Big opportunity ahead of us

T. Latinoamérica: Best starting position for Digital Revolution

1. Best Assets
2. Best Diversification and Scale
3. Best Innovation
4. Best Customers
Big opportunity ahead of us: LatAm is leading ICT growth

**ICT Sector Revenue Growth**

- **Europe**: 1.6% CAGR 08-12, 1.0% CAGR 12-17E
- **North America**: 3.4% CAGR 08-12, 3.8% CAGR 12-17E
- **Asia**: 5.0% CAGR 08-12, 4.9% CAGR 12-17E, 9.0% CAGR 12-17E
- **Middle East/Africa**: 5.0% CAGR 08-12, 7.9% CAGR 12-17E
- **LatAm**: 7.1% CAGR 12-17E
- **Global**: 3.9% CAGR 08-12, 4.0% CAGR 12-17E

**LatAm is leading ICT growth**

- Brazil becoming the 4th largest Telecom Market in the world in subscribers
- Mobile and Fixed Service Revenues growing

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Additional sources: GSMA Intelligence and Analysys Mason
Big opportunity ahead of us: Increased penetration across services

Services penetration

<table>
<thead>
<tr>
<th>Service</th>
<th>2012</th>
<th>2017E</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unique Mobile Subscribers(^1) / pop</td>
<td>52%</td>
<td>59%</td>
<td>+7%</td>
</tr>
<tr>
<td>Smartphones / Mobile</td>
<td>20%</td>
<td>44%</td>
<td>+24%</td>
</tr>
<tr>
<td>M2M / Mobile</td>
<td>130m(^2)</td>
<td>500m(^3)</td>
<td>+380m(^3)</td>
</tr>
<tr>
<td>FBB / Households</td>
<td>33%</td>
<td>46%</td>
<td>+13%</td>
</tr>
<tr>
<td>Pay TV / Households</td>
<td>33%</td>
<td>45%</td>
<td>+2%</td>
</tr>
</tbody>
</table>

Accesses CAGR 12-17E: +4%\(^1\) +31%\(^2\) +34% +9% +9%

Growth on booming population & services adoption

• Ample room to increase mobile penetration: +1 p.p. of unique mobile subscribers penetration => +9 million new subscribers
• New revenue sources booming: In next 5 years, Smartphones and M2M => ~4x

Source GSMA Intelligence and Analysys Mason

1 Unique subscribers, excluding the estimated impact of multiple SIMs per user
2 Total Mobile Broadband connections
Big opportunity ahead of us: Intensifying usage to grab further growth

Growth across services

- Voice positively contributing to revenue growth with MOU in LatAm growing in y-o-y terms
- Data opportunity on **booming data traffic**: CAGR 12-17E => +67%
- Similar competitive market structure to the US provides a better platform for the introduction of new technologies:

Source: GSMA Intelligence, Mobidia (data traffic for Europe and LatAm as an average of the 3 most representative markets) and Global Wireless Matrix (Q3 13; BofAML)
Big opportunity ahead of us

T. Latinoamérica: Best starting position for Digital Revolution

1. Best Assets
2. Best Diversification and Scale
3. Best Innovation
4. Best Customers
1. Best Assets (I): Telefónica, benchmark in Latin America

**Accesses**
- 218m
- Mobile accesses: 182m
- FBB: 9m

**Contract penetration**
- 24%

**Smartphone penetration**
- 20%

**FBB/Fixed**
- 37%

**Revenue Market Share**
- Brazil: #1
- Argentina: #1
- Peru: #1
- Mexico: #3
- Colombia: #2
- Chile: #1
- Venezuela: #2
- Ecuador: #2
- Central America: #1
- Uruguay: #2

**Focused strategy**

A. **Maintaining the outperformance in the markets where we are leaders** with further potential on innovative services and differential network positioning
   - **Record high in mobile contract net adds in Brazil**, capturing 58% of the market in 2013\(^2\) to reach 40% of contract market share

B. **Catching up market leaders** in lagging markets on an eased regulatory framework; strengthening our market positioning on mobile data-centric disruptive proposals and wholesale agreements signed to an efficient use of our resources
   - **New agreements signed in Mexico (Nextel, Iusacell and 3 MVNOs) and Colombia (Virgin)** to strengthen our wholesale positioning and to become the network option to compete against the dominant player

Information updated as of Sep-2013
1. Penetration over mobile accesses
2. Updated as of Nov'13
1. Best Assets (II): Addressing different realities

A. Maintaining the outperformance in the markets where we are leaders

BRAZIL
- Superior quality
  - Leading CSI; expanding the gap
- Superior network
  - More than 3.1k municipalities covered with 3G; 2x our closest competitor
- Superior brand
  - Top of mind leader in last 5yrs

