	9.3
Operating expenses	(4,817)	(3,799)	26.8	0.8
Provisioning	(2,144)	(1,958)	9.5	(3.9)
Personnel costs	(828)	(419)	97.7	5.6
Other operating expenses	(1,846)	(1,423)	29.7	5.7
Other net revenues (expenses)	(64)	43	c.s.	c.s.
Result of disposal of assets	0	76	(99.6)	(99.6)
Disposal of fixed assets and goodwill	0	0	-	-
Operating Income Before Depreciation and Amortisation (OIBDA)	733	1,308	(44.0)	(22.1)
OIBDA margin	13.3%	26.6%	(13.4 p.p.)	(5.1 p.p.)
CAPEX	849	666	27.5	(6.4)
Spectrum	-	-	n.a.	n.a.
OpCF (OIBDA-CAPEX)	(116)	642	c.s.	(38.3)

Note:

- E-Plus accesses for Telefónica Deutschland from the fourth quarter of 2014 are consolidated.

-OIBDA before management and brand expenses.

(1) Includes BA connectivity services (retail and wholesale), value-added services, TV services, data and IT revenues and other connectivity services.

Telefónica Deutschland. Mobile operators' operating data

	2013		2014			% Local M Var
	4Q	1Q	2Q	3Q	4Q	
Voice traffic (millions of minutes)	7,520	7,572	7,775	7,398	18,441	n.a.
Data traffic (TB)	10,042	10,569	11,247	12,898	37,159	n.a.
ARPU (EUR)	12.5	12.1	12.5	12.7	10.9	(13.3)
Prepay	5.1	5.0	5.2	5.3	5.6	9.2
Contract (1)	19.3	18.5	18.8	19.1	17.7	(8.2)
Data ARPU (EUR)	6.2	6.0	6.1	6.2	5.7	(8.3)
% non-SMS revenue s/ing data	69.6%	72.0%	72.5%	73.8%	68.9%	(0.7 p.p.)
Churn	2.8%	2.4%	1.9%	1.9%	2.9%	0.1 p.p.
Contract (1)	2.1%	1.6%	1.3%	1.5%	2.7%	0.6 p.p.

	2013		2014			% Local M Var
	Jan-Dec	Jan-Mar	Jan-June	Jan-Sept	Jan-Dec	
Unaudited data (thousands)						
Voice traffic (millions of minutes)	30,152	7,572	15,347	22,745	41,186	0.4
Data traffic (TB)	36,255	10,569	21,815	34,714	71,873	1.0
ARPU (EUR)	12.7	12.1	12.3	12.4	11.8	(7.1)
Prepay	5.1	5.0	5.1	5.2	5.4	4.5
Contract (1)	19.6	18.5	18.7	18.8	18.4	(6.0)
Data ARPU (EUR)	6.2	6.0	6.1	6.1	5.9	(3.9)
% non-SMS revenue s/ing data	66.5%	72.0%	72.3%	72.8%	71.2%	4.7 p.p.
Churn	2.4%	2.4%	2.1%	2.1%	2.4%	0.1 p.p.
Contract (1)	1.6%	1.6%	1.4%	1.5%	1.9%	0.3 p.p.

Notes:

-The operating data includes E-Plus as of 1 October 2014.

- ARPU: average monthly revenue divided between the ratios of average accesses for the period.

- Voice traffic is defined as the minutes used by the Company's customers, both incoming and outgoing. On-net traffic is calculated once (as outgoing), and includes promotional traffic. Traffic that is not associated with the Company's mobile customers is excluded (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding

-Data traffic is defined as Terabytes used by Company customers, both in uploading and downloading (1TByte = 10¹² bytes). Promotional traffic is included. Traffic that is not associated with the Company's mobile customers is included (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

(1) Excludes M2M.



Telefónica Brazil

(Year-on-year variations in organic terms)

During 2014, Telefónica Brazil significantly strengthened its competitive position in the market. Its strategic focus on quality and innovation in mobile business has allowed it to reinforce its leadership in the highest value segments, capturing more than half the customers in the contract segment in the year, and over 38% of new LTE accesses. In fixed business, significant advances have been made in the Company's transformation process, accelerating the deployment of the fibre network (4.1 million property units covered; 375 thousand customers connected) and noticeably increasing pay TV accesses (+20% year-on-year).

Additionally, an agreement was reached with Vivendi for the acquisition of GVT, which enables it to reinforce its competitive position with the creation of an integrated operator with national coverage and focused on value customers. The acquisition is pending the final regulatory approval of Anatel and the approval of Cade, the Brazilian competition authority.

Furthermore, in the fourth quarter the spectrum awarded by tender on 30 September 2014 was acquired for one of the three national blocks in the 700 MHz band for the provision of LTE services (889 million euros, which includes both the cost of the license for use and that for the cleaning of the radio spectrum).

In Brazil, Telefónica manages 95.6 million **accesses**, 3% more than in December 2013, despite the application of more restrictive criteria in the calculation of prepaid customers.

In relation to the operating performance of the **mobile business**:

⇒ The Company remains the market leader, reaching a **market share** of 28.5% (stable year-on-year), reinforcing its leadership in the contract segment with a market share of 41.8% (+2.0 p.p. year-on-year) after having captured 56% of the new accesses during the year. It also highlights leadership in the LTE market share (38.9%), offering the highest service coverage as of December 2014 (140 cities).

⇒ **Mobile accesses** reached 79.9 million at the end of 2014 (+3% year-on-year) driven by the strong growth in contract accesses (+20% year-on-year), which account for 35% of the total (+5 p.p. year-on-year). The strong growth in **smartphones** also stands out (+77% compared to the end of 2013), reaching 41% penetration (+17 p.p. year-on-year).

Total net gain rose to 2.7 million in the year. In the **net gain** of the last quarter in the year, the good performance of contract accesses stands out, which for the seventh consecutive quarter exceeded one million accesses (4.7 million in the year). In December, a new record of contract commercial activity and net gain was achieved thanks to the new commercial offer which is simpler (with an important reduction in the number of plans) and includes more mobile data. The positive performance of 'Multivivo' (sharing data and/or voice between various devices) also stands out, with 2.1 million users.

Prepaid accesses, with a net loss of 2.0 million in January-December, are affected by the application of restrictive criteria for calculating customers, as the Company focuses on their profitability, as well as by the success of migration campaigns of high value customers towards contracts. The improvement of new connections to 'Vivo Tudo' (an integrated service package whose aim is the intensive use of data) should be mentioned, and it ended the year with 13 million users.

⇒ **Data traffic** increased 59% year-on-year in 2014, supported by the strong growth of the smartphone base. In the same way, the high quality of accesses translates into growth in **voice traffic** (+9% in the year), which far exceeds that of accesses.

⇒ The **ARPU** remained relatively stable throughout the year (-0.6%) thanks to the capture of high value customers, which offset the strong regulatory impact. Therefore the outgoing ARPU grew 5.3% year-on-year, while the data ARPU grew 16.0%.

In fixed business:

- ⇒ **Traditional accesses** stand at 10.7 million and remain practically stable compared to December 2013. A net loss of -4 thousand was recorded for the year, associated with the increase in the churn of low-value customers both in copper lines and in fixed wireless by the strict credit control policies that limit the volume of registrations but positively affect their quality.
- ⇒ **Retail broadband accesses** (3.9 million accesses) remain virtually unchanged year-on-year and show a net change of +3 thousand accesses in the year. The Company ended the year with 4.1 million property units covered in Sao Paulo (606 thousand covered in the last quarter).
- ⇒ **Pay TV accesses** grew 20% year-on-year to 771 thousand, with a net gain of 131 thousand in the year. Accesses connected with fibre through IPTV technology, with a higher ARPU compared to the average of the pay TV installation, are twice that of 2013 and reached 95 thousand accesses.

Regarding the economic and financial results, it should be noted that they are affected by the reduction in interconnection rates realised on 26 February 2014 in the mobile business (-25.0%), the reduction in the retail fixed-mobile rate (VC: -13.0%) and the reduction in the basic rate set by Anatel in the fixed business (with the aim of translating the benefits obtained by the fusion of fixed and mobile business to the customer), impacting the results from June 2014.

Revenue rose to 11,231 million euros, showing year-on-year growth of 0.5%. Furthermore, the negative impact of regulation reduces this variation by 3.4 p.p. in 2014.

Mobile business revenue reached 7,617 million euros in 2014, with a year-on-year increase of 2.9%.

- ⇒ Annual **mobile service revenue** (7,228 million euros) grew by 3.8% year-on-year, driven by strong growth in data revenue and despite the negative impact of regulation (-3.7 p.p. in year-on-year growth for the year).
- ⇒ **Data revenue** rose by 19.9% year-on-year, accounting for 34% of service revenue (+5 p.p. year-on-year) as a result of the strong growth of non-SMS data (+38.5% year-on-year), accounting for 77% of mobile data (+10 p.p. compared to the previous year).
- ⇒ **Revenue from sales of terminals** decreased by 11.9% during the year, due to lesser commercial activity involving terminals.

Fixed business revenue stood at 3,613 million euros, 4.2% less than in 2013, affected by both the fixed to mobile substitution effect and the aforementioned regulatory impacts, which reduce year-on-year variation by 3.4 p.p. for the year.

- ⇒ **Revenue from broadband and new services** increased by 4.0% year-on-year, mainly driven by the acceleration in growth of fibre-connected accesses, with higher ARPU, and greater commercial activity in pay TV.
- ⇒ **Voice and access revenue** decreased by 9.2% year-on-year in 2014, affected by both the regulatory impacts and by the fixed to mobile substitution effect.

Operating expenses in 2014 (7,742 million euros) remain virtually unchanged from the previous year. By items:

- ⇒ **Provisioning** (2,680 million euros) decreased by 6.3% compared to 2013 due to lower interconnection costs associated with the regulatory changes and the lower consumption of terminals.
- ⇒ **Personnel expenses** (976 million euros) decreased by 4.2% compared to January-December of 2013. The year-on-year comparison shows the profits gained from restructuring the workforce and redundancy packages offered during 2013 (non-recurring impact of 25 million euros in the fourth quarter and 51 million in the year). Excluding the non-recurring effects of the workforce restructuring plans, personnel expenses remain almost unchanged in a year-on-year comparison (+0.8%).
- ⇒ **Other operating expenses** (4,085 million euros) increased by 6.0% in the year due to commercial expenses associated with the acquisition of contracts and fibre customers and the greater network expenses associated with the deployment and improvement of fixed and mobile networks.

Thus, the **OIBDA** totalled 3,543 million, growing by 0.9% in 2014. The regulatory impact reduced annual variation by 3.9 p.p.

The **OIBDA margin** stands at 31.5% for the year (+0.1 p.p. year-on-year) despite the important commercial effort and improvements in the network which are compensated by the efficiency measures implemented.

CAPEX totalled 2,933 million euros in 2014 (+15.0% year-on-year in organic terms, excluding 889 million euros for the spectrum acquisition in the fourth quarter of 2014; as well as 185 million euros recorded in 2013), being mainly devoted to the deployment, quality and capacity of mobile networks and the deployment of the fibre network.

Therefore, the **operating cash flow (OIBDA-CAPEX)** totalled 610 million euros in the year (-13.0% year-on-year organic).



Accesses

Telefónica Brazil. Accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Final Customer Accesses	91,064.4	91,335.8	91,907.9	92,730.0	94,028.1	95,071.1	95,601.5	95,528.6	3.0
Fixed telephone accesses ⁽¹⁾	10,550.2	10,563.5	10,624.1	10,747.8	10,828.1	10,929.1	10,942.1	10,743.4	(0.0)
Data and Internet accesses	3,961.0	4,035.2	4,081.8	4,102.0	4,094.5	4,103.5	4,114.8	4,082.6	(0.5)
Narrowband	116.5	108.2	105.6	92.1	88.1	86.4	82.0	73.7	(19.9)
Broadband ⁽²⁾	3,767.9	3,852.1	3,898.0	3,936.7	3,933.0	3,944.9	3,961.6	3,939.8	0.1
Fibre	125.1	144.6	170.9	204.1	235.8	273.3	322.1	374.6	83.5
Other ⁽³⁾	76.5	74.9	78.2	73.2	73.3	72.1	71.2	69.0	(5.8)
Mobile accesses	75,987.5	76,199.6	76,614.3	77,240.2	78,460.8	79,350.7	79,817.0	79,932.1	3.5
Prepay	56,469.6	55,515.1	54,476.4	53,551.9	53,552.8	53,188.5	52,639.8	51,582.4	(3.7)
Contract	19,517.9	20,684.5	22,138.0	23,688.3	24,908.0	26,162.3	27,177.2	28,349.7	19.7
M2M	1,444.6	1,839.9	2,071.2	2,358.2	2,629.0	2,920.1	3,197.5	3,506.9	48.7
Pay TV	565.7	537.5	587.7	640.1	644.8	687.8	727.6	770.6	20.4
Wholesale accesses	23.1	23.0	19.7	18.8	27.5	27.0	26.2	25.9	37.5
Total Accesses	91,087.5	91,358.8	91,927.6	92,748.9	94,055.6	95,098.1	95,627.7	95,554.5	3.0
Terra accesses	540.4	500.9	467.7	412.5	379.3	361.8	329.9	329.9	(20.0)

Telefónica Brazil. Mobile accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Prepay percentage (%)	74.3%	72.9%	71.1%	69.3%	68.3%	67.0%	66.0%	64.5%	(4.8 p.p.)
Contract percentage (%)	25.7%	27.1%	28.9%	30.7%	31.7%	33.0%	34.0%	35.5%	4.8 p.p.
MBB accesses (thousands)	13,477.3	15,752.8	18,005.4	20,546.5	23,790.3	26,710.3	32,342.0	33,352.1	62.3%
MBB penetration (%)	18%	21%	24%	27%	30%	34%	41%	42%	15.1 p.p.
Smartphones (thousands)	10,184.8	12,340.0	14,513.3	16,976.1	20,227.6	23,190.9	28,950.0	30,076.8	77.2%
Smartphone penetration (%)	14%	17%	20%	24%	28%	32%	40%	41%	17.3 p.p.

