

Telefonica

Results

January – March 2013

Telefónica, S.A.
Investor Relations

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Q1 13 Results highlights

- **Stabilising the business**
 - ▶ Revenues -1.6% y-o-y in organic terms (-0.1% ex-regulation)
 - ▶ Organic OIBDA stabilisation (-0.1% y-o-y) on improving margin
 - ▶ High single digit organic growth in OpCF (+9.6% y-o-y)
- **Progressing on transformation**
 - ▶ Movistar Fusión keeps strong momentum; 47% OIBDA margin in Spain (+5.1 p.p. organic y-o-y)
 - ▶ Superior quality base: increasing mix of smartphones and UBB
- **Advancing in diversification**
 - ▶ Latam generates 51% of group revenues
 - ▶ Brazil becomes the largest business by revenues
- **Reducing debt**
 - ▶ Non-recurrent factors & seasonality driving Q1 13 net debt to €51.8bn
 - ▶ Net Debt reduced to €51.2bn considering post-closing events
- **EPS +22.2% y-o-y**

Executing our transformation strategy for a sustainable growth model

Key financials

€ in millions	Reported Q1 13	Reported y-o-y	Organic y-o-y
Revenues	14,141	(8.8%)	(1.6%)
OIBDA	4,567	(10.1%)	(0.1%)
OIBDA Margin	32.3%	(0.5 p.p.)	0.5 p.p.
OpCF (ex-spectrum)	3,321	(1.6%)	9.6%
			Underlying y-o-y
Net income	902	20.6%	(7.9%)
EPS	0.20	22.2%	(6.7%)

Reported growth rates impacted by:

- Forex effects (Venezuelan devaluation)
- Changes in the perimeter (Atento)
- Telco adjustment of the value of TI investment in Q1 12

Quarterly performance consistent with Company's expectations
Full year guidance reiterated

Commercial progress; towards higher value & more sustainable customer base

Smartphone penetration

○ y-o-y



UBB Penetration

Fiber+VDSL/Fixed Accesses

◆ Connection rate



T. Europe: Tariff innovation & subsidy reduction

- **Spain: “Movistar Fusión”** - October 2012
- **Germany: “O2 Blue all in”** - March 2013
- **Czech Republic: “O2 FREE”** - April 2013
- **UK: “O2 Refresh”** - April 2013

Continued focus on high quality clients

- **Mobile contract base up 8%** (+1 p.p. q-o-q)
- **Contract mix improved to 33%** (+2 p.p. y-o-y)
- Mobile contract net adds surpass 1.4 m in Q1
- **Steady growth of FBB accesses** (+2% y-o-y)
- **UBB connected customers: 1.1 m** (x1.8 vs. Mar-12)
- Progressive **LTE** deployment in key markets

T. Latinoamérica: Best quality base

- **Leading contract in the region**
 - ▶ Contract +13% y-o-y
 - ▶ Smartphones +78% y-o-y
- **Best positioned to capture mobile data opportunity**

Revenues benefiting from unmatched diversification

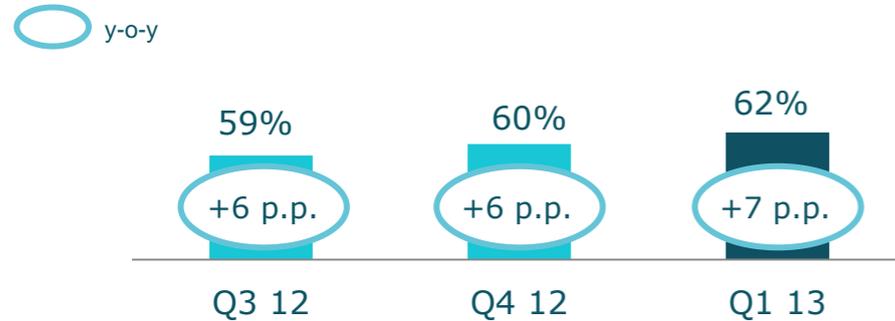
Q1 13 organic revenue



Stable revenue performance ex-seasonality

- Q1 13 organic revenues -0.1% y-o-y ex-regulation
- Main **growth drivers: T. Latam** (51% of revenues) and **mobile data** (37% of MSR)
- **Brazil becomes the largest market by revenues**
- Organic growth slowed down sequentially mainly due to T. Europe on the back of calendar effects, handsets sales and regulation

Non-SMS revenues/ Data Revenues



Maintained transformation of revenue mix

- **Data revenues over MSR increased 3 p.p. y-o-y to 37%**
- **Non-SMS revenues (+21.9% organic y-o-y) drive data revenue growth (+9.5% y-o-y organic)**
- **Creating value through tiered pricing and bundling**

Transformation for a more profitable business

OpEx

Organic y-o-y

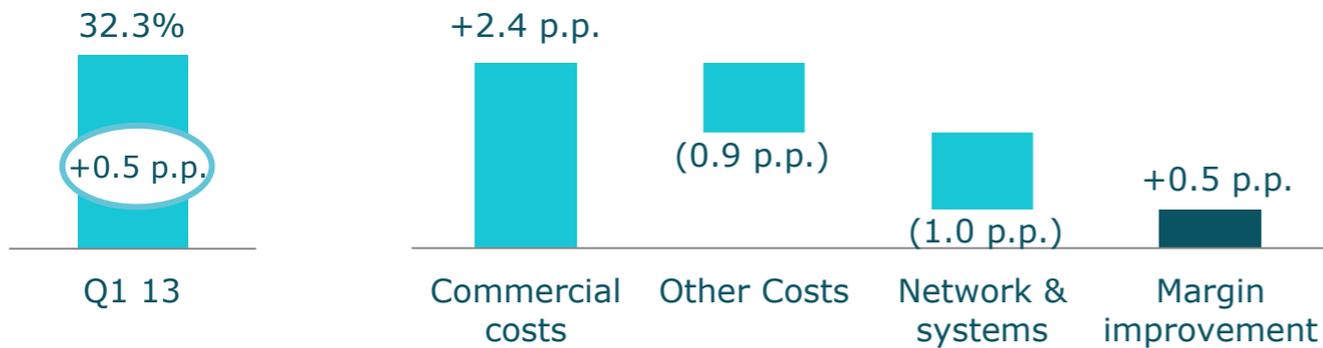


Focus on efficiencies lead to sustained savings

- Delivering on cost control execution
- **Third consecutive quarter of OpEx y-o-y decline**
- New commercial model progressively reducing subsidies