![Chart showing Net additions market share](chart)

![Chart showing Contract and smartphone penetration](chart)

B. Catching up market leaders in lagging markets

MEXICO
- Reshaped commercial strategy and distribution channel
- Efficient use of our resources; becoming the strongest wholesale provider
  - Several agreements signed with both MNOs and MVNOs

![Chart showing Gross additions (y-o-y)](chart)

![Chart showing New regulatory framework](chart)
1. Best Assets (III): Best infrastructure based on strong investments

**T. LatAm: The main foreign investor**

(As of Sep’13)

- **53%** FDI
- **47%** Infrastructure

121bn€

**T. LatAm: The best telecom platform**

- **>34,000**
  - 3G base stations
- **~80%**
  - 3G coverage (pop)
- **>2,300**
  - 4G base stations
- **~74% sites**
  - with UBB Backhaul
- **~x3 UBB accesses**
  - y-o-y

Network information updated as of Sep’13

1 Total sites connected with fiber and IP/hybrid microwaves
2 Accesses with > 8MB

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**Strong investments drive the best network**

- **Best positioning in spectrum capacity to boost future growth**: higher spectrum share than our closest competitor; gap amplified on lower bands (<1 GHz) and on most recent spectrum auctions (Colombia and Peru)
- **Optimizing and speeding up LTE roll-outs**: spectrum for 4G services awarded in most of the countries; commercial launch already in 5 countries
- **Focused UBB deployment**: 1.5m households passed with fiber in Brazil
- **Pragmatic approach on efficient network deployment** (shared backbone/sites deployment)
2. Best Diversification: Strong diversification across regions

T. LatAm is Telefónica’s growth engine

- **Accesses**
  - LatAm: 32%
  - Europe: 68%

- **Revenue**
  - LatAm: 47%
  - Europe: 51%

- **OIBDA**
  - LatAm: 16.2%
  - Europe: 11.2%

- **CapEx (exc. spectrum) / sales (2009-12) => 13.7% Group**
- **2.2bn€ (2009-12) invested in spectrum to capture booming data opportunity**

Balanced portfolio within the region

- **Accesses**
  - Brazil: 12%
  - Argentina: 8%
  - Chile: 6%
  - Peru: 6%
  - Colombia: 9%
  - Mexico: 5%
  - Venezuela: 10%
  - Others: 9%

- **Revenue**
  - Brazil: 12%
  - Argentina: 6%
  - Chile: 5%
  - Peru: 8%
  - Colombia: 11%
  - Mexico: 5%
  - Venezuela: 13%
  - Others: 42%

- **Strong diversification with limited market risk onwards:**
  - Market share of 26% (F+M) in our main market (Brazil) suggests upside capacity vs.
  - Our main competitor has 73% (F+M) market share in its major market (Mexico)

- **Mobile revenues accounting for 71% out of total revenues (fixed 29%)**

Information updated as of Sep-2013
2. Best Scale (I): Big scale allows us to benefit from multiple processes

T. Global Resources is the unit to extract value from our scale

- Telefónica is the 6th largest operator in terms of accesses (1) and market capitalization (2)
- Partnership program further strengthening our scale.
- Strong differentiation through our scale: just 4 players above 10 bn$ mark (revenues) in LatAm.

![Graph showing partnership program and customer numbers]

- Stake 5.01% ~426m customers
- Stake 14.96% ~162m customers

**PARTNERS PROGRAM**

- ~13m customers
- ~144m customers
- ~3m customers
- ~69m customers

> 1,000m Combined Customers

Savings of >1bn€ in 2012

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1 As of September 2013
2 As of January 10, 2014
2. Best Scale (II): Embracing Corporate & SME growth opportunity

**Regional scale and disruptive B2B proposals leveraging growth**

- **Best scale and limited regional market share** in Corporate & SME provides a big opportunity to embrace growth and outperform market peers
  - 16% T. Latam’s market share (2011*); Corporate & SME revenue growth of 6% (CAGR 11-17E*)
  - Regional approach delivering regional agreements

- **Unique Processes and Systems:** Integrated Model for CRM and BI

- **Compelling digital solutions** with a paradigm shift from “enterprise focus” to “employee focus”

* Source: Frost&Sullivan (Jan’13)
3. Best Innovation (I): New revenue streams strengthening growth profile

Upgrading customers to higher-speed networks allows us increasing data growth

- Connections via 2G networks still accounting for almost 80% of total connections
- 3G is now booming on rising income levels and sharp declines in handset prices (US$ 100 smartphone is now a reality)
- Video accounting for 60% of total data traffic

Sources: GSMA Intelligence
3. Best Innovation (II): Innovating across the whole value chain...