(1) PSTN (including Public Use Telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 Digital Access x30. Includes self-consumption. Fixed wireless voice accesses are included.

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

(3) Remaining retail circuits that are not broadband.

Telefónica Brazil. Consolidated results

Unaudited data (millions of euros)	January-December		% Variation	
	2014	2013	Reported	Organic
Revenues	11,231	12,217	(8.1)	0.5
Mobile Business	7,617	8,092	(5.9)	2.9
Mobile service revenue	7,228	7,608	(5.0)	3.8
Data revenue	2,478	2,259	9.7	19.9
Revenue from terminals	390	484	(19.4)	(11.9)
Fixed business	3,613	4,125	(12.4)	(4.2)
Revenue from BA and new services (1)	1,465	1,540	(4.8)	4.0
Voice and access revenue	2,113	2,545	(17.0)	(9.2)
Other	34	40	(14.6)	(6.6)
Fixed assets works	48	47	1.7	11.1
Operating expenses	(7,742)	(8,378)	(7.6)	0.1
Provisioning	(2,680)	(3,128)	(14.3)	(6.3)
Personnel costs	(976)	(1,036)	(5.8)	(4.2)
Other operating expenses	(4,085)	(4,213)	(3.0)	6.0
Other net revenues (expenses)	7	3	n.a.	n.a.
Result of disposal of assets	(6)	53	c.s.	c.s.
Disposal of fixed assets and goodwill	4	(2)	c.s.	c.s.
Operating Income Before Depreciation and Amortisation (OIBDA)	3,543	3,940	(10.1)	0.9
OIBDA margin	31.5%	32.3%	(0.7 p.p.)	0.1 p.p.
CAPEX	2,933	2,127	37.9	15.0
Spectrum	889	185	n.a.	n.a.
OpCF (OIBDA-CAPEX)	610	1,813	(66.4)	(13.0)

Note:

-OIBDA before management and brand expenses.

(1) Includes BA connectivity services (retail and wholesale), value-added services, TV services, data and IT revenues and other connectivity services.



Telefónica Brazil. Mobile operators' operating data

	2013		2014			% Local M Var
	4Q	1Q	2Q	3Q	4Q	
Voice traffic (millions of minutes)	30,698	31,500	30,503	31,536	33,872	10.3
Data traffic (TB)	37,329	43,342	48,337	56,879	64,154	71.9
ARPU (EUR)	7.6	7.0	7.3	7.5	7.4	0.4
Prepay	4.2	3.8	3.9	4.0	4.0	(3.5)
Contract ⁽¹⁾	17.0	15.3	15.8	16.0	15.6	(5.5)
Data ARPU (EUR)	2.5	2.3	2.6	2.7	2.8	16.2
% non-SMS revenue s/ing data	70.8%	75.1%	76.3%	78.0%	79.8%	9.0 p.p.
Churn	4.1%	3.4%	3.5%	3.7%	4.0%	(0.0 p.p.)
Contract ⁽¹⁾	1.5%	1.5%	1.5%	1.8%	1.7%	0.3 p.p.

	2013		2014			% Local M Var
	Jan-Dec	Jan-Mar	Jan-June	Jan-Sept	Jan-Dec	
Unaudited data (thousands)						
Voice traffic (millions of minutes)	116,364	31,500	62,004	93,540	127,412	9.5
Data traffic (TB)	133,842	43,342	91,679	148,558	212,712	58.9
ARPU (EUR)	8.0	7.0	7.1	7.2	7.3	(0.6)
Prepay	4.5	3.8	3.9	3.9	3.9	(4.3)
Contract ⁽¹⁾	18.8	15.3	15.5	15.7	15.7	(8.7)
Data ARPU (EUR)	2.5	2.3	2.5	2.6	2.6	16.0
% non-SMS revenue s/ing data	67.0%	75.1%	75.7%	76.5%	77.4%	10.4 p.p.
Churn	3.8%	3.4%	3.5%	3.6%	3.7%	(0.1 p.p.)
Contract ⁽¹⁾	1.7%	1.5%	1.5%	1.6%	1.6%	(0.1 p.p.)

Notes:

ARPU: Average monthly income divided by the average media accesses for the period.

- Voice traffic is defined as the minutes used by the Company's customers, both incoming and outgoing. On-net traffic is calculated once (as outgoing), and includes promotional traffic. Traffic that is not associated with the Company's mobile customers is excluded (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

- Data traffic is defined as Terabytes used by Company customers, both in uploading and downloading (1TByte = 10¹² bytes). Promotional traffic is included. Traffic that is not associated with the Company's mobile customers is included (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

(1) Excludes M2M.

Telefónica Latin America

(Year-on-year variations in organic terms)

In 2014, Telefónica Latin America consolidated the trend of strong growth in organic terms, both in revenue and in OIBDA. The increase in the OIBDA margin also stands out in the majority of countries in the region, especially in Mexico, Colombia and Chile, accompanied by a strong commercial intensity that results in a significantly higher number of new registrations than in previous years.

Thus, total **mobile accesses** reached 131.6 million by the end of 2014 (+3% year-on-year).

In the operating performance of **mobile business** the following should be noted:

- ⇒ **Mobile accesses** rose to 110.3 million (+3% year-on-year), supported by both growth in the contract segment (+4% year-on-year) and in the prepaid segment (+3% year-on-year), despite the disconnection of 1.9 million inactive accesses in México in the first quarter of the year and 1.8 million in Central America in the fourth quarter, as well as the application of more restrictive criteria for prepaid customers to register in other countries in the region.
- ⇒ **Total net gain** rose to 3.1 million accesses for the year, with a significant year-on-year increase in the volume of new registrations (+4%), especially in Mexico and Chile. Conversely, the churn for the year stands at 3.4%, affected by the impact of the disconnection of inactive accesses and the aforementioned more restrictive criteria for customer registration.
- ⇒ **Smartphones** represent the main lever for year-on-year growth in accesses, with a year-on-year increase of 32% after recording a net gain of 6.8 million in January-December. Furthermore, smartphone penetration over mobile accesses reached 26% (+6 p.p. year-on-year).

⇒ The **ARPU** shows solid growth (+10.6% for the year). This performance is, on the one hand, based on sustained growth in **voice traffic** (+16% for the year), driven by a higher volume of customer minutes (+5% for the year); and, on the other hand, the explosion of **data traffic** (+65% in January-December), based on the increase in smartphone penetration and the greater average consumption per smartphone.

In relation to the operating performance of the **fixed business**:

- ⇒ **Traditional business accesses** stand at 13.4 million (-3% year-on-year) after recording a net loss of 404 thousand accesses in the year, with a lower level of commercial activity under Fixed Wireless technology.
- ⇒ **Broadband accesses** stand at 5.4 million (+6% year-on-year) with a net gain of 304 thousand accesses in January-December. The evolution of the mix of accesses towards higher speeds is noticeable, with half of all accesses as of December 2014 having speeds of over 4 Mb (+12 p.p. year-on-year).
- ⇒ **Pay TV accesses** grew 14% year-on-year to 2.4 million, and recorded a solid net gain of 298 thousand for the entire year.

Revenues totalled 13,155 million euros in 2014, 14.6% more than in 2013. The negative impact of regulatory changes implemented throughout the year reduced year-on-year growth by 1.6 p.p. for the year.

- ⇒ **Mobile service revenue** rose by 17.5% year-on-year in 2014 with a positive performance both in data revenue and voice revenue, in both cases due to a large increase in penetration and greater unit use.

Therefore, **data revenue** increased by 23.0% year-on-year, accounting for 32% of service revenue (+2 p.p. year-on-year). Revenues from non-SMS data are the main lever in this growth, having increased by 43.4% year-on-year for the entire year and reached 74% of all data revenue (+10 p.p. year-on-year).

Voice revenue also positively contributes to growth, increasing by 10.1% year-on-year in January-December and accelerating to 13.2% in the final quarter of the year.



Furthermore, the intense commercial activity in high-value customer acquisition and retention and the more rational strategic plan in terms of benefits is reflected in the development of **revenue from the sale of terminals**, which increased for the year by 9.4% year-on-year.

⇒ **Revenue from fixed business** increased by 8.4% year-on-year in January-December with the **broadband and new services revenues** acting as an engine for growth (+16.2% year-on-year in 2014).

In reported terms, revenue decreased by 22.0% year-on-year for the entire year, affected by the performance of exchange rates after the decision by the Company to adopt the fixed Venezuelan bolivar exchange rate in SICAD II, adapting better to the business situation in Venezuela, as well as the depreciation of other currencies, mainly the Argentinian peso and the Chilean peso.

Operating expenses reached 9,284 million euros in the year, with a year-on-year increase of 13.6%. By item:

⇒ **Provisioning** (3,841 million euros) increased by 4.9% year-on-year in January-December due to greater commercial activity in high-end devices, and despite the positive impact of the reduction in interconnection charges in Chile, Colombia, Peru and Mexico.

⇒ **Personnel expenses** (1,525 million euros) grew by 21.1% during the year, excluding the impact of the provision for restructuring expenses performed during the fourth quarter of 2014 (99 million euros), reflecting the general increase in prices in some countries in the region.

⇒ **Other operating expenses** (3,918 million euros) grew by 19.9% year-on-year in 2014 due to a general increase in prices in some of the countries in the region, as previously mentioned, as well as the greater commercial activity and expenses associated with the increased traffic capacity, both voice and data.

The **OIBDA** reached 4,068 million euros in 2014 growing by 16.4%, year-on-year, with an **OIBDA margin** that stands at 30.9% in January-December (+0.5 p.p. year-on-year). Thus, throughout 2014, the year-on-year increase in the margin in all countries in the region stands out, with the only exceptions being Venezuela and Uruguay; highlighting the positive contribution of the margins in Mexico, Colombia and Chile.

In reported terms, the OIBDA decreased by 26.5% year-on-year during the year through the aforementioned negative impacts of the variation in exchange rates and the provision for restructuring performed in the fourth quarter of 2014. Likewise, in 2014, 4 million euros were recorded for the sale of non-strategic towers while in 2013, 11 million euros were recorded.

The **CAPEX** totalled 2,842 million euros throughout the year, with an organic year-on-year increase of 29.1% (excluding 405 million euros for spectrum investment in 2014: 168 million in Argentina and 39 million in Venezuela in the fourth quarter,

111 million in Colombia, 82 million in Panama and 5 million in Nicaragua; and 251 million in 2013: 120 million in Peru, 109 million in Colombia and 22 million in Uruguay). The strong investment effort is mainly focused on the deployment of the LTE network in the majority of the countries in the region, as well as in the deployment of the fixed broadband network with a strategic focus on a progressive increase in speeds and digitalisation.

Thus, the **operating cash flow** in 2014 stands at 1,226 million euros and has an organic growth of 2.2%.

Telefónica Argentina

(Year-on-year variations in organic terms)

In 2014, Telefónica Argentina retained its leadership in the sector thanks to the continued improvement in the quality of its products and infrastructure, and innovation in the commercial offer. All this translates into a year-on-year double-digit growth in revenue and OIBDA for the year, which together with greater efficiency is reflected in the OIBDA margin (compensating for the negative impact of general price increases and the depreciation of the Argentinian peso against the USD).

Additionally, as a sign of the Company's commitment to the development of telecommunications in the country, in the fourth quarter, a 2x10 MHz block of spectrum in the AWS band was acquired for 168 million euros. Furthermore, a 2x10 MHz block in the 700 MHz band assigned by tender last October is pending allocation.

The Company managed 26.6 million **accesses** at the end of 2014, remaining stable year-on-year. In the operating performance of **mobile business** the following should be noted:

⇒ **Mobile accesses** rose to 20.0 million (+0.3% year-on-year), emphasising the 6% year-on-year growth in the implementation of smartphones which accounts for 31% of the total (+2 p.p. year-on-year).

⇒ **Net gain** rose significantly in the last quarter of the year in both contract and prepay, through the well received commercial offer, emphasising the relaunch of the 2x1 offer of equipment in the contract segment.

Thus, net gain for the year rose to 67 million accesses, despite the economic environment that affected levels of consumption and the high prepay churn (4.0% in 2014) associated with low-value customers.

⇒ **Voice traffic** increased by 2% year-on-year during the year and the data traffic continued to show a strong year-on-year growth rate (+50% in January-December), explained by the growth in smartphones and greater unit consumption.