OIBDA Margin

○ y-o-y organic



Cost cutting efforts in Q1 more than offset weaker revenues

- **Commercial costs:** -11.1% y-o-y organic mainly due to subsidies reduction despite higher smartphone sales
- Continue **progress on simplification** (process and products), increasing effectiveness
- **Resources optimisation**, eliminating redundancies
- Data centric business increasing network costs

Benefits of scale achieved through TGR

Global Resources: Delivering OpEx & CapEx savings

Strong focus in a limited set of priority projects to drive transformation

▶ **Network and Operations:**

- Going forward to ensure smooth implementation of **Network Sharing agreements** in Europe and extend the scope to Latam (e.g. MoU with AMX in Brazil)
- Deployment of a **standardised technical support model** for all Group operations

▶ **IT:**

- Deployment of a new model for Application Maintenance in Latam
- Infrastructure consolidation progress: closed 2 rented Data Centres in Latam

▶ **Devices:**

- Consolidation of operational model, with global negotiations leading to simplified portfolio. **80% of Q1 13 value in 30 references**

▶ **Procurement:**

- Commissioned an ad-hoc specialised unit, "**E2E Sourcing Transformation Unit**", to tackle the e2e Sourcing model for most relevant global categories

▶ **MNCs:**

- Maintain MNCs commercial momentum leveraging **enhanced portfolio** (Managed Mobility & WAN and Managed videoconference)

Digital: Progressing in the digital world

Accomplishments in Q1 13



Firefox

Firefox handsets to be launched in Q3

- 1st devices in Spain, Colombia and Venezuela in Q3. 5 additional countries in Q4 including Brazil
- Vendors to launch will be ZTE and Alcatel followed by LG, Huawei and Sony
- Content partnerships with Facebook, Twitter, Nokia HERE, MTV



M2M

Bolstering M2M capabilities by launching new platforms and products

- Launch "Smart M2M Solution" platform
- Launch a pioneering motor insurance policy, "Pay As You Drive", with Generali in Spain
- Partnership with Sascar to develop fleet management solutions in Brazil
- Telefónica named Top Tier M2M Operator by Machina Research



Comms

Launch of TU Go in UK

- A new free-to-download app that allows customers to use their mobile phone number to make calls or send messages from a wide variety of devices, fully integrated into their subscription bundle



eAdvertising

Launched WEVE in the UK, VIVO Media in Brazil and signed partnership with Sprint

- Creating scale for advertisers and agencies across markets in UK, Brazil and US
- Together with Sprint, providing easier access to over 370 million customers worldwide



eHealth

Improving position to capture eHealth growth

- Acquisition of Axismed, leading chronic patient management Company in Brazil



Venture
Capital

Taskhub, the first investment by Telefónica's VC team in a Wayra start-up

- Taskhub, an online marketplace for jobs and small tasks, to be accelerated through O2 in the UK

T. Latam: Healthy growth on sound basis

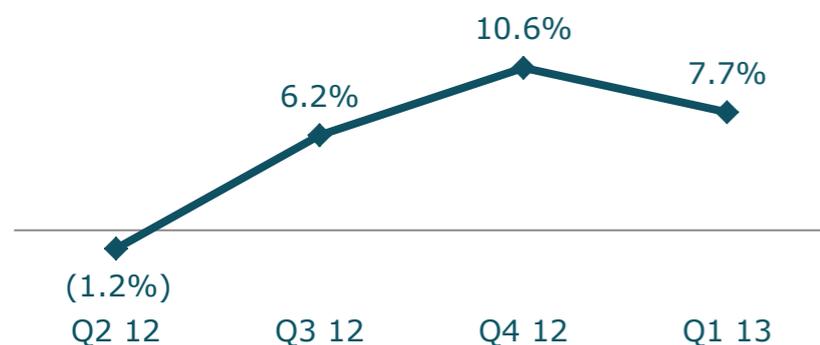
Mobile Accesses (y-o-y)



Revenues (organic y-o-y)



OIBDA (organic y-o-y)



Strong commercial activity within the most valuable segments

- **Sound contract net adds momentum**, with historical record in contract gross adds in a Q1 and progressive churn reduction
- **Smartphones uptake (+78% y-o-y); key lever of our differential growth strategy.** Smartphone penetration of 14% (+6 p.p. y-o-y) provides a huge opportunity ahead of us
- **Strengthened regional leadership** in contract and mobile broadband

To provide more sustainable revenue growth

- **Organic revenue growth (+6.8% y-o-y) doubling accesses growth (+3.4% y-o-y)**
- **Outgoing mobile ARPU growing by 5.6% y-o-y**
- Regulation dragging Q1 revenue y-o-y growth by 1.0 p.p.
- **Booming data revenues as the main growth driver (+20.9% y-o-y)** with non-SMS revenues growing by 34.3% y-o-y

OIBDA margin expansion (+0.2 p.p. organic y-o-y)

- **Strong OIBDA organic growth amid increased profitability**
- **Margin improvement despite higher commercial activity** focused on high value segments

Brazil: Widening mobile competitive advantage

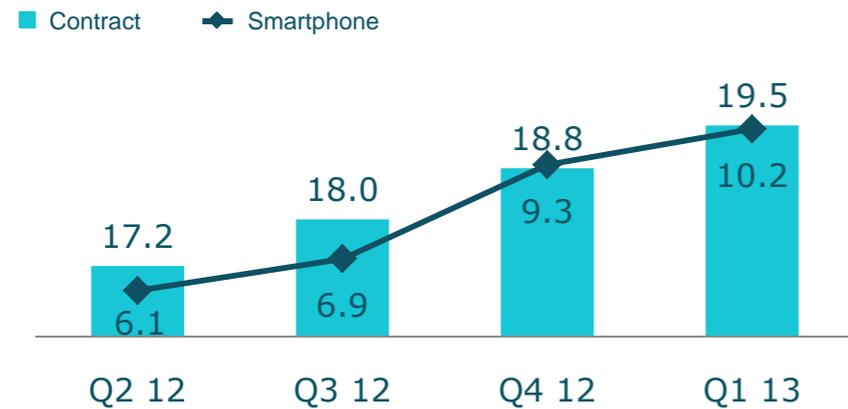
Mobile Market Share (Q1 13)