**Creating an environment for innovation**

- Campus Party™: Largest technological festival in the world
  - +10 countries
  - 304,468 “campuseros”

**An idea is born**

- Scholarship program to assist "techies"
  - Schools
  - Universities
  - Startups
  - 50 Accelerators
  - 5 countries

**Turning an idea into a business**

- Business accelerator for digital startups
  - 14 Academies
  - +22,000 projects received

**An innovative business starts to grow**

- International network of technology venture capital fund
  - 50 Startups
  - 4 countries
3. Best Innovation (III): …to provide best innovative services

Telefonica Digital combined with the best NGN is allowing us to capture this opportunity

- **Innovation allows us to address new revenues sources**
  - **mAutomative** (M2M) opportunity from 0.9bn€ (2012) to 15.2 bn€ (2020E)
  - **Smart City** (M2M) 4 out of 15 largest urban cities in LatAm. From 2m (2012) to 23m (2020E) connections.
  - **E-health**: 1.6bn€ regional opportunity in 2017.
    - Allowing healthcare access to 28.4 million people in Brazil and 15.5 million to the same in Mexico.
  - **Financial Services**: 60% of adults in LatAm remain unbanked.

- **Through alliances and agreements with third parties**

- **Maximizing the value delivered to our customer base**
4. Best Customers (I): Selective Quality Growth

- Best quality customer base
  - 24% contract

Upgrade to contract & smartphone
- ARPU ↑
- Churn ↓
- OpEx ↑

Leading sector transformation
- Increasing quality gap
- Leveraging on integrated infrastructure
- Maximize digital differentiation

Transformation for a brighter future
- Leading sector transformation from the best starting point
  - Largest contract and smartphone customer base to evolve the business towards data
- Heading to a more sustainable data growth model, based on differential quality and higher customer loyalty
4. Best Customers (II): Most advanced customer base

**T. LatAm accesses (million)**

<table>
<thead>
<tr>
<th>Service</th>
<th>Sep-12</th>
<th>Sep-13</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile Contract</td>
<td>38</td>
<td>44</td>
<td>6</td>
</tr>
<tr>
<td>Smartphones</td>
<td>18</td>
<td>34</td>
<td>16</td>
</tr>
<tr>
<td>FBB</td>
<td>8</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>Pay TV</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

- **#1st; Leading growth**
- **#2nd; Turn-around**
- **#3rd; Turn-around**

**Focus on capturing the most valuable segments**

- Benchmark assets fueling **valuable growth**
- **Limited penetration** provides even higher opportunities going forward
- Catching-up regional fixed services leaders on commercial turnaround
4. Best Customers (III): Accelerating mobile contract & data adoption

**LatAm mobile contract accesses (million)**

<table>
<thead>
<tr>
<th></th>
<th>Dec-11</th>
<th>Dec-12</th>
<th>Sep-13</th>
<th>TEF</th>
<th>Peer 1</th>
<th>Peer 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>35</td>
<td>39</td>
<td>44</td>
<td>44</td>
<td>42</td>
<td>12</td>
</tr>
</tbody>
</table>

**Mobile contract value**

- Gross customer value: \( \sim 8 \times \)
- \( \sim 4 \times \)
- \( \sim 1/2 \)

**Setting the basis for data growth**

- Data adoption fueled by contract customers

- Smartphone penetration (Sep 13):
  - **44%** (contract)
  - **13%** (prepaid)
4. Best Customers (IV): leading to revenue and OIBDA growth acceleration

**T. LatAm: Organic* y-o-y growth**

Revenue growth gradually accelerating

- **Strong positioning on high value customers fuelling revenue growth.** Our 9.4% y-o-y growth implies…
  - **Leading regional growth** (combined top 4 regional players excl. T. Latam growing by 6.8% y-o-y in 9M 13)
  - **Outpacing accesses growth** (+4% y-o-y in 9M 13)
- **Mobile data growth, the main growth driver** (+22% in 9M 13) steadily transforming Telefónica’s revenue mix (already accounting for 32% of mobile service revenues)
- **Margin erosion** (1.3 p.p. in 9M13 organic y-o-y) linked to commercial activity devoted to sustainable growth based on quality

* Organic growth reported in each period
Conclusion

• Telco sector in LatAm provides a **big growth opportunity**

• This opportunity is **fuelled by the digital revolution**, still at an early stage

• **Telefónica Latinoamérica is in the best starting position to capture this opportunity:**
  - Strong investments
  - Best diversification and scale
  - Focused commercial strategy on value customers and innovation

• **First results already visible on our financial performance**, with an ongoing growth acceleration

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**Telefónica Latinoamérica at the forefront of regional growth**