⇒ The **ARPU** improved its year-on-year growth in the fourth quarter to 24.9% (+16.9% in 2014) supported by the monetisation of voice services and the strong growth in traffic data.

In relation to the commercial activity of the **fixed business**:

⇒ **Traditional fixed accesses** rose to 4.7 million (-2% year-on-year) with a net loss for the year of 107 thousand accesses, associated with lower commercial activity and despite the churn remaining at reference levels for the sector (0.8% for the year).

⇒ **Broadband accesses** totalled 1.9 million (+2% year-on-year) and present an annual net gain of 35 thousand accesses. The strategic focus on repositioning accesses on to plans with speeds above 4 Mb should be emphasised, accounting for 31% of the access base (+11 p.p. year-on-year).

Revenue stood at 3,063 million euros and grew by 23.8% year-on-year in 2014 due to the strong performance of both businesses.

Thus, **mobile business revenue** reached 2,007 million euros in 2014 increasing by 22.7% year-on-year in 2014.

⇒ **Mobile service revenue** stood at 1,697 million euros and increased by 19.3% year-on-year in 2014 supported by increased unit consumption, both voice and data. The 2014 revenue is affected by the change in the billing model, moving towards charging per second after the first thirty seconds of a call (with a negative impact of 3.8 p.p. in year-on-year comparisons).

Data revenue increased by 14.8% year-on-year in January-December, and account for 47% of service revenue (-2 p.p. year-on-year). Revenue from non-SMS data from smartphones increased by 38.1% year-on-year, accounting for 59% of mobile data (+10 p.p. year-on-year).

Fixed business revenue rose to 1,055 million euros, 25.9% more than 2013.

⇒ **Voice and access revenues** increased by 10.6% year-on-year due to growth in ARPU.

⇒ **Revenue from broadband and new services** increased by 39.9% year-on-year in January-December, explained by the higher ARPU after quality on the access base was substantially improved. These revenues account for 53% of fixed revenue (+5 p.p. compared to 2013).

Operating expenses totalled 2,284 million euros in 2014 and increased by 24.4% compared to 2013, mainly due to higher expenses for personnel and external services associated with the general price increases.

The **OIBDA** rose to 802 million euros in 2014 and grew by 24.2% year-on-year, and the OIBDA margin stood at 25.8% (+0.1 p.p. year-on-year). It is noteworthy that the efficiency measures implemented compensate for the general price increases and the impact of the depreciation of the peso.

CAPEX totalled 676 million euros in 2014, growing 31.7% year-on-year (excluding 168 million euros for spectrum acquisition in the fourth quarter as previously mentioned) and it is mostly allocated for the improvement and expansion of both mobile and fixed networks.

Therefore, the **operating cash flow** (OIBDA-CAPEX) totalled 126 million euros and increased 13.5% year-on-year in 2014.

Telefónica Chile

(Year-on-year variations in organic terms)

During 2014, Telefónica Chile strengthened its leadership in the telecommunications market, emphasising development in the highest value segments. In the mobile business, the focus has been on the deployment of LTE (64% population coverage and a base of 434 thousand accesses as of December 2014) and in the fixed business the deployment of VDSL and fibre networks (288 thousand property units covered as of December 2014).

Additionally, efficiency improvements have been reflected in the year-on-year OIBDA growth and in a significant improvement in the margin, despite the highly competitive environment and the impact of regulatory changes during the year.

Thus, since 25 January 2014, new termination rates have been applied to the mobile network (-75%), as well as the reduction in the fixed to mobile retail rate (-49%). At the same time, from 1 May 2014, the new Fixed Tariff Decree has been applied, which involves a reduction in the fixed network termination rate of 37% from this date, and as of 25 March 2014, the charge for national long-distance calls is being gradually removed.

Telefónica Chile managed 13.9 million **accesses**, 2% more than in 2013. In the **mobile business**, the following stands out:

⇒ **Mobile accesses** rose to 10.7 million and grew by 2% year-on-year, driven by the contract segment (+4% year-on-year; 26% of the total; +1 p.p. year-on-year). Smartphones continue to show a strong increase (+27% year-on-year), reaching a penetration of 28% (+5 p.p. year-on-year).

⇒ **Net gain** rose to 170 thousand accesses for the year, highlighting the strong performance of the contract segment (+120 thousand accesses for the year) thanks to the success of package plans that made a high rate of new registrations possible. The positive performance of the contracted portability throughout the year should be mentioned (+87 thousand accesses in the year).



Likewise, prepaid net gain returned to being positive in the final quarter (+293 million accesses), offsetting the net loss in the first three quarters (+50 thousand accesses in the year) associated with the loss of low-value accesses that affect the total **churn** (3.2% for the year; 3.3% for the quarter).

- ⇒ The focus on capturing mobile data is reflected in the strong growth of the **data traffic** during the year (+78% year-on-year). **Voice traffic** continues to improve its year-on-year trend (-6% for the year) supported by the larger base of value accesses.
- ⇒ The outgoing ARPU increased year-on-year by 5.1% in January-December, driven by the ARPU (+28.9% year-on-year for the year). Regarding the **ARPU** (-8.0% year-on-year), it was greatly affected by the previously mentioned regulatory impacts.

In terms of fixed business commercial activity, the good performances of broadband and pay TV stand out, thanks to the success of the campaign for bundling the three services.

- ⇒ **Traditional business accesses** stood at 1.6 million as of December (-5% year-on-year) and recorded a net loss of 75 thousand accesses for the year.
- ⇒ **Retail broadband accesses** grew by 7% year-on-year to 1.0 million accesses and recorded an annual net gain of 71 thousand accesses, practically doubling the net gain of 38 thousand accesses in 2013. It also highlights the greater weight of fibre and VDSL registrations, which represent 26% of the 2014 total (+8 p.p. compared to 2013).
- ⇒ **Pay TV accesses** (601 thousand) rose by 19% year-on-year and recorded a net gain of 98 thousand in January-December, resulting in a differential offer leveraged on the platform and high-definition dissemination, which is already broadcast on 80 channels.

Revenue rose to 2,089 million euros, 3.0% less than in 2013 and was significantly negatively affected by the previously mentioned regulation (-8.4 p.p. for the year).

Mobile service revenue stood at 1,247 million euros in 2014 (-3.8% year-on-year).

- ⇒ **Mobile service revenue** decreased by 4.7% year-on-year, mainly affected by the reduction in interconnection rates. Excluding this impact, it would have grown by 7.3% due to growth in mobile contract accesses and higher average consumption of voice and data.

Data revenue increased by 30.7% year-on-year in 2014, accounting for 29% of service revenue (+8 p.p. year-on-year). Non-SMS revenue continues to be the main lever in this growth (+42.8% year-on-year for January-December) and accounts for 92% of all data revenue (+8 p.p. year-on-year).

- ⇒ **Revenue from terminals** recorded a significant year-on-year growth in the fourth quarter (+41.0%; +3.8% for the

year) due to higher commercial activity in selling high-end equipment.

Revenue from **fixed business** reached 842 million euros, 1.7% less than those in 2013, having been negatively affected by the aforementioned regulatory changes and despite greater commercial activity. Excluding regulatory effects, revenue would have grown by 3.0% year-on-year.

- ⇒ **Revenue from broadband and new services** increased by 8.7% year-on-year in 2014 due to growth in broadband and pay TV accesses, and an improvement in the ARPU. Therefore, this revenue accounts for 63% of fixed business revenue (+6 p.p. year-on-year).
- ⇒ **Voice and access revenues** (-15.7% year-on-year for 2014) continue to be greatly impacted by the regulatory changes described above and the fixed to mobile substitution effect.

Operating expenses rose to 1,422 million euros, decreasing by 3.7% year-on-year in 2014. This decline is caused by lower provisioning costs derived from the regulatory changes and efficiency measures, which can offset the commercial effort in the acquisition of value customers.

Thus, the **OIBDA** reached 708 million euros and year-on-year growth accelerated in the final quarter of the year to 3.0% year-on-year (+1.5% in 2014) despite the negative impact of the regulatory changes (+5.6% year-on-year in January-December, excluding this effect). Thus, the OIBDA margin stands at 33.9% (+1.5 p.p. year-on-year).

CAPEX totalled 429 million euros (+1.4% year-on-year in 2014) and is allocated to the improvement in coverage and capacity of mobile and fixed networks.

Therefore, the **operating cash flow (OIBDA-CAPEX)** stands at 279 million euros, +1.7% year-on-year in 2014.

Telefónica Peru

(Year-on-year variations in organic terms)

In 2014, Telefónica Peru remains a telecommunications market leader and shows the highest growth in contract mobile accesses for Telefónica Latin America and a solid increase in broadband and pay TV connections.

This positive commercial performance translated into a sustained growth in revenue that, along with continued efforts to improve efficiency, was reflected in the year-on-year increase in the OIBDA and in the organic expansion of the OIBDA margin for the year.

In October the corporate structure of the Company was simplified with the integration of fixed and mobile companies.

In the final quarter of the year, the commercial effort in mobile and fixed business was intensified with retention campaigns for high-value customers.

Telefónica Peru reached 22.0 million **total accesses** as of the end of December (+5% year-on-year). In the **mobile business**, the following stands out:

- ⇒ **Mobile accesses** (16.8 million) grew by 7% year-on-year, leveraged in the contract segment (+14% year-on-year; 30% of the total; +2 p.p. year-on-year), following the success of the 4G 'Planes Vuela' rates launched in January in 2014. The higher quality of the accesses is also reflected in the strong momentum from **smartphones** (+37% year-on-year) which reached a penetration of 15% (+3 p.p. year-on-year). Additionally, it should be highlighted that prepaid access with frequent recharges increased year-on-year by 17%.
- ⇒ Annual **net gain** totalled one million accesses during the year. For prepay, it rose to 418 thousand accesses in the year, a result of the growth in new registrations (+2% year-on-year) and despite being affected by a decline in lower-value accesses. For contract, net gain reached 611 thousand for the year, with year-on-year reduction in churn levels at 1.6% for the year (-0.4 p.p.) as a result of the retention policies adopted by the Company in an environment of increased competitive intensity in the market.
- ⇒ **Voice traffic** increased by 22% for the year, supported by the growth of the access base and the improvement in the mix of customers. Likewise, **data traffic** continues to grow at very high rates (+69% for the year), supported by the growth of smartphones.
- ⇒ The **ARPU** maintains its trend of year-on-year growth (+2.7% for the year) due to the higher quality of the accesses and the increased penetration of data services. Thus, the data ARPU increased by 25.4% year-on-year for the year.

In relation to the commercial activity of the **fixed business**:

- ⇒ **Traditional business accesses** totalled 2.7 million at the end of the year (-3% year-on-year), after having recorded a net loss of 87 thousand accesses for the year, through lower Fixed Wireless activity and despite the improvement in the churn for the year (-0.1 p.p. year-on-year).
- ⇒ **Retail broadband accesses** stood at 1.5 million as of December (+6% year-on-year), after recording a net gain of 90 thousand accesses in January-December and an almost unchanged churn level compared to the same period of the previous year. Furthermore, it highlights the customer repositioning effort towards higher speeds in 2014, with 73% of accesses on plans with speeds equal to or above 4 Mb (+30 p.p. year-on-year).
- ⇒ **Pay TV accesses** rose to 948 thousand at the end of the year (+6% year-on-year), after consolidating the trend for positive net gains (+59 thousand accesses) from the previous two quarters in October-December. This performance stemmed from a high level of registrations (x2 year-on-year) and the good performance of the churn (-0.2 p.p. year-on-year).

Revenue stood at 2,504 million euros in 2014 and increased by 7.3% year-on-year.

Mobile **business revenue** totalled 1,427 million euros, 12.6% higher year-on-year than 2013.

- ⇒ **Mobile service revenue** rose by 13.4% in the year and its growth accelerated to 14.7% year-on-year.
- ⇒ **Data revenue** grew by 32.9% year-on-year in 2014, and accounts for 29% of service revenue (+4 p.p. year-on-year). Therefore, non-SMS data revenue represents 87% of revenue from mobile data (+6 p.p. year-on-year) after a year-on-year increase of 42.7% for the year.
- ⇒ **Revenue from terminals** grew by 7.1% year-on-year, with a commercial strategy focused on retention of high-value customers.

Fixed business revenue totalled 1,077 million euros in 2014, with a year-on-year growth of 1.0% for the year.

- ⇒ **Revenue from broadband and new services** increased by 5.6% year-on-year in January-December, accounting for 65% of the total fixed business revenue (+3 p.p. year-on-year).
- ⇒ **Voice and access revenue** decreased in the year by 7.6% year-on-year, affected by the fixed to mobile substitution effect and the loss of accesses.

Operating expenses rose to 1,696 million euros in the period from January-December and increased by 6.6% year-on-year (excluding 65 million euros related to restructuring costs). This increase is a result of the higher commercial expenses in the quarter associated with the commercial effort for the retention of value customers which are somewhat offset by the improved performance of personal expenses.

Therefore, the **OIBDA** stood at 844 million euros at the end of the year and grew by 9.2% year-on-year. The OIBDA margin stood at 33.7% in January-December and shows year-on-year growth of 0.6 p.p.

CAPEX stood at 421 million euros for the year (+23.4% year-on-year), highlighting the increase in broadband investment, in order to improve the service quality, and in the deployment of 3G and 4G networks.