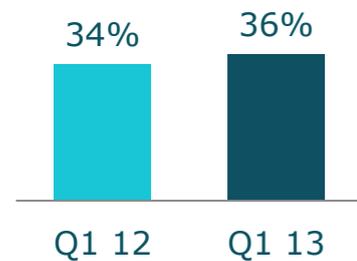
3G Coverage (# municipalities)



Contract and Smartphones accesses (millions)



FBB/Fixed



Unparalleled service quality leveraged on differential infrastructure

- **Contract net adds share of 42%** in Q1 with lower SAC
- **Delivering the best service:** complaints c40% lower than competitors average
- **Incremental top-ups** (+8.7% y-o-y in Ic) despite lower prepay customer base (-2.9% y-o-y)

Enlarging gap in high value customers

- **Mobile contract** +17% y-o-y to 26% of mobile accesses (+3 p.p.)
- **Smartphones with data plan** +88% y-o-y to 14% of mobile accesses (+7 p.p.)
- **New innovative multi-device plans** launched in April to keep strengthening our position

Action plan implemented to keep improving fixed quality

- **Enhanced mix of broadband speeds** (+12 p.p. accesses with >= 4Mbps vs. Mar-12)
- **Vivo Fiber target:** 1.8 m homes passed by Dec-13 (Mar-13: 1.1m)
- Positive performance in **Corporates & SMEs:** accesses +9% y-o-y

Brazil: Solid revenue and OIBDA growth

Revenue growth (organic y-o-y)

○ % over total revenues



Consistent revenue growth improvement

- **Regulation** negatively affecting y-o-y growth by 1.3 p.p.
- **MSR improvement led by higher usage & data.** Non-SMS revenues y-o-y growth accelerated to +23.2% in Q1
- **Leading MSR market growth**

Mobile Service Revenue (y-o-y)



OIBDA and margin expansion y-o-y

- Improved profitability y-o-y driven by **synergies**
- Strong contract net adds (Q1 13: +42% y-o-; Q4 12: +12% y-o-y), main impact behind y-o-y margin deceleration
- **Ongoing integration efforts** to continue improving efficiency and customer satisfaction
- **Leading OIBDA market share**, reinforced leadership in Q1

OIBDA growth (organic y-o-y)

○ OIBDA Margin organic y-o-y

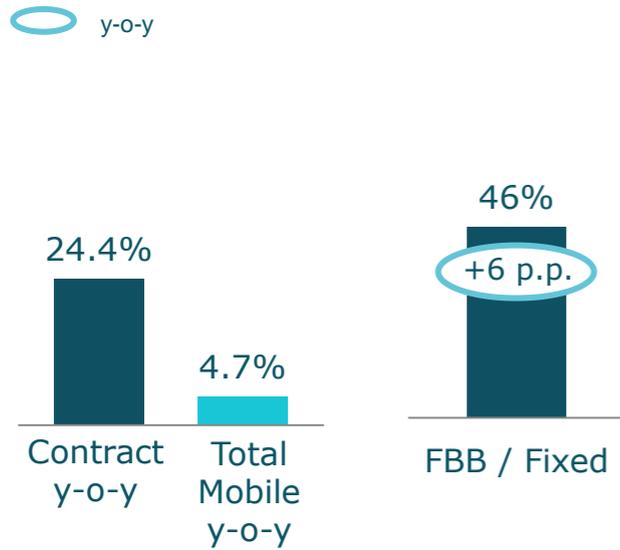


T. Latam: Key Metrics (I)

% out of Group revenues

Peru 4.4%

Accesses (Mar-13)



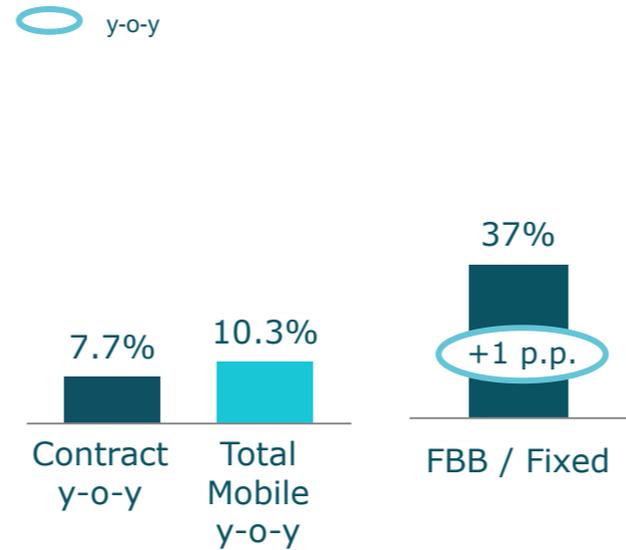
Revenues & OIBDA (Organic y-o-y)



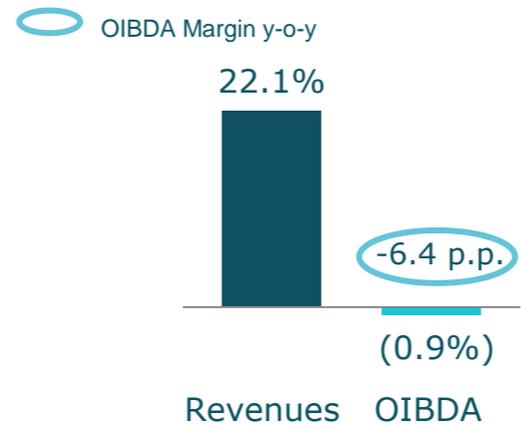
- **Outstanding operational performance** remained across services
- **Solid revenue and OIBDA y-o-y growth on stable margin**

Argentina 6.5%

Accesses (Mar-13)