Therefore, the **operating cash flow** (OIBDA-CAPEX) totalled 423 million euros at the end of 2014 (-0.6% year-on-year).



Telefónica Colombia

(Year-on-year variations in organic terms)

In 2014, Telefónica Colombia showed solid results, both in operational terms (growth in accesses in all services), and in financial terms (sustained year-on-year increase in revenue and double digits in the OIBDA thanks to efficiencies achieved).

Moreover, the strategy focused on high-value customers continues and is leading the deployment of 4G. In the last two quarters, the commercial mobile activity eliminated subsidies in the sale of terminals (once the permanence clause was removed in July), which involved a reduction in commercial activity and greater efficiency in commercial expenses.

Conversely, on 30 December the Colombian regulator (CRC) issued a resolution that gradually reduces mobile termination rates until 2017, until that year extending the application of asymmetric interconnection rates with the dominant operator, whose removal was initially expected in January 2015.

At the end of December, the Company managed 15.7 million **accesses**, with year-on-year growth of 6%. In relation to the operating performance of the **mobile business**:

⇒ **Mobile accesses** reached 12.8 million and grew by 6% compared to the end of 2013, after recording a **net gain** of 721 thousand accesses in the year, 72% higher than in 2013. The prepaid segment is the main lever for growth (+9% year-on-year), with a net gain of 764 thousand accesses in 2014.

Smartphones maintain a strong momentum (+28% year-on-year), and reached a penetration of 28% (+5 p.p. year-on-year).

⇒ **Data traffic** accelerated its year-on-year growth to +40% for the year and **voice traffic** rose by 10% year-on-year in the period from January-December.

The **ARPU** for the year decreased by 1.8% year-on-year in 2014, affected by the reduction in interconnection rates. However, data ARPU shows a year-on-year growth of 7.1% for the year.

In relation to **fixed business**:

⇒ **Traditional business accesses** (1.5 million) increased by 1% compared to 2013 and recorded an annual net gain of 14 thousand accesses thanks to the bundling of services that allowed the churn to remain stable year-on-year in both periods.

⇒ **Retail broadband accesses** totalled 962 thousand customers (+13% year-on-year) and accounted for 66% of total fixed accesses (+7 p.p. compared to December 2013), after having a net gain of 108 thousand accesses in January-December.

⇒ **Pay TV accesses** stood at 416 thousand, 20% more than in 2013, with a net gain of 68 thousand accesses for the year, supported by the launch of high-definition channels and an improved interactivity platform.

Revenue for the period of January-December 2014 rose to 1,719 million euros and increased by 7.8% year-on-year, due to the growth in both mobile and fixed business. Excluding the negative impact of the reduction in interconnection rates, revenue would have increased by 8.7% year-on-year in the period.

Mobile business revenue reached 1,090 million euros in January-December 2014, with a solid year-on-year increase of 10.7%.

⇒ **Mobile service revenue** increased by 8.8% year-on-year in 2014 and excluding the impact of the reduction in interconnection rates it would have increased by 10.1% year-on-year in the year.

Data revenue accounted for 26% of mobile service revenue (+1 p.p. year-on-year) and grew by 15.0%. Non-SMS revenue (+19.7% year-on-year in January-December) explained the performance and accounted for 95% of data revenue (+4 p.p. year-on-year).

⇒ **Revenue from the sale of terminals** in the year increased by 33.6% year-on-year supported by the removal of the subsidies from the third quarter and the greater weight of medium and high end terminal sales.

Fixed business revenue totalled 629 million euros for the year (+3.1% year-on-year).

⇒ **Revenue from broadband and new services** (57% of fixed incomes; +3 p.p. year-on-year) grew by 9.1% in the year due to greater accesses and the pay TV ARPU (greater mix of customers with Premium packages and high definition channels).

⇒ **Voice and access revenues** decreased by 3.4% year-on-year in 2014, due to the fixed to mobile substitution effect and despite the growth in accesses.

Operating expenses rose to 1,130 million euros, 3.3% more than in 2013, although they fell 1.6% in the final quarter due to the lower commercial mobile activity (removal of subsidies) and improved efficiency (ongoing review of expenses and simplification of processes). The organic variations exclude the impact of 2 million euros for restructuring costs.

The **OIBDA** reached 627 million euros in 2014 (+16.2% year-on-year) and accelerated its year-on-year growth in the fourth quarter to 18.9% thanks to increased efficiency and more rational business expenses. Thus, the OIBDA margin in the quarter rose to 39.0% (+4.4 p.p. year-on-year), bringing it to 36.5% for the year (+2.7 p.p. year-on-year).

CAPEX stood at 496 million euros (+17.9% year-on-year in organic terms, excluding 111 million euros for the renewal of the spectrum performed in the first quarter of 2014) and reflected the Company's efforts to advance towards a differential offer, increasing the speed of mobile and fixed connection and consolidating its leadership in the deployment of the 4G network.

Therefore, the **operating cash flow (OIBDA-CAPEX)** rose to 132 million euros in the year (+13.7% year-on-year).

Telefónica Mexico

(Year-on-year variations in organic terms)

During 2014 the progressive operational and financial improvement that was begun at the end of 2013 was consolidated, based on both the commercial repositioning and quality assets resulting from the strong investment effort made in recent years. In the fourth quarter, the Company reached a new record number of registrations and maintained the trend of strong year-on-year growth in revenue and OIBDA.

Furthermore, the introduction in 2014 of the new Telecommunications and Broadcasting Federal Law has allowed the creation of a new competitive environment in the Mexican telecommunications market. Among the measures adopted, it is worth noting the application of asymmetric termination rates in the mobile network (mainly since August).

At the same time, in recent months, the commercial offer has been continuously adapted to the needs of the customers and the new competitive environment. In the fourth quarter, it has continued to drive data consumption with the launch on 3 October of new 'Vas a Volar' LTE plans in the City of Mexico and the Metropolitan Area. Furthermore, the prepay offer has been strengthened by the 'Prepago Simple' plans, with which customers can talk, send SMS and surf the web at a rate of 0.85 pesos (per minute, SMS and MB).

In relation to the business operating performance:

- ⇒ **Accesses** stood at 23.2 million at the end of 2014 and showed growth of 6% year-on-year, despite the disconnection of 1.9 million inactive accesses in the prepay segment and fixed accesses under 'Fixed Wireless' technology in the first quarter of the year.
- ⇒ **Mobile accesses** rose to 21.7 million (+7% year-on-year). In the period from January-December 2014 a **net gain** of 1.3 million accesses was recorded, despite the negative impact of the disconnection of the aforementioned accesses.

Thus, registrations reached a new historic record and grew by +37% in the year, as a result of the successful launch of the new commercial offers, as well as the improvement in network capacity and coverage, and also the distribution channel.

Once more, portability data stood out, and presented a positive balance of +389 thousand in the year, and the customer base which is frequently recharged, which rose by 20% in the year.

- ⇒ **Smartphones**, and associated data plans, grew by 82% year-on-year to reach 5.4 million with a penetration of mobile accesses of 26% (+11 p.p. year-on-year).
- ⇒ The new commercial offer drives the strong increases in both voice and data traffic. Furthermore, **voice traffic** rose by +49% in the year, mainly supported by the growth in average

consumption per user and **data traffic** doubled compared to the fourth quarter of 2013 (by more than double year-on-year for the year), due to the explosion in smartphone growth and higher average consumption per customer.

- ⇒ This higher traffic volume positively impacted the **ARPU**, which reached +1.5% for the year.
- ⇒ **Fixed accesses** through 'Fixed Wireless' technology (1.6 million) remained unchanged compared to December 2013.

Revenue in 2014 stood at 1,648 million euros and grew by 8.8% year-on-year in the period, accelerating its growth in the fourth quarter to 10.6%.

- ⇒ **Mobile service revenue** (1,413 million euros) rose by 10.0% year-on-year for the year and again growth accelerated in the quarter to 12.9%, which represents the highest year-on-year growth since 2009. This performance is driven by both the growth in the accesses base and the higher unit consumption of voice and data.

Excluding the negative impact of the reduction in interconnection rates, effective since January 2014, the mobile service revenue would have shown an increase of +10.5% for the year.

Data revenue grew by +6.7% year-on-year, recording a turnaround once the negative impact of the SMS rate changes was absorbed in the previous quarters. Data revenue accounts for 24% of mobile services revenue and non-SMS data income represents 69% of data revenue (+13 p.p. year-on-year).

- ⇒ **Revenue from terminal sales** rose by 2.4% versus 2013.

Operating expenses (1,346 million euros) grew by 3.1% year-on-year in 2014, mainly due to lower connection costs associated with the removal of the call termination charge in the dominant operator's network since August, which offsets higher expenses with commercial activity.

The **OIBDA** rose to 337 million euros in 2014 (+36.6% year-on-year) after doubling year-on-year in the fourth quarter (109 million euros). This acceleration in growth is due to the new competitive environment, the differential quality of the Company's assets and the generation of economies of scale derived from the strong growth in accesses. Therefore, the OIBDA margin stood at 2.05% for the year and 24.1% in the fourth quarter (+4.3 p.p. and +11.7% year-on-year respectively).

CAPEX totalled 252 million euros in 2014 (+8.4% year-on-year) and was mainly destined for expansion and improvement of 3G and 4G networks, as well as the transformation of the distribution channel.

Therefore, the **operating cash flow (OIBDA-CAPEX)** reached 86 million euros in 2014 (-14.1% year-on-year).



Telefónica Venezuela and Central America

(Year-on-year variations in organic terms)

During 2014, Telefónica strengthened its differential position in Venezuela and Central America thanks to ongoing improvements in the quality of service and network coverage, contributing to a positive performance in operational and financial terms.

Thus, as a demonstration of its commitment to the development of the telecommunications sector, Telefónica Venezuela acquired by tender on 3 December a total of 60 MHz of spectrum for the supply of 4G service, 2 blocks of 10MHz in 1700-2170 MHz bands, and 2 blocks of 20MHz in the 2600 MHz band for an approximate cost of 39 million euros.

It stands to note that the economic and financial results in Venezuela in the fourth quarter were affected by the Company's decision to adopt the Venezuelan bolivar exchange rate of 50 bolivars per dollar. This modification in the conversion of financial information involved a reduction in revenue of 2,187 million euros and 915 million in the OIBDA in the fourth quarter, with the aim of adapting the results of previous quarters to the new exchange rate. Adapting the exchange rate represented the second change in the contribution by Venezuela (after the adoption of the SICAD I system in the first quarter) and involved a shift from 6.30 to 50 bolivars per dollar, with a significant impact on year-on-year variations in reported terms.

In relation to the business operating performance:

⇒ **Accesses** stood at 23.2 million at the end of 2014 and decreased by 1% year-on-year due to the disconnection of 1.8 million inactive prepaid accesses in Central America in the fourth quarter of 2014. In Venezuela, accesses reached 11.9 million (+2% year-on-year) and in Central America 11.4 million (-4% year-on-year).

⇒ **Mobile accesses** rose to 21.5 million (-1% year-on-year). In Venezuela, they totalled 10.7 million (+2% year-on-year; +3% in contract) after the strong increase in net gains in the quarter (407 million accesses) thanks to the success of the Christmas Campaign and greater availability of terminals. This allowed the year to end with a positive balance of 164 thousand accesses (-52 thousand in 2013). In Central America, mobile accesses stood at 10.8 million and fell by 3% year-on-year because of the aforementioned disconnection of accesses, which negatively affected the **churn** performance in the region (2.6% for the year; 2.4% for the quarter, excluding this impact).

⇒ **Smartphones** with associated data plans, increased by 37% year-on-year to December 2014 to 7.0 million and reached a penetration of 33% (+9 p.p. year-on-year), consolidating themselves as a main lever for growth in accesses. In Venezuela, smartphones grew by 20% year-on-year and the penetration continues to be a benchmark in the region (49% of mobile accesses; +7 p.p. year-on-year). In Central America, the smartphone base more than doubled the 2013 figure to 2.0 million.

⇒ **Voice traffic** rose by 16% year-on-year, driven by increased unit consumption. Furthermore, **data traffic** continues to show a very positive performance, with growth of 58% for the year, reflecting both the strong increase in penetration and also the higher unit consumption.

⇒ **Pay TV accesses** in Venezuela grew by 21% year-on-year to reach 467 thousand accesses to the end of 2014.

Revenue reached 1,420 million euros in 2014 (+30.5% year-on-year). In Venezuela, revenue stood at 692 million euros, increasing by 35.8% in a year. In Central America, revenue rose by 7.2% year-on-year for 2014.

⇒ **Mobile service revenue** grew by 36.8% for the year, supported by increased traffic, mostly from mobile data. In Venezuela, mobile service revenue rose by 44.2% in 2014 and in Central America by 7.7% for the year.

Data revenue represents 30% of mobile service revenue and increased by 40.5% year-on-year in 2014. This performance is due to the strong increase in non-SMS data revenue (+67.7% in the year), which represents 76% of data revenue (+12 p.p. year-on-year).

⇒ **Revenue from terminal sales** grew by 84.0% year-on-year in the fourth quarter (-9.3% in the year) after growing in Venezuela by 88.4% year-on-year for the quarter (-10.4% for the year) due to the strong increase in commercial activity.