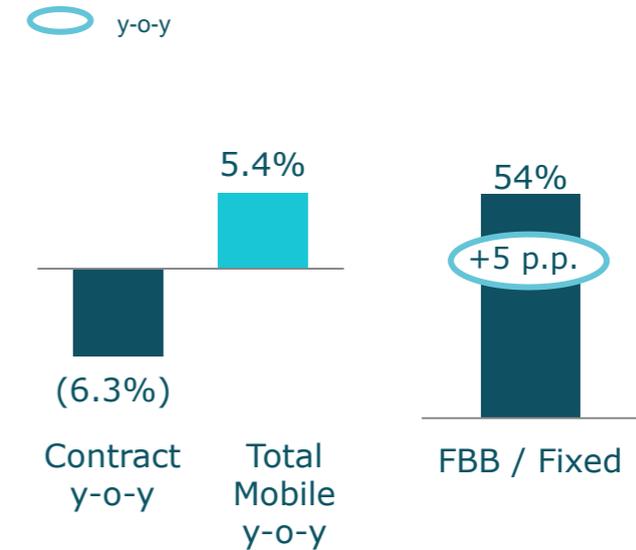
Revenues & OIBDA (Organic y-o-y)



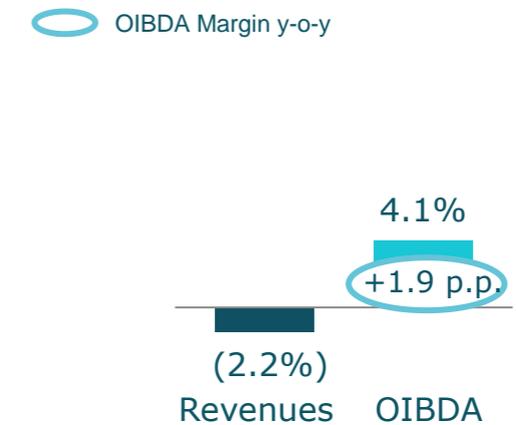
- **Mobile net adds record in Q1 13**
- **Strong revenue performance**
- Lower margin due to higher commercial activity and higher weight of revenues with lower margin (contents)

Chile 4.4%

Accesses (Mar-13)



Revenues & OIBDA (Organic y-o-y)



- **Reduced churn in contract** amid a very competitive environment
- Revenue decline on the back of pricing competitive pressure
- **Ongoing efficiency program** positively impacting OIBDA margin

T. Latam: Key Metrics (II)

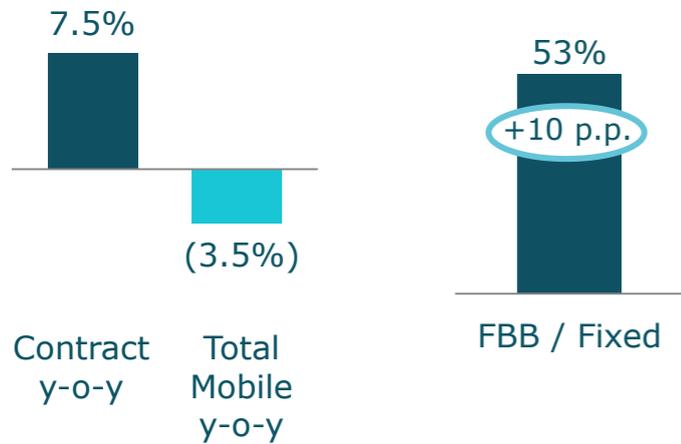
% out of Group revenues

Colombia

3.0%

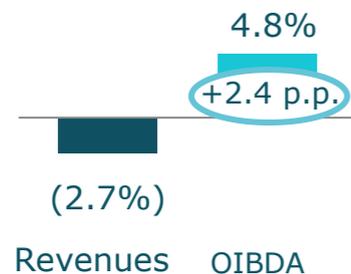
Accesses (Mar-13)

y-o-y



Revenues & OIBDA (Organic y-o-y)

OIBDA Margin y-o-y

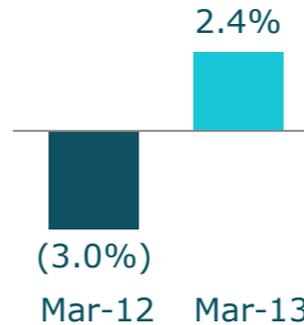


- **Commercial activity improved** with the highest net adds in fixed and FBB of the last 4 years
- Revenue decline more than offset by **benefits stemming from the integration process**

Mexico

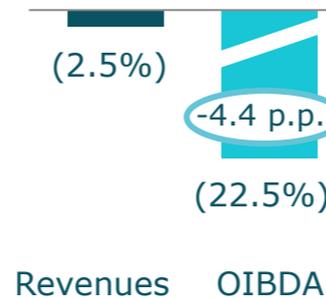
2.7%

Accesses (y-o-y)



Revenues & OIBDA (Organic y-o-y)

OIBDA Margin y-o-y

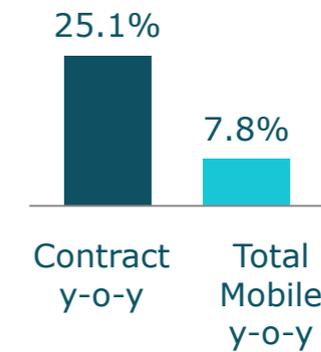


- **Commercial repositioning on track:** accesses growing after 4 quarters of y-o-y decline
- **OIBDA y-o-y decline impacted** by higher commercial activity
- Telecom market reform to **improve competitive landscape**

Venezuela

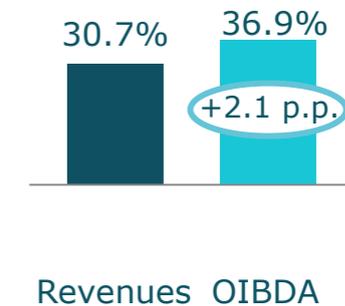
4.4%

Accesses (Mar-13)



Revenues & OIBDA (Organic y-o-y)

OIBDA Margin y-o-y

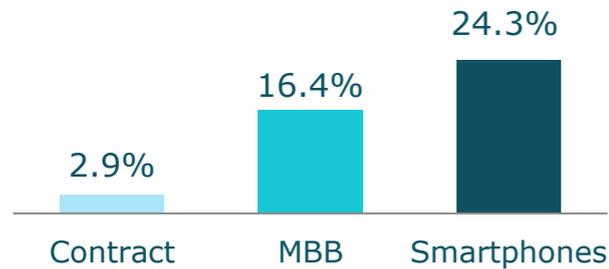


- **Outstanding operational performance on track**
- **Revenue y-o-y acceleration** on the back of our top quality proposal