Operating expenses (962 million euros) rose by 34.0% year-on-year, mainly affected by the general increase in prices and the impact of adopting the aforementioned new exchange rate system on dollarised expenses, as well as greater commercial intensity in the quarter in Venezuela. Accordingly, focus is kept on generating efficiency measures to offset this increase.

Revenue totalled 463 million euros in 2014 and grew by 20.9% year-on-year. The OIBDA margin stood at 32.6% for the year, with a year-on-year decrease of 3.1 p.p.

CAPEX reached 435 million euros in 2014 (+64.8% year-on-year, excluding the spectrum investment of 39 million euros in Venezuela in the fourth quarter of 2014 as previously mentioned and 82 million euros in Panama in the first quarter of

2014), reflecting the commitment of the Company to ongoing improvements in the network and infrastructure in the region in order to provide the highest quality service.

Therefore, the **operating cash flow (OIBDA-CAPEX)** rose to 27 million euros in 2014 (-14.1% year-on-year).

Accesses

Telefónica Latin America. Accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Final Customer Accesses	121,318.7	123,609.4	125,990.1	128,316.6	127,595.0	128,691.4	129,347.1	131,586.6	2.5
Fixed telephone accesses ⁽¹⁾⁽²⁾⁽³⁾	13,561.0	13,729.6	13,758.7	13,778.5	13,561.0	13,603.4	13,515.7	13,374.4	(2.9)
Data and Internet accesses	4,876.2	4,998.6	5,106.0	5,137.7	5,194.5	5,285.0	5,371.3	5,433.8	5.8
Narrowband	69.5	62.6	61.0	33.4	31.2	27.6	27.3	25.2	(24.5)
Broadband ⁽⁴⁾	4,777.3	4,906.7	5,015.6	5,074.9	5,134.5	5,228.7	5,315.1	5,379.4	6.0
Other ⁽⁵⁾	29.3	29.4	29.4	29.4	28.8	28.7	28.9	29.2	(0.6)
Mobile accesses	100,994.9	102,912.8	105,070.4	107,266.9	106,647.6	107,508.3	108,117.1	110,346.5	2.9
Prepay ⁽⁶⁾⁽⁷⁾	79,801.2	81,080.9	82,734.1	84,524.1	83,703.0	84,197.0	84,688.7	86,698.0	2.6
Contract	21,193.7	21,831.9	22,336.3	22,742.7	22,944.6	23,311.3	23,428.4	23,648.5	4.0
M2M	1,565.5	1,622.8	1,693.9	1,791.4	1,873.3	1,923.3	1,970.9	2,062.2	15.1
Pay TV	1,886.6	1,968.4	2,055.1	2,133.5	2,192.0	2,294.6	2,343.0	2,431.9	14.0
Wholesale accesses	22.3	23.2	22.4	22.7	21.8	21.8	112.7	16.4	(27.6)
Total Accesses	121,341.0	123,632.6	126,012.5	128,339.3	127,616.8	128,713.1	129,459.8	131,603.0	2.5

Telefónica Latin America. Mobile accesses

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Prepay percentage (%)	79.0%	78.8%	78.7%	78.8%	78.5%	78.3%	78.3%	78.6%	(0.2 p.p.)
Contract percentage (%)	21.0%	21.2%	21.3%	21.2%	21.5%	21.7%	21.7%	21.4%	0.2 p.p.
MBB accesses (thousands)	15,450.9	20,195.1	21,284.0	23,078.5	24,813.7	26,753.7	28,831.0	29,536.3	28.0%
MBB penetration (%)	15%	20%	20%	22%	23%	25%	27%	27%	5.3 p.p.
Smartphones (thousands)	13,169.4	17,965.0	19,194.4	21,170.8	23,057.9	25,092.5	27,257.6	27,992.8	32.2%
Smartphone penetration (%)	14%	18%	19%	20%	22%	24%	26%	26%	5.8 p.p.

(1) PSTN (including Public Use Telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 Digital Access x30. Includes self-consumption. Fixed wireless voice accesses are included.

(2) In the first quarter of 2014 45 thousand inactive fixed wireless accesses were disconnected in Mexico.

(3) In the second quarter of 2014, fixed telephony accesses included 50 thousand additional fixed wireless customers in Peru.

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

(5) Remaining retail circuits that are not broadband.

(6) In the first quarter of 2014 1.9 million inactive accesses were disconnected in Mexico.

(7) In the fourth quarter of 2014 1.8 million inactive accesses were disconnected in Central America.



Telefónica Latin America. Consolidated results

Unaudited data (millions of euros)	January-December		% Variation	
	2014	2013	Reported	Organic
Revenues	13,155	16,855	(22.0)	14.6
Fixed assets works	104	109	(4.9)	8.3
Operating expenses	(9,284)	(11,498)	(19.3)	13.6
Provisioning	(3,841)	(4,983)	(22.9)	4.9
Personnel costs	(1,525)	(1,746)	(12.7)	21.1
Other operating expenses	(3,918)	(4,769)	(17.9)	19.9
Other net revenues (expenses)	89	58	52.6	(20.5)
Result of disposal of assets	4	6	(39.1)	c.s.
Disposal of fixed assets and goodwill	0	0	-	-
Operating Income Before Depreciation and Amortisation (OIBDA)	4,068	5,531	(26.5)	16.4
OIBDA margin	30.9%	32.8%	(1.9 p.p.)	0.5 p.p.
CAPEX	2,842	3,118	(8.8)	29.1
Spectrum	405	251	n.a.	n.a.
OpCF (OIBDA-CAPEX)	1,226	2,413	(49.2)	2.2

Notes:

- OIBDA before management and brand expenses.

- The figures reported in 2013 and 2014 include adjustments for hyperinflation in Venezuela in both years.

Telefónica Latin America. Accesses by country (I)

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Argentina									
Final customer accesses	24,781.4	25,706.4	26,985.6	26,636.7	26,300.0	26,159.9	25,910.5	26,629.1	(0.0)
Fixed telephone accesses ⁽¹⁾	4,765.0	4,786.7	4,819.3	4,833.5	4,812.7	4,779.6	4,750.4	4,726.8	(2.2)
Fixed wireless	255.4	283.3	315.6	342.7	342.8	323.0	304.5	296.0	(13.6)
Data and Internet accesses	1,772.0	1,806.1	1,835.2	1,848.5	1,845.4	1,854.5	1,870.7	1,880.2	1.7
Narrowband	16.0	17.4	16.4	12.9	11.2	12.2	11.8	9.8	(24.4)
Broadband ⁽²⁾	1,755.9	1,788.6	1,818.8	1,835.5	1,834.2	1,842.3	1,859.0	1,870.5	1.9
Mobile accesses	18,244.4	19,113.6	20,331.0	19,954.7	19,641.9	19,525.8	19,289.4	20,022.1	0.3
Prepay	11,502.3	12,268.2	13,389.8	12,916.6	12,649.6	12,522.0	12,337.2	12,957.6	0.3
Contract	6,742.1	6,845.5	6,941.3	7,038.1	6,992.3	7,003.8	6,952.1	7,064.5	0.4
M2M	376.5	389.4	406.2	427.4	452.6	454.9	470.8	470.7	10.1
Wholesale accesses	13.8	14.7	13.9	14.0	14.0	13.9	104.9	8.4	(39.8)
Total Accesses	24,795.2	25,721.1	26,999.4	26,650.7	26,314.0	26,173.9	26,015.4	26,637.6	0.0%
Chile									
Final customer accesses	13,330.8	13,497.8	13,447.4	13,625.2	13,566.9	13,576.0	13,586.1	13,888.1	1.9
Fixed telephone accesses ⁽¹⁾	1,715.0	1,696.2	1,674.5	1,654.2	1,631.0	1,616.8	1,593.9	1,579.0	(4.6)
Data and Internet accesses	945.0	960.0	972.5	977.5	984.5	1,005.3	1,030.5	1,047.7	7.2
Narrowband	10.2	5.3	5.2	5.2	5.1	4.4	4.9	4.8	(7.7)
Broadband ⁽²⁾	932.3	952.2	964.9	969.9	977.0	998.7	1,023.4	1,040.7	7.3
Other ⁽³⁾	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.3	(4.8)

Telefónica Latin America. Accesses by country (I)

Unaudited data (thousands)	2013				2014				% Var
	March	June	September	December	March	June	September	December	
Mobile accesses	10,229.0	10,377.1	10,319.8	10,490.3	10,424.3	10,394.0	10,381.4	10,660.2	1.6
Prepay	7,624.9	7,722.9	7,656.1	7,806.5	7,693.6	7,595.2	7,563.7	7,856.6	0.6
Contract	2,604.1	2,654.2	2,663.8	2,683.8	2,730.7	2,798.7	2,817.7	2,803.6	4.5
M2M	238.8	253.0	263.2	281.6	306.5	322.0	319.9	307.3	9.1
Pay TV	441.8	464.5	480.5	503.2	527.1	559.9	580.3	601.3	19.5
Wholesale accesses	4.8	4.8	4.8	5.0	5.4	5.4	5.4	5.6	12.7
Total Accesses	13,335.6	13,502.6	13,452.2	13,630.2	13,572.3	13,581.4	13,591.5	13,893.8	1.9%
Peru									
Final customer accesses	20,268.0	20,548.6	20,896.9	20,897.6	21,081.6	21,287.9	21,632.6	21,976.4	5.2
Fixed telephone accesses ⁽¹⁾	2,874.0	2,872.6	2,844.2	2,801.5	2,725.7	2,776.9	2,749.3	2,714.7	(3.1)
Fixed wireless ⁽⁴⁾	346.4	339.4	328.8	313.5	251.4	292.8	280.2	262.7	(16.2)
Data and Internet accesses	1,359.8	1,397.4	1,425.5	1,437.1	1,457.2	1,490.7	1,505.2	1,523.4	6.0
Narrowband	5.5	5.5	5.4	5.0	4.9	1.1	1.2	1.2	77.0
Broadband ⁽²⁾	1,333.7	1,371.3	1,399.2	1,411.1	1,431.8	1,468.8	1,483.2	1,501.3	6.4
Other ⁽³⁾	20.5	20.7	20.8	21.0	20.5	20.7	20.8	21.0	0.0
Mobile accesses	15,126.4	15,366.1	15,722.4	15,762.0	16,012.9	16,133.1	16,489.0	16,790.2	6.5
Prepay	11,303.9	11,310.7	11,385.5	11,258.7	11,377.8	11,288.6	11,450.9	11,676.3	3.7
Contract	3,822.5	4,055.4	4,336.8	4,503.3	4,635.2	4,844.5	5,038.1	5,113.9	13.6
M2M	74.5	74.8	80.5	82.6	82.8	85.6	87.8	86.2	4.4
Pay TV	907.8	912.5	904.8	897.1	885.7	887.3	889.1	948.0	5.7
Wholesale accesses	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	9.6
Total Accesses	20,268.4	20,549.0	20,897.2	20,898.0	21,082.1	21,288.4	21,633.0	21,976.8	5.2%
Colombia									
Final customer accesses	14,001.6	14,227.4	14,247.6	14,778.7	15,128.7	15,052.5	15,403.9	15,689.7	6.2
Fixed telephone accesses ⁽¹⁾	1,427.5	1,435.0	1,445.8	1,447.1	1,459.9	1,464.0	1,468.6	1,461.0	1.0
Data and Internet accesses	758.8	798.0	836.2	862.2	895.1	922.4	952.9	970.2	12.5
Narrowband	8.4	8.5	8.5	8.5	8.5	8.5	8.5	8.5	(0.7)
Broadband ⁽²⁾	750.4	789.5	827.7	853.7	886.7	913.9	944.5	961.7	12.6
Mobile accesses	11,516.3	11,680.1	11,633.5	12,121.7	12,409.8	12,281.9	12,581.6	12,842.5	5.9
Prepay	8,446.9	8,490.1	8,369.6	8,818.5	9,105.9	8,982.4	9,313.3	9,582.6	8.7
Contract	3,069.4	3,190.1	3,263.8	3,303.2	3,303.9	3,299.5	3,268.3	3,259.9	(1.3)
M2M	351.0	356.9	372.4	392.9	404.7	416.2	421.5	427.8	8.9
Pay TV	299.1	314.2	332.1	347.6	363.8	384.1	400.8	416.0	19.7
Wholesale accesses	3.3	3.3	3.3	3.3	1.9	1.9	1.9	1.9	(41.1)
Total Accesses	14,004.9	14,230.7	14,250.9	14,782.0	15,130.6	15,054.4	15,405.9	15,691.6	6.2%

(1) PSTN (including Public Use Telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 Digital Access x30. Includes self-consumption. Fixed wireless voice accesses are included.

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

(3) Remaining retail circuits that are not broadband.

(4) In the second quarter of 2014, fixed telephone accesses included 50 thousand additional customers.



Telefónica Latin America. Accesses by country (II)

Unaudited data (thousands)	2012				2013				% Var
	March	June	September	December	March	June	September	December	
Mexico									
Mobile accesses	19,251.7	19,086.8	19,145.8	20,332.8	19,324.8	20,244.2	20,561.0	21,673.4	6.6
Prepay ⁽¹⁾	17,663.6	17,545.7	17,662.4	18,863.2	17,862.0	18,777.4	19,127.6	20,207.5	7.1
Contract	1,588.1	1,541.1	1,483.4	1,469.7	1,462.8	1,466.8	1,433.4	1,465.8	(0.3)
M2M	322.5	329.3	333.0	349.9	351.0	354.1	362.1	433.7	24.0
Wholesale Accesses ⁽²⁾	1,259.0	1,403.1	1,476.3	1,558.9	1,504.8	1,530.6	1,540.4	1,551.3	(0.5)
Total Accesses	20,510.7	20,489.9	20,622.1	21,891.7	20,829.6	21,774.8	22,101.5	23,224.7	6.1%
Venezuela and Central America ⁽³⁾									
Fixed telephone accesses ⁽⁴⁾	1,475.4	1,483.3	1,445.2	1,426.7	1,377.3	1,386.0	1,361.8	1,288.4	(9.7)
Fixed wireless	1,248.9	1,249.9	1,194.6	1,168.7	1,127.4	1,138.2	1,128.7	1,065.0	(8.9)
Data and Internet accesses	40.7	37.1	36.6	12.4	12.2	12.1	11.9	12.3	(0.8)
Narrowband	29.4	25.8	25.4	1.7	1.6	1.4	1.1	1.0	(40.0)
Broadband ⁽⁵⁾	5.0	5.1	5.0	4.7	4.8	4.9	5.1	5.3	13.7
Other ⁽⁶⁾	6.3	6.2	6.2	6.0	5.9	5.8	5.8	5.9	(1.0)
Mobile accesses	19,796.1	20,419.9	21,029.2	21,666.8	21,813.8	21,919.5	21,947.2	21,471.9	(0.9)
Prepay ^{(7) (8)}	17,827.0	18,331.4	18,892.5	19,485.4	19,602.9	19,676.2	19,721.3	19,242.6	(1.2)
Contract	1,969.1	2,088.4	2,136.7	2,177.0	2,210.9	2,243.3	2,225.9	2,229.2	2.4
M2M	97.6	105.3	112.9	119.8	123.8	129.8	134.9	141.7	18.3
Pay TV	237.9	277.2	337.6	385.6	415.3	463.2	472.8	466.6	21.0
Total Accesses	21,550.1	22,217.5	22,848.6	23,491.6	23,618.6	23,780.9	23,793.7	23,239.2	(1.1)
Ecuador									
Mobile accesses	4,988.3	5,025.5	5,042.8	5,094.6	5,174.5	5,155.4	4,995.9	5,002.5	(1.8)
Prepay	4,148.4	4,138.6	4,117.2	4,120.9	4,165.4	4,111.9	3,915.1	3,897.8	(5.4)
Contract	839.9	886.9	925.6	973.7	1,009.1	1,043.5	1,080.9	1,104.7	13.4
M2M	80.8	88.4	95.4	104.2	116.4	124.2	136.9	154.2	48.0
Fixed wireless	45.0	52.7	53.4	56.6	49.5	49.5	51.3	53.1	(6.1)
Total Accesses	5,033.3	5,078.2	5,096.1	5,151.3	5,224.0	5,204.9	5,047.3	5,055.6	(1.9)
Uruguay									
Mobile accesses	1,842.8	1,843.6	1,845.9	1,843.9	1,845.7	1,854.4	1,871.6	1,883.8	2.2
Prepay	1,284.3	1,273.2	1,261.0	1,250.0	1,245.8	1,243.2	1,259.6	1,276.9	2.2
Contract	558.5	570.4	584.9	593.9	599.9	611.2	612.0	606.9	2.2
M2M	23.8	25.8	30.3	33.1	35.5	36.6	37.0	40.6	22.8
Total Accesses	1,842.8	1,843.6	1,845.9	1,843.9	1,845.7	1,854.4	1,871.6	1,883.8	2.2%

(1) In the first quarter of 2014, 1.9 million inactive accesses were disconnected.

(2) In the first quarter of 2014, 45 thousand inactive accesses were disconnected.

(3) Central America includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica.

(4) PSTN (including Public Use Telephony) x1; ISDN basic access x1; ISDN primary access; 2/6 Digital Access x30. Includes self-consumption. Fixed wireless voice accesses are included.

(5) Includes ADSL, optical fibre, cable modem and broadband circuits.

(6) Remaining retail circuits that are not broadband.

(7) Includes prepaid M2M accesses.

(8) In the fourth quarter of 2014 1.8 million inactive accesses were disconnected in Central America.

Telefónica Latin America. Selected financial data by country (I)

Unaudited data (millions of euros)	January - December			
	2014	2013	% Var	% Local M Var
Argentina ⁽¹⁾				
Revenues	3,063	3,681	(16.8)	23.8
Mobile Business	2,007	2,434	(17.5)	22.7
Mobile service revenue	1,697	2,118	(19.8)	19.3
Data revenue	790	1,023	(22.8)	14.8
Revenue from terminals	310	316	(2.1)	45.7
Fixed business	1,055	1,247	(15.4)	25.9
Revenue from BA and new services ⁽²⁾	564	600	(6.0)	39.9
Voice and access revenue	442	594	(25.7)	10.6
Other	50	53	(6.1)	39.6
OIBDA	802	977	(17.9)	22.1
OIBDA margin ⁽³⁾	25.8%	26.1%	(0.3 p.p.)	
CAPEX	676	574	17.8	75.2
Spectrum	168	-	-	-
OpCF (OIBDA-CAPEX)	126	403	(68.8)	(53.5)
Chile ⁽¹⁾				
Revenues	2,089	2,483	(15.9)	(3.0)
Mobile Business	1,247	1,495	(16.6)	(3.8)
Mobile service revenue	1,113	1,346	(17.3)	(4.7)
Data revenue	318	281	13.4	30.7
Revenue from terminals	134	149	(10.0)	3.8
Fixed business	842	988	(14.8)	1.7
Revenue from BA and new services ⁽²⁾	530	562	(5.7)	8.7
Voice and access revenue	295	403	(26.9)	(15.7)
Other	17	23	(25.1)	(13.7)
OIBDA	708	818	(13.5)	(0.2)
OIBDA margin	33.9%	32.9%	0.9 p.p.	
CAPEX	429	488	(12.1)	1.4
Spectrum	-	-	-	-
OpCF (OIBDA-CAPEX)	279	330	(15.6)	(2.6)
Peru ⁽¹⁾				
Revenues	2,504	2,454	2.0	7.3
Mobile Business	1,427	1,333	7.0	12.6
Mobile service revenue ⁽⁴⁾	1,250	1,159	7.8	13.4
Data revenue	335	265	26.3	32.9
Revenue from terminals	177	174	1.8	7.1
Fixed business	1,077	1,121	(3.9)	1.0
Revenue from BA and new services ⁽²⁾	705	702	0.4	5.6
Voice and access revenue	351	399	(12.1)	(7.6)
Other	21	19	9.2	14.8
OIBDA	844	875	(3.5)	1.4
OIBDA margin ⁽³⁾	33.7%	35.6%	(1.9 p.p.)	



Telefónica Latin America. Selected financial data by country (I)

Unaudited data (millions of euros)	January - December			
	2014	2013	% Var	% Local M Var
CAPEX	421	479	(12.1)	(7.6)
Spectrum	-	120	n.a.	n.a.
OpCF (OIBDA-CAPEX)	423	396	6.9	12.4
Colombia				
Revenues	1,719	1,705	0.8	7.8
Mobile Business	1,090	1,052	3.6	10.7
Mobile service revenue	985	969	1.7	8.8
Data revenue	258	240	7.5	15.0
Revenue from terminals	104	84	25.9	33.6
Fixed business	629	652	(3.6)	3.1
Revenue from BA and new services ⁽²⁾	356	349	2.1	9.1
Voice and access revenue	271	300	(9.6)	(3.4)
Other	1	3	(54.6)	(51.5)
OIBDA	627	580	8.2	15.7
OIBDA margin ⁽³⁾	36.5%	34.0%	2.5 p.p.	
CAPEX	496	457	8.5	16.0
Spectrum	111	109	n.a.	n.a.
OpCF (OIBDA-CAPEX)	132	123	7.2	14.6

Note:

- OIBDA is presented before management and brand expenses.

(1) As a result of the integration, the breakdown of revenue for 2013 has been classified according to a proforma criteria, assigning intercompany eliminations within the fixed and mobile business. Therefore, all Latin American companies are under this criterion.

(2) Includes BA connectivity services (retail, wholesale), value-added services, TV services, data and IT revenues and other connectivity services.

(3) Margin over revenue includes fixed-mobile interconnection.

(4) Includes fixed wireless revenue

Telefónica Latin America. Selected financial data by country (II)

Unaudited data (millions of euros)	January - December			
	2014	2013	% Var	% Local M Var
Mexico				
Revenues	1,649	1,580	4.3	8.8
Mobile service revenue	1,413	1,340	5.4	10.0
Data revenue	340	375	(9.2)	(5.4)
Revenue from terminals	236	240	(1.8)	2.4
OIBDA	337	266	26.7	32.1
OIBDA margin	20.5%	16.9%	3.6 p.p.	
CAPEX	252	242	4.0	8.4
Spectrum	-	-	-	-
OpCF (OIBDA-CAPEX)	86	24	n.a.	n.a.
Venezuela & Central America ^{(1) (2)}				
Revenues	1,420	4,228	(66.4)	30.5
Mobile service revenue	1,305	3,738	(65.1)	36.8
Data revenue ⁽³⁾	397	1,117	(64.5)	40.5
Revenue from terminals	114	490	(76.6)	(9.3)
OIBDA	463	1,739	(73.4)	21.1
OIBDA margin	32.6%	41.1%	(8.5 p.p.)	
CAPEX	435	739	(41.1)	n.a.
Spectrum ⁽⁴⁾	126	-	n.a.	n.a.
OpCF (OIBDA-CAPEX)	27	1,000	(97.3)	(56.6)
Ecuador				
Revenues	508	505	0.5	0.4
Mobile service revenue	471	460	2.5	2.5
Data revenue	151	145	4.4	4.3
Revenue from terminals	36	45	(20.3)	(20.3)
OIBDA	188	182	3.1	3.0
OIBDA margin	37.0%	36.1%	0.9 p.p.	
CAPEX	102	94	9.4	9.4
Spectrum	-	-	-	-
OpCF (OIBDA-CAPEX)	85	89	(3.6)	(3.7)
Uruguay				
Revenues	232	256	(9.7)	2.8
Mobile service revenue	218	244	(10.6)	1.7
Data revenue	88	93	(5.0)	8.1
Revenue from terminals	14	13	9.2	24.3
OIBDA	94	105	(10.0)	2.4
OIBDA margin	40.7%	40.9%	(0.1 p.p.)	
CAPEX	31	46	(31.7)	(22.3)
Spectrum	-	22	n.a.	n.a.
OpCF (OIBDA-CAPEX)	63	59	7.0	21.7

Note:

- OIBDA is presented before management and brand expenses.

(1) The figures for Venezuela include the adjustments for hyperinflation in both years. For comparative purposes and in order to facilitate the interpretation of the year-on-year variations versus 2013 results, variations in local currency of the ARPU of the items affected by the inflation adjustment are reported excluding the impact of this adjustment.

(2) Central America includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica.

(3) Data revenues do not include adjustments by hyperinflation.

(4) Corresponding to Panama, Nicaragua and Venezuela.



Telefónica Latin America. Mobile operators' operating data by country (I)

Unaudited data	2013		2014			% Local M Var
	4Q	1Q	2Q	3Q	4Q	
Argentina						
Voice traffic (millions of minutes)	5,984	5,480	5,773	5,870	5,959	(0.4)
Data traffic (TB)	5,100	5,836	6,549	7,284	8,541	67.5
ARPU (EUR)	8.7	7.0	6.8	7.4	8.3	24.9
Prepay	2.8	2.1	2.2	2.3	2.7	24.1
Contract ⁽¹⁾	20.7	16.7	15.9	17.6	19.4	22.9
Data ARPU (EUR)	4.2	3.4	3.3	3.4	3.3	4.5
% non-SMS revenue s/ing data	52.5%	57.9%	59.1%	61.5%	57.3%	4.7 p.p.
Churn	3.6%	3.2%	3.2%	3.1%	2.6%	(1.0 p.p.)
Contract ⁽¹⁾	1.1%	1.1%	1.2%	1.2%	1.0%	(0.1 p.p.)
Chile						
Voice traffic (millions of minutes)	3,338	3,151	3,107	3,095	3,239	(3.0)
Data traffic (TB)	9,319	11,510	13,550	14,686	15,895	70.6
ARPU (EUR)	10.7	8.9	8.4	8.6	9.0	(10.1)
Prepay	4.8	3.9	3.6	3.6	3.7	(18.3)
Contract ⁽¹⁾	29.9	25.8	24.4	24.7	26.1	(6.7)
Data ARPU (EUR)	2.2	2.3	2.4	2.7	2.7	29.0
% non-SMS revenue s/ing data	86.7%	89.2%	91.6%	93.3%	93.4%	6.8 p.p.
Churn	3.0%	3.3%	3.1%	3.2%	3.3%	0.3 p.p.
Contract ⁽¹⁾	2.0%	1.7%	1.7%	2.0%	2.1%	0.0 p.p.
Peru						
Voice traffic (millions of minutes)	6,540	7,886	6,762	7,177	7,607	16.3
Data traffic (TB)	2,524	2,901	3,078	3,599	4,206	66.6
ARPU (EUR)	6.4	6.1	6.2	6.7	6.9	4.3
Prepay	4.0	3.9	3.8	4.1	4.2	(1.0)
Contract ⁽¹⁾	11.8	12.0	11.9	12.6	13.4	10.7
Data ARPU (EUR)	1.6	1.5	1.6	1.8	2.0	25.7
% non-SMS revenue s/ing data	86.2%	85.5%	88.4%	88.6%	85.9%	(0.3 p.p.)
Churn	4.5%	3.8%	4.0%	3.8%	3.7%	(0.7 p.p.)
Contract ⁽¹⁾	2.0%	2.1%	1.5%	1.4%	1.9%	(0.1 p.p.)
Colombia						
Voice traffic (millions of minutes)	5,733	5,603	5,525	5,607	5,781	0.8
Data traffic (TB)	5,982	6,670	7,454	8,708	9,410	57.3
ARPU (EUR)	6.9	6.1	6.4	6.6	6.2	(5.8)
Prepay	2.0	1.7	1.7	1.8	1.8	(5.1)
Contract ⁽¹⁾	21.9	20.4	21.4	22.6	21.5	2.4
Data ARPU (EUR)	1.7	1.6	1.7	1.8	1.7	6.9
% non-SMS revenue s/ing data	92.6%	93.7%	94.7%	95.4%	97.5%	4.9 p.p.
Churn	3.0%	3.0%	3.8%	2.7%	3.0%	(0.0 p.p.)
Contract ⁽¹⁾	2.3%	2.3%	2.1%	2.2%	2.1%	(0.2 p.p.)