T. Europe: Refreshed commercial approach, focused on value

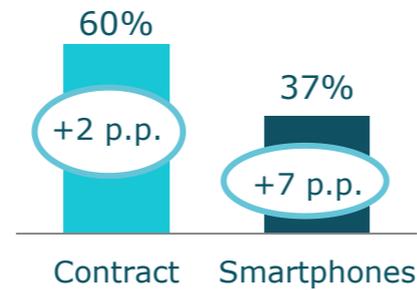
Steady growth in quality mobile

(Mar-13 y-o-y)



Contract/Smartphone penetration

○ Mar-13 y-o-y



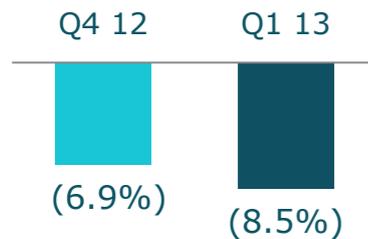
Enhanced portfolio across markets

- **Tariff refreshment balanced customer needs and key strategic priorities:**
 - ▶ Data-centric
 - ▶ Simplicity
 - ▶ No-subsidy
 - ▶ LTE monetisation
- **Offering tailored to market conditions**
- **Reinforced competitiveness** amid an aggressive competitive landscape and challenging macro environment
- **Building on a more sustainable commercial model** moving away from handset subsidies

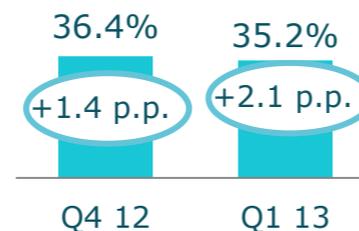
New tariffs in the market



Revenues (ex-regulation y-o-y)



OIBDA margin (y-o-y)



Continued improvement in profitability despite top line pressure

- Revenue evolution impacted by calendar effects, handsets sales and regulation
- **Further efficiency gains** and restructuring costs in Q1:
 - ▶ **Leaner operation** drives non-commercial costs (-8.6% y-o-y)
 - ▶ **Lower subsidies** reducing commercial costs (-19.1% y-o-y)
- **OIBDA margin improvement**
- **Stable OpCF** y-o-y

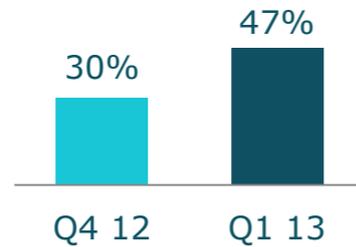
Financials y-o-y change are organic
Q4 12 margin y-o-y in organic terms and excluding positive impact of the change of scheme in the UK pension plan

Spain: Recovering commercial strength with Movistar Fusión

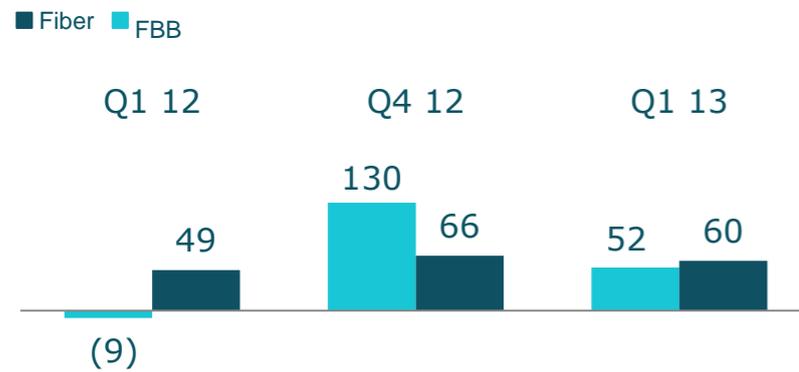
Movistar Fusión
Customers ('000)



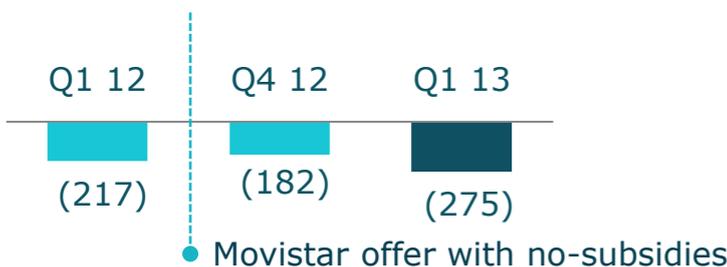
Movistar Fusión
% New customers/Gross adds



FBB & Fiber net adds ('000)



Mobile contract net adds ('000)



Fusion maintains market momentum; keeps improving customer mix

- Convergence has become the key market trend
- **Revenue break-even in Q1** due to new revenue stream from new customers & upselling
- **Increased mobile add-ons**
- **Improved customer satisfaction**
- **Increased Fiber uptake**
- Fixed telephony losses (-136 k in Q1): -33% y-o-y

Convergent offers impacting mobile performance

- **Convergent offers gaining traction**
- **Total market shrinking**
- **Competition remains intense**
- **Contract portability net loss** (181 k in Q1)
 - ▶ 82% of net loss to MVNOs, mainly integrated offers
 - ▶ Improved trend throughout the quarter

Renewed commercial offers in April to reinforce competitive position



Attacking low-end convergent market



To better address mobile customer needs



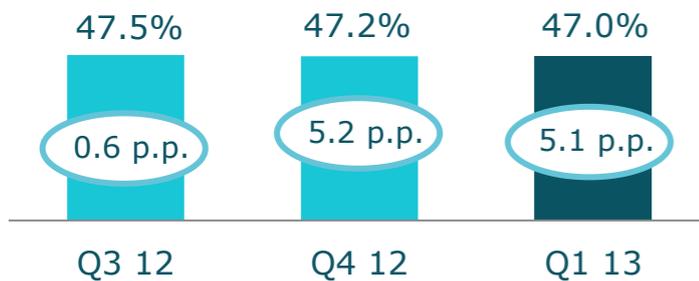
Spain: Further progress towards business stabilisation

Revenues ex-handset sales (y-o-y)

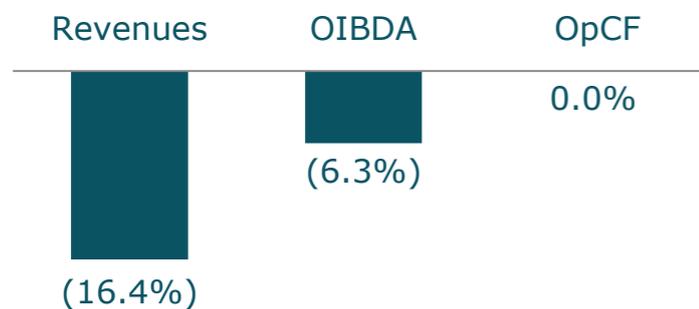


OIBDA Margin

Organic y-o-y change



Q1 13 (y-o-y organic)



Revenue ex-handset sales stabilises its y-o-y trend in Q1 13

- Positive impact of lower upgrades (loyalty program) on MSR
- Mobile handset sales -67% y-o-y (subsidies removal in Mar-12)

Sustained high OIBDA margin: visible benefits of transformation

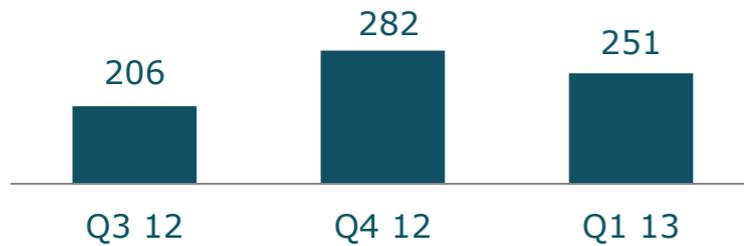
- **Transformed business model**
 - ▶ Allowing to better manage tough macro and competitive environment
- **Ongoing cost cutting initiatives across the board**
 - ▶ New commercial model (net commercial savings in line with Q4 12)
 - ▶ Redundancy program (€ 40 m savings in Q1)
 - ▶ Simplification (portfolio and processes)
 - ▶ Increased customer satisfaction (lower churn & higher quality)
- **Further efficiencies to come on deeper transformation**
 - ▶ Personnel: bargaining agreement renewed limiting wages to 1% till 2014, temporal suspension of Co. contribution to pension plan
 - ▶ Insourcing (more than 100 activities insourced in commercial, technical and support areas)
 - ▶ Deepening on simplification (IT, services, product portfolio...)

Stable organic OpCF vs. Q1 12, totalling €1.3Bn

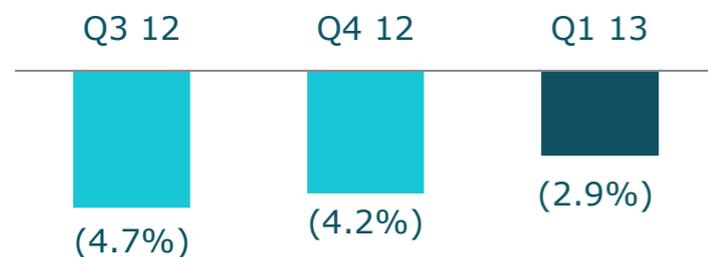
- Focused CapEx in fiber leveraging investment efficiencies
- Fiber: 2.3 m households passed (x1.8 y-o-y)

UK: Back to OIBDA growth on sustained commercial traction

Sustained performance in contract net adds ('000)

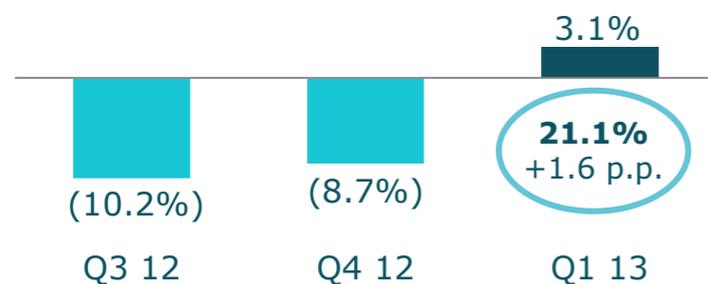


MSR (ex-regulation y-o-y)



OIBDA (y-o-y)

OIBDA margin



Financials y-o-y change are in local currency

Strong traction in the contract segment drives mobile growth

- **Record low contract churn** at 0.95% (-0.1 p.p. y-o-y)
- Mobile base up 3%, with **contract mix at 53%** (+3 p.p. y-o-y) despite aggressive competition
- Smartphone penetration at 47% (+6 p.p. y-o-y)
- **“O2 Refresh” launched in April** to reinforce position
 - ▶ Simple and transparent “all in” price scheme: service and handset clearly separated
 - ▶ Innovative and flexible approach: value for money
 - ▶ Maintained data centric strategy



Maintained momentum leads to revenue performance

- **MSR trend improved for the second consecutive quarter**
- **Non-SMS revenues:** main growth driver (+16.4% y-o-y)
- RPI increase and disposal of fixed business to impact from Q2 13

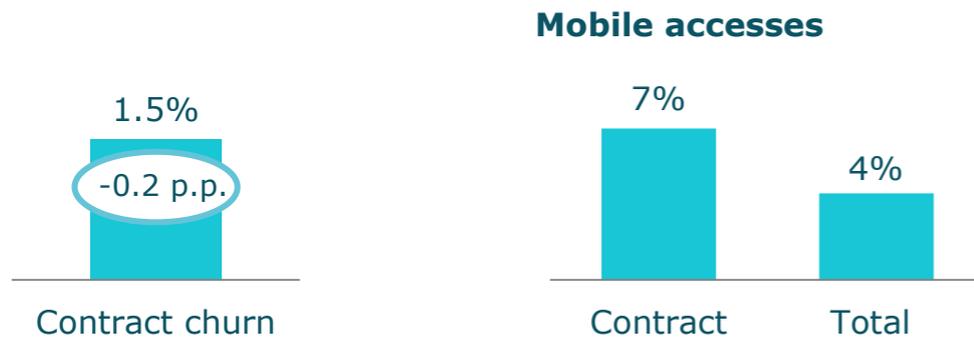
OIBDA reflects revenue trends and efficiency efforts

- **OIBDA margin expansion:** contained commercial expenses, network sharing and scale benefits
- OIBDA was negatively impacted by restructuring charges (Q1 13: € 8 m)
- **OpCF up 25% y-o-y** to € 166 m (excluding spectrum investment of € 671 m)