Notes:

- ARPU: Average monthly income divided by the average media accesses for the period.

- Voice traffic is defined as the minutes used by the Company's customers, both incoming and outgoing. On-net traffic is calculated once (as outgoing), and includes promotional traffic. Traffic that is not associated with the Company's mobile customers is excluded (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

- Data traffic is defined as Terabytes used by Company customers, both in uploading and downloading (1TByte = 10¹² bytes). Promotional traffic is included. Traffic that is not associated with the Company's mobile customers is included (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

(1) Excludes M2M.

Telefónica Latin America. Mobile operators' operating data by country (II)

Unaudited data	2013	2014				% Local M Var
	4Q	1Q	2Q	3Q	4Q	
Mexico						
Voice traffic (millions of minutes)	6,204	6,626	7,723	7,454	8,807	42.0
Data traffic (TB)	3,572	4,460	4,590	6,497	6,832	91.3
ARPU (EUR) ⁽¹⁾	4.9	4.6	5.0	5.0	5.2	3.5
Prepay ⁽¹⁾	4.1	3.9	4.3	4.4	4.6	8.4
Contract ⁽²⁾	19.9	20.0	19.1	19.2	19.3	(6.0)
Data ARPU (EUR) ⁽¹⁾	1.4	1.3	1.4	1.4	1.4	(0.4)
% non-SMS revenue s/ing data	60.7%	65.4%	68.2%	70.2%	73.4%	15.7 p.p.
Churn ⁽¹⁾	2.5%	5.7%	2.9%	3.5%	3.4%	0.9 p.p.
Contract ⁽²⁾	1.3%	1.1%	1.4%	1.4%	1.6%	0.3 p.p.
Venezuela & Central America ⁽³⁾						
Voice traffic (millions of minutes)	8,762	9,173	9,262	9,413	9,627	17.0
Data traffic (TB)	7,878	9,993	10,434	11,848	13,400	70.1
ARPU (EUR) ⁽⁴⁾⁽⁶⁾	12.1	8.3	8.8	9.3	(9.7)	n.a.
Prepay ⁽⁵⁾	10.2	6.9	7.1	7.7	(8.1)	n.a.
Contract ⁽²⁾	30.4	21.5	25.6	25.3	(25.2)	n.a.
Data ARPU (EUR) ⁽⁵⁾⁽⁸⁾	4.7	3.2	3.5	3.7	(4.4)	n.a.
% non-SMS revenue s/ing data	67.8%	70.9%	74.4%	78.0%	79.7%	14.1 p.p.
Churn ⁽⁵⁾	2.8%	2.6%	2.8%	3.1%	4.8%	2.0 p.p.
Contract ⁽²⁾	1.1%	1.1%	1.2%	1.3%	1.2%	0.1 p.p.
Ecuador						
Voice traffic (millions of minutes)	1,192	1,175	1,203	1,212	1,201	4.7
Data traffic (TB)	1,108	1,142	1,223	1,315	1,485	34.0
ARPU (EUR)	7.0	6.8	7.0	7.3	7.8	0.8
Prepay	4.1	4.0	3.9	4.1	4.4	(0.8)
Contract ⁽²⁾	22.0	21.1	22.1	21.8	22.3	(6.7)
Data ARPU (EUR)	2.3	2.3	2.4	2.4	2.6	4.3
% non-SMS revenue s/ing data	75.6%	76.8%	78.6%	78.5%	80.6%	6.0 p.p.
Churn	2.7%	2.5%	2.8%	3.7%	3.2%	0.5 p.p.
Contract ⁽²⁾	1.2%	1.3%	1.3%	1.3%	1.7%	0.5 p.p.
Uruguay						
Voice traffic (millions of minutes)	900	850	845	862	864	(0.4)
Data traffic (TB)	919	1,045	1,118	1,318	1,499	63.2
ARPU (EUR)	10.3	9.5	9.1	9.2	9.8	(1.5)
Prepay	5.1	4.6	4.3	4.2	4.6	(6.5)
Contract ⁽²⁾	22.3	20.8	20.1	20.6	21.8	1.2
Data ARPU (EUR)	4.0	3.9	3.8	3.9	4.2	9.4
% non-SMS revenue s/ing data	47.7%	51.5%	54.0%	56.7%	60.8%	14.6 p.p.
Churn	1.9%	1.9%	1.6%	1.4%	1.5%	(0.4 p.p.)
Contract ⁽²⁾	0.6%	0.6%	0.6%	0.7%	0.9%	0.3 p.p.

Notes:

- ARPU: Average monthly income divided by the average media accesses for the period.

- Voice traffic is defined as the minutes used by the Company's customers, both incoming and outgoing. On-net traffic is calculated once (as outgoing), and includes promotional traffic. Traffic that is not associated with the Company's mobile customers is excluded (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

- Data traffic is defined as Terabytes used by Company customers, both in uploading and downloading (1TByte = 10¹² bytes). Promotional traffic is included. Traffic that is not associated with the Company's mobile customers is included (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

(1) Affected by the disconnection of 1.9 million inactive M2M in the first quarter of 2014.

(2) Excludes M2M.

(3) Central America includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica.

(4) For comparative purposes and in order to facilitate the interpretation of the year-on-year variations versus 2013 results, variations in local currency of the ARPU in Venezuela are reported excluding the impact of the hyperinflation adjustment.

(5) Affected by the disconnection of 1.8 million inactive accesses in Central America in the fourth quarter of 2014.

(6) Does not include adjustments by hyperinflation.



Telefónica Latin America. Mobile operators' accumulated operating data by country (I)

Non-audited data	2013		2014			% Local M Var
	Jan-Dec	Jan-Mar	Jan-June	Jan-Sept	Jan-Dec	
Argentina						
Voice traffic (millions of minutes)	22,540	5,480	11,253	17,123	23,081	2.4
Data traffic (TB)	18,798	5,836	12,385	19,669	28,210	50.1
ARPU (EUR)	9.4	7.0	6.9	7.1	7.4	16.9
Prepay	3.3	2.1	2.2	2.2	2.3	6.8
Contract ⁽¹⁾	21.4	16.7	16.3	16.7	17.4	21.0
Data ARPU (EUR)	4.5	3.4	3.4	3.4	3.4	12.1
% non-SMS revenue s/ing data	49.1%	57.9%	58.5%	59.5%	59.0%	9.9 p.p.
Churn	2.3%	3.2%	3.2%	3.2%	3.0%	0.6 p.p.
Contract ⁽¹⁾	1.0%	1.1%	1.1%	1.1%	1.1%	0.1 p.p.
Chile						
Voice traffic (millions of minutes)	13,339	3,151	6,259	9,354	12,593	(5.6)
Data traffic (TB)	31,218	11,510	25,059	39,745	55,640	78.2
ARPU (EUR)	10.9	8.9	8.7	8.6	8.7	(8.0)
Prepay	4.9	3.9	3.7	3.7	3.7	(12.5)
Contract ⁽¹⁾	30.6	25.8	25.1	24.9	25.2	(5.0)
Data ARPU (EUR)	2.3	2.3	2.4	2.5	2.5	28.9
% non-SMS revenue s/ing data	84.2%	89.2%	90.4%	91.5%	91.9%	7.8 p.p.
Churn	2.7%	3.3%	3.2%	3.2%	3.2%	0.5 p.p.
Contract ⁽¹⁾	1.9%	1.7%	1.7%	1.8%	1.9%	0.0 p.p.
Peru						
Voice traffic (millions of minutes)	24,193	7,886	14,648	21,825	29,432	21.7
Data traffic (TB)	8,164	2,901	5,979	9,578	13,784	68.8
ARPU (EUR)	6.6	6.1	6.1	6.3	6.5	2.7
Prepay	4.3	3.9	3.8	3.9	4.0	(2.7)
Contract ⁽¹⁾	12.3	12.0	11.9	12.1	12.4	6.7
Data ARPU (EUR)	1.4	1.5	1.5	1.6	1.7	25.4
% non-SMS revenue s/ing data	81.1%	85.5%	86.9%	87.5%	87.1%	6.0 p.p.
Churn	4.4%	3.8%	3.9%	3.9%	3.8%	(0.6 p.p.)
Contract ⁽¹⁾	2.0%	2.1%	1.5%	1.5%	1.6%	(0.4 p.p.)
Colombia						
Voice traffic (millions of minutes)	20,551	5,603	11,128	16,735	22,516	9.6
Data traffic (TB)	23,111	6,670	14,124	22,832	32,242	39.5
ARPU (EUR)	6.9	6.1	6.2	6.3	6.3	(1.8)
Prepay	1.9	1.7	1.7	1.8	1.8	0.2
Contract ⁽¹⁾	22.6	20.4	20.9	21.5	21.5	1.7
Data ARPU (EUR)	1.7	1.6	1.7	1.7	1.7	7.1
% non-SMS revenue s/ing data	91.6%	93.7%	94.2%	94.6%	95.3%	3.8 p.p.
Churn	3.7%	3.0%	3.4%	3.2%	3.1%	(0.6 p.p.)
Contract ⁽¹⁾	2.0%	2.3%	2.2%	2.2%	2.2%	0.2 p.p.

Notes:

- ARPU: Average monthly income divided by the average media accesses for the period.

- Voice traffic is defined as the minutes used by the Company's customers, both incoming and outgoing. On-net traffic is calculated once (as outgoing), and includes promotional traffic. Traffic that is not associated with the Company's mobile customers is excluded (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

- Data traffic is defined as Terabytes used by Company customers, both in uploading and downloading (1 TByte = 10¹² bytes). Promotional traffic is included. Traffic that is not associated with the Company's mobile customers is included (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

(1) Excludes M2M.