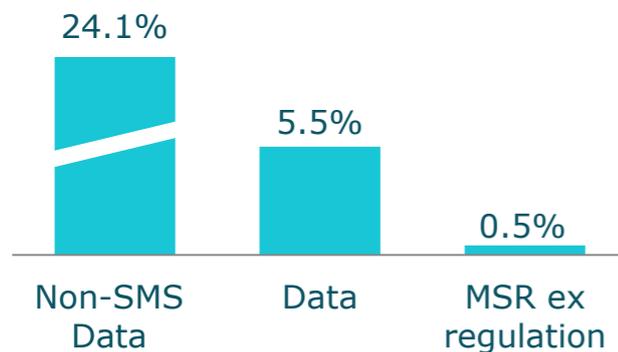
Germany: Solid progress in mobile data

Mobile business (Q1 13)

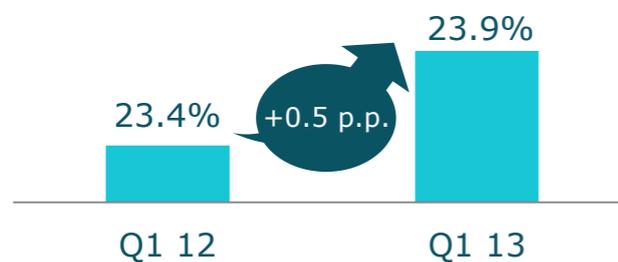
○ y-o-y performance



Q1 13 mobile service revenues (y-o-y)



OIBDA Margin



Delivering on clear strategic priorities

- Contract growth leads to **mix improvement** of 2 p.p. to 53%
 - ▶ Accelerating smartphone penetration to 28% (+7 p.p. y-o-y)
- **New “O2 Blue all in” portfolio:** Encouraging trends in terms of mix, best value for money proposition, clear progress in upselling
- **Opening of new LTE high speed areas**
- **MoU signed with DT for a long-term cooperation for the future development of fixed NGA**

O2 Blue

MSR performance reflects customer base transformation

- **Pressure in ARPU** due to contract renewals and decreasing incoming SMS revenues in a high competitive environment
- **Non-SMS revenues/data revenues at 63%** (+9 p.p. y-o-y)
- Handset revenues (+23.5% y-o-y) on better mix of smartphones

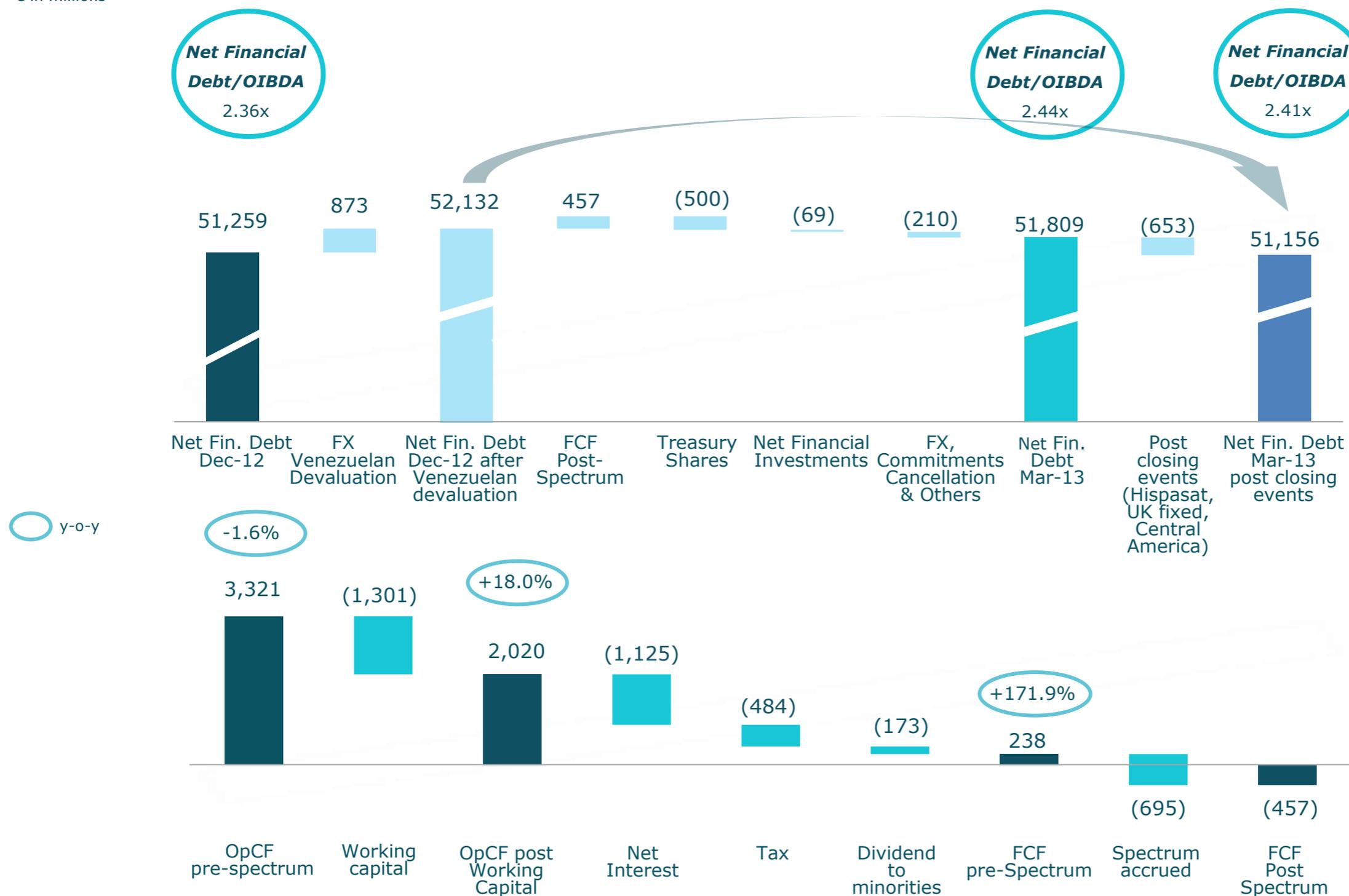
Stable OIBDA y-o-y on focused acquisition and retention

- OIBDA margin expansion due to improved customer mix and additional efficiencies

Debt reduction absorbing bolivar devaluation and seasonal effects

Net Financial Debt evolution

€ in millions

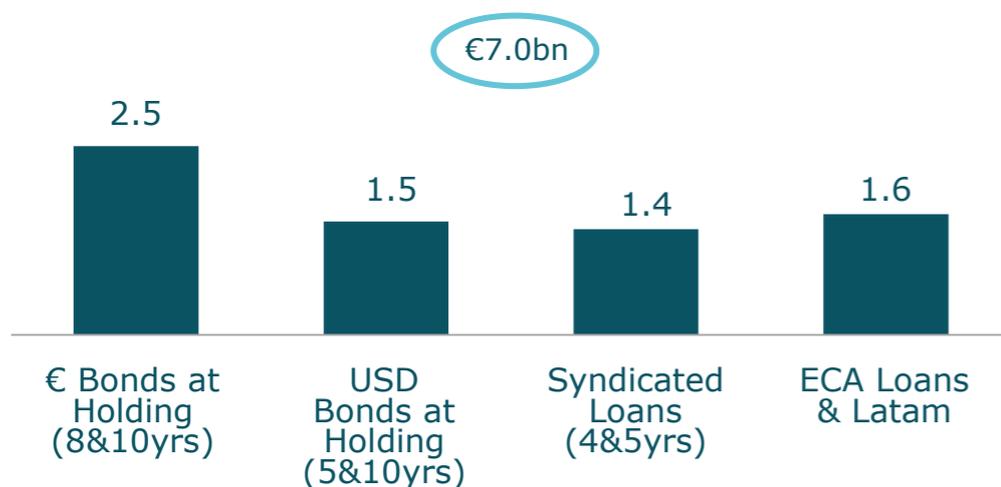


Strengthening liquidity and reducing financial expenses

Increased average debt life on 2013 YTD financing

€ in billions

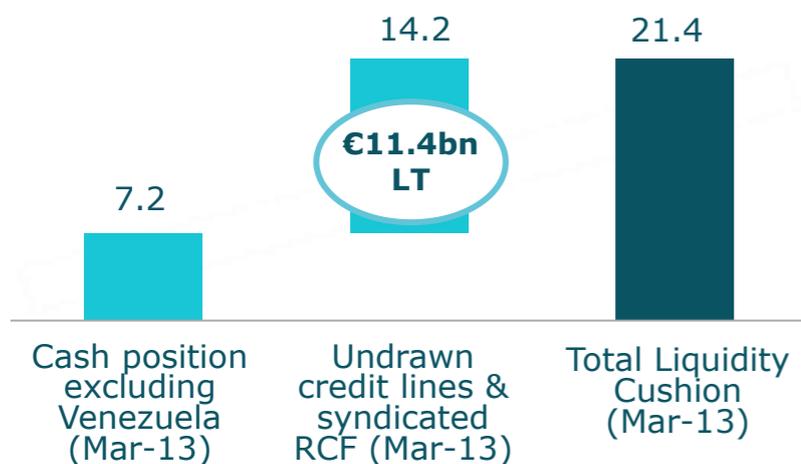
○ Refinancing YTD



- €7bn long term diversified financing 2013 YTD
- **Average debt life 6.75 years**
- Ample geographic split by bank financing: Europe 48%, Asia 18%, Spain 18%, North America 12% & Latam 4%

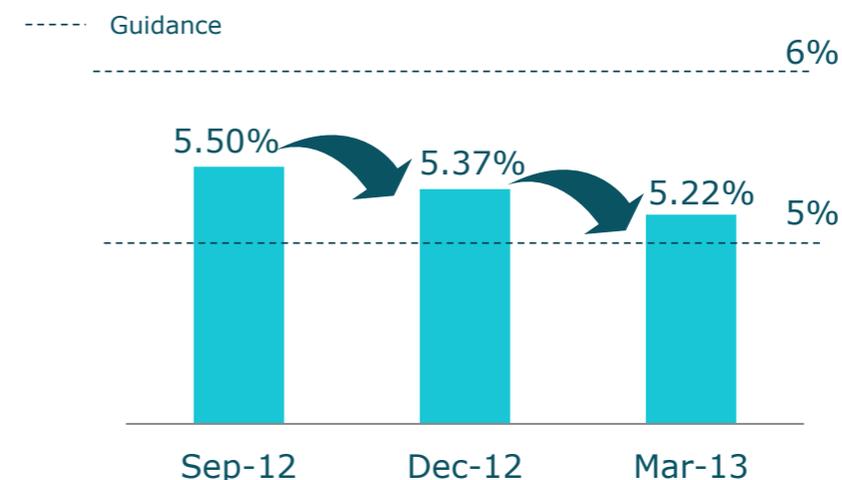
€21.4bn liquidity: increasing vs. Dic-12

€ in billions



- +€0.4bn liquidity cushion increase vs. Dec-12
- €0.8bn bonds buy-back reducing debt maturities in the next 3 years

Decreasing effective interest cost (12 month rolling)



Conclusion

- Solid start to year, in line with Company expectations
- Commercial push focus on quality and innovation
- Stable organic OIBDA with margin improvement, and solid OpCF increase
- Strong EPS growth
- Decisive actions taken to further reduce debt
- 2013 outlook reiterated

Executing our transformation strategy for a sustainable growth model

Telefonica

Organic growth / 2013 guidance: Assumes constant exchange rates as of 2012 (average Fx in 2012), excludes hyperinflationary accounting in Venezuela and considers constant perimeter of consolidation. In OIBDA and OI terms excludes write-downs, capital gains/losses from companies' disposals, tower sales and material non-recurring impacts. CapEx excludes spectrum acquisition. 2012 adjusted bases exclude: capital gains/losses from companies' disposals (capital gains/losses from China Unicom, Atento, Hispasat and Rumbo), impairment of T. Ireland, homogeneous perimeter (2012 adjusted figures exclude results of Atento, Rumbo and small changes in T. Digital perimeter and homogeneous accounting treatment of Joint Ventures) tower sales and change in contractual commercial model for contract handsets in Chile.

Mobile net additions exclude the disconnection of inactive customers in Spain (Q1 12) and C. Republic (Q1 13).