Telefónica Latin America. Mobile operators' accumulated operating data by country (II)

Unaudited data	2013		2014			% Local M Var
	Jan-Dec	Jan-Mar	Jan-June	Jan-Sept	Jan-Dec	
Mexico						
Voice traffic (millions of minutes)	20,598	6,626	14,349	21,804	30,611	48.6
Data traffic (TB)	8,757	4,460	9,050	15,547	22,379	n.a.
ARPU (EUR) ⁽¹⁾	5.1	4.6	4.8	4.9	5.0	1.5
Prepay ⁽¹⁾	4.3	3.9	4.1	4.2	4.3	4.8
Contract ⁽²⁾	20.0	20.0	19.5	19.4	19.4	1.4
Data ARPU (EUR) ⁽¹⁾	1.6	1.3	1.4	1.4	1.4	(10.7)
% non-SMS revenue s/ing data	56.5%	65.4%	66.8%	67.9%	69.3%	12.7 p.p.
Churn ⁽¹⁾	2.9%	5.7%	4.3%	4.0%	3.9%	1.0 p.p.
Contract ⁽²⁾	1.6%	1.1%	1.3%	1.4%	1.4%	(0.2 p.p.)
Venezuela & Central America ⁽³⁾						
Voice traffic (millions of minutes)	32,304	9,173	18,435	27,848	37,475	16.0
Data traffic (TB)	28,981	9,993	20,427	32,274	45,675	57.6
ARPU (EUR) ⁽⁴⁾⁽⁶⁾	11.6	8.3	8.5	8.8	4.2	25.3
Prepay ⁽⁵⁾	9.7	6.9	7.0	7.2	3.4	24.1
Contract ⁽²⁾	29.9	21.5	23.6	24.2	11.8	29.3
Data ARPU (EUR) ⁽⁵⁾⁽⁶⁾	4.5	3.2	3.3	3.5	1.5	31.0
% non-SMS revenue s/ing data	64.0%	70.9%	72.5%	74.6%	76.1%	12.3 p.p.
Churn ⁽⁵⁾	2.7%	2.6%	2.7%	2.9%	3.3%	0.6 p.p.
Contract ⁽²⁾	1.1%	1.1%	1.1%	1.2%	1.2%	0.1 p.p.
Ecuador						
Voice traffic (millions of minutes)	4,482	1,175	2,378	3,589	4,790	7.0
Data traffic (TB)	4,024	1,142	2,366	3,680	5,165	28.4
ARPU (EUR)	7.3	6.8	6.9	7.0	7.2	(1.2)
Prepay	4.3	4.0	3.9	4.0	4.1	(6.0)
Contract ⁽²⁾	23.3	21.1	21.7	21.7	21.9	(6.0)
Data ARPU (EUR)	2.3	2.3	2.3	2.3	2.4	2.9
% non-SMS revenue s/ing data	74.4%	76.8%	77.7%	78.0%	78.6%	4.2 p.p.
Churn	3.1%	2.5%	2.6%	3.0%	3.0%	(0.0 p.p.)
Contract ⁽²⁾	1.2%	1.3%	1.3%	1.3%	1.4%	0.2 p.p.
Uruguay						
Voice traffic (millions of minutes)	3,440	850	1,695	2,557	3,421	(0.5)
Data traffic (TB)	3,179	1,045	2,163	3,482	4,981	56.7
ARPU (EUR)	10.6	9.5	9.3	9.2	9.4	0.6
Prepay	5.3	4.6	4.4	4.4	4.4	(5.4)
Contract ⁽²⁾	23.4	20.8	20.4	20.5	20.8	1.2
Data ARPU (EUR)	4.2	3.9	3.8	3.9	4.0	7.2
% non-SMS revenue s/ing data	45.2%	51.5%	52.7%	54.0%	55.7%	10.4 p.p.
Churn	1.9%	1.9%	1.7%	1.6%	1.6%	(0.3 p.p.)
Contract ⁽²⁾	0.7%	0.6%	0.6%	0.7%	0.7%	0.0 p.p.

Notes:

- ARPU: Average monthly income divided by the average media accesses for the period.

- Voice traffic is defined as the minutes used by the Company's customers, both incoming and outgoing. On-net traffic is calculated once (as outgoing), and includes promotional traffic. Traffic that is not associated with the Company's mobile customers is excluded (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

- Data traffic is defined as Terabytes used by Company customers, both in uploading and downloading (1TByte = 10¹² bytes). Promotional traffic is included. Traffic that is not associated with the Company's mobile customers is included (roaming-in, MVNOs, roaming-in third party interconnection, and other lines of business). Traffic volume without rounding.

(1) Affected by the disconnection of 1.9 million inactive M2M in the first quarter of 2014.

(2) Excludes M2M.

(3) Central America includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica.

(9) For comparative purposes and in order to facilitate the interpretation of the year-on-year variations versus 2013 results, variations in local currency of the ARPU in Venezuela are reported excluding the impact of the hyperinflation adjustment.

(5) Affected by the disconnection of 1.8 million inactive accesses in Central America in the fourth quarter of 2014.

(6) Does not include adjustments for hyperinflation.



ANNEXES

Most important shareholdings of the Telefónica Group

Telefónica España

	% stake
Telefónica España	100.0
Telefónica Móviles España	100.0
Telyco	100.0
Iberbanda	100.0
Acens Technologies	100.0
Tuenti	100.0

Telefónica UK

	% stake
Telefónica UK	100.0

Telefónica Deutschland

	% stake
Telefónica Deutschland	62.4

Telefónica Brazil

	% stake
Telefónica Brazil	74.0

Telefónica Latin America

	% stake
Telefónica 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 Peru	98.6
Telefónica Chile	97.9
Telefónica Colombia	70.0
Telefónica Móviles El Salvador	60.0
Telefónica Móviles Guatemala	60.0
Telefonía Celular Nicaragua	60.0
Telefónica Móviles Panamá	60.0

Other shareholdings

	% stake
Telefónica de contenidos	100.0
T. Intern. Wholesale serv. (TIWS)	100.0
Telefónica Digital	100.0
Telco SpA ⁽¹⁾	66.0
DTS, Digital television distributor	44.0
China unicom ⁽²⁾	2.5
BBVA	0.7

Note:

(1) 66.0% of the economic rights.

(2) On 10 November 2014, the sale of 2.5% of capital in China Unicom was completed, reducing the stock in this company to 2.51%.

Changes to the perimeter

In the 2014 fiscal year, the following adjustments have been made to the perimeter of consolidation:

- ⇒ The Brazilian telecommunications regulator (ANATEL), in its meeting on 22 December 2014, approved the splitting of Telco, S.p.A. subject to the suspension of the political rights of Telefónica in Telecom Italia and its affiliates, among other measures. Telefónica is adhering to this suspension of political rights and has offered to submit a formal declaration in this regard to ANATEL. For this reason, as of the same date, Telefónica has not had a significant influence on its indirect holding in Telecom Italia, S.p.A., and has reclassified its investment as an available-for-sale financial asset.
- ⇒ In November 2014, Telefónica proceeded with the sale of shares representing 2.5% of China unicom share capital. Telefónica retains a holding of 2.51% in this company, which has been reclassified as an available-for-sale financial asset.
- ⇒ On 1 October 2014, Telefónica Deutschland completed the acquisition of E-Plus, which began consolidating in the Telefónica Group by the global integration method from that date.
- ⇒ On 15 July 2014, the sale of Telefónica Ireland was completed after obtaining the necessary regulatory authorisations, causing a drop in the perimeter of consolidation from 1 July 2014.
- ⇒ On 4 July 2014, the acquisition of 22% of the share capital of Distribuidora de Televisión Digital, S.A. (DTS) was formalised. DTS is owned by Mediaset España Comunicación, S.A. With this acquisition, Telefónica's holding in DTS rose to 44%.
- ⇒ On 28 January 2014, the sale of 65.9% of shares in Telefónica Czech Republic was completed once the necessary regulatory authorisation was obtained, causing a drop in the perimeter of consolidation from 1 January 2014. Subsequently, Telefónica sold its remaining 4.9% stake in the company (renamed O2 Czech Republic, a.s. as of 21 June 2014).

Disclaimer

The forward-looking statements about plans, expectations and projections in this document can be identified, in some instances, by the use of words such as 'will be', 'target', 'expectation', 'desire', 'anticipation', 'should', 'would', 'assume', 'consider', 'plan', 'goal', 'belief' or similar language or other forms of language with the same meaning, in every instance, or its corresponding negative form. Other forward-looking statements about plans, expectations or projections can be identified by the context surrounding the statements or by the forward-looking nature of issues related to strategies, plans or intentions.

These statements include declarations related to our current plan, belief and expectations in relation to, among other things: the effect of competition in telecommunications markets on our results; the trends that affect our business' financial position, the results of cash flows and operations; acquisitions, investments and divestments that we can make in the future; our capital expenditure plan; our estimated availability of funds; our ability to pay debts with estimated future cash flows; our shareholder remuneration policy; supervision and regulation of the telecommunication sectors where we significantly operate; our strategic alliances; and the potential for growth and competition in our business' current and future environments.

Such forward-looking statements and projections do not guarantee future compliance, and are subject to many risks and uncertainties, and actual results may differ materially from those expected in the forward-looking statements and projections as a result of various factors. The risks and uncertainties involved

in our business that can affect the subjects mentioned in such statements include, but are not limited to: changes in economic or business conditions, or in the political situation of the national or international markets in which we operate or have material investments can affect the demand for our services; exposure to foreign currency exchange rates, interest rates or credit risks related to our treasury stock investments or in some of our financial transactions; current conditions and the deterioration of international financial markets; the impact of current, pending or future regulations in the countries in which we operate, as well as failure to renew or obtain licences, authorisations or concessions required to provide our services and the impact of limitations in spectrum capacity; compliance with anti-corruption regulations and economic sanctioning programmes; perception of customers on services offered by the Company; actions of existing and potential competitors in every one of our markets, as well as potential effects of technological changes; failure of providers to supply necessary equipment and services when requested; the impact of unforeseen network interruptions including those due to cybersecurity actions; the effect of reports suggesting that electromagnetic fields can cause health problems; the possible accounting writedown of assets due to regulatory, business, or political changes; potential liability resulting from the illegal or illicit use of the Internet through our Internet access services and hosts, including the improper disclosure or modification of customer data; and the result of pending or future litigation or other legal procedures.

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Financial *situation*

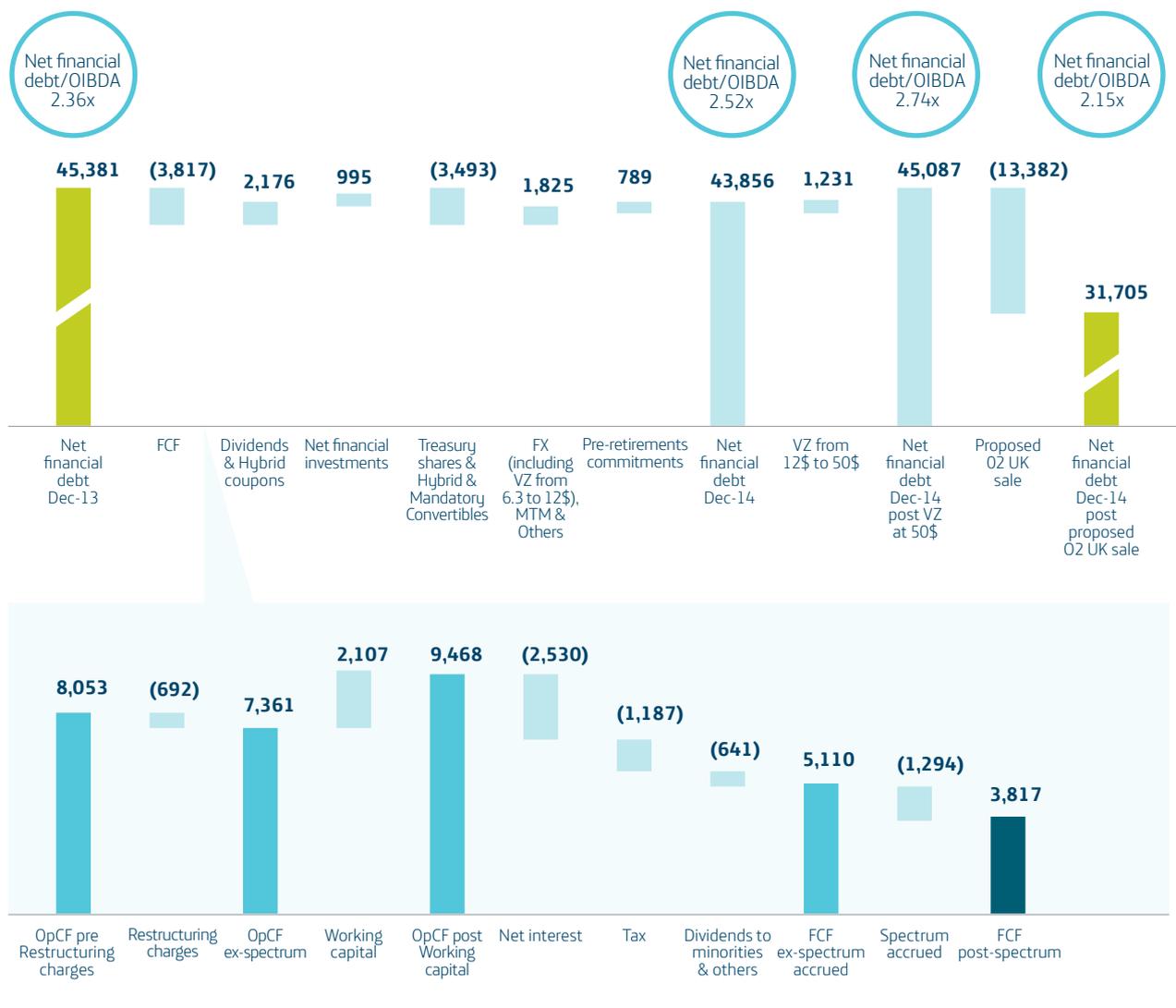
Telefónica's net financial debt reached 31,705 million euros following the sale of O2 UK, while the debt ratio stands at 2.15 times. This data confirms the solidity of the Company's balance.



The net financial debt has been reduced by 294 million euros in the last twelve months, down to 45,087 million euros, affected by the adoption of the SICAD II fixed rate of exchange in Venezuela, which means an increase in the debt of 1,231 million euros. Thus, it is worth pointing out that the debt would stand at 31,705 million euros, and the debt ratio (net financial debt to OIBDA) would be 2.15 times. All this following the finalisation of the O2 UK sale at the end of the fiscal year, and despite the exchange rate adjustment in Venezuela.

Net financial debt

€ in millions



Telefónica, S.A.
2014 Integrated Report

This Report is also available online at:
<http://annualreport2014.telefonica.com>

The legally required information is available to shareholders and the general public.

Published by:
Global Head of Public and Regulatory Affairs Telefónica S.A.

Design and layout:
MRM Worldwide Spain, S.A.

Date of publication:
June 2015



Telefonica
