

Telefonica

Results

January – September 2013

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Q3 Highlights: Reaching FY 13 targets in advance

1. Recovering Growth

- **Revenue growth acceleration**
 - ▶ Second consecutive quarter of organic growth (+2.1% y-o-y)
 - ▶ Positive revenue growth in 9M (+0.4% y-o-y organic)

2. Stabilising organic OIBDA and OpCF

- **Revenue growth flowing towards OIBDA stabilisation** (-0.4% y-o-y organic in 9M; -0.3% in Q3)
- **Limited margin erosion; incurred to foster revenues** (33.1% in 9M; -0.2 p.p. y-o-y organic)
- **Virtually stable 9M OpCF** (-0.6% y-o-y organic)
 - ▶ Rationalising CapEx while pushing on LTE & fiber to capture future growth
- **Solid FCF generation in 9M** (€ 4.7 Bn; stable y-o-y ex-spectrum)

3. Reducing Debt & Increasing Value Growth Potential

- **Net Financial Debt at € 46 Bn as of September; leverage ratio: 2.30x**
 - ▶ € 45 Bn net debt including post-closing events
 - ▶ € 14 Bn net debt reduction since Jun-12 (including post-closing events), when deleverage process was prioritised
- **Strengthened and focused portfolio management; fostering in market consolidation**

2013 guidance and dividend confirmed

Key financials

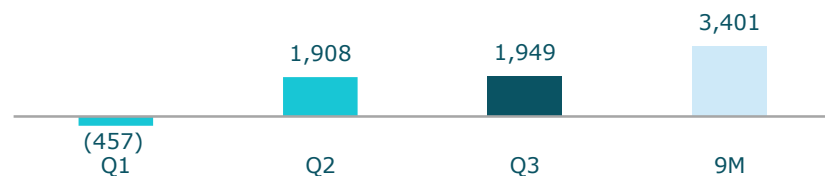
€ in millions	9M 13			Q3 13		
	Reported	Reported y-o-y	Organic y-o-y	Reported	Reported y-o-y	Organic y-o-y
Revenues	42,626	(8.4%)	0.4%	14,063	(9.5%)	2.1%
OIBDA	14,100	(10.7%)	(0.4%)	4,678	(12.6%)	(0.3%)
OIBDA Margin	33.1%	(0.8 p.p.)	(0.2 p.p.)	33.3%	(1.2 p.p.)	(0.8 p.p.)
OpCF (ex-spectrum)	9,078	(10.3%)	(0.6%)	2,726	(18.4%)	(8.3%)
			Underlying y-o-y			Underlying y-o-y
Net Income	3,145	(9.0%)	(8.5%)	1,089	(21.1%)	(8.6%)
EPS	0.70	(9.2%)	(8.7%)	0.24	(22.0%)	(9.7%)

Reported figures negatively impacted by forex & changes in perimeter

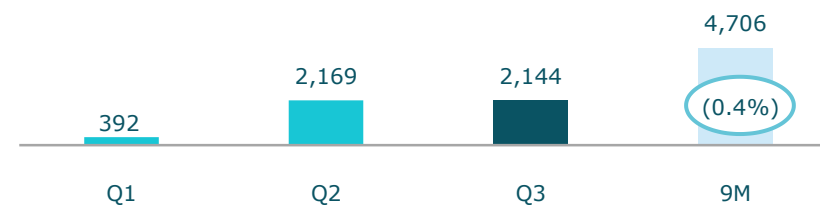
- Depreciated FX rates, mainly BRL, VEB, and ARS drained y-o-y:
 - ▶ -9.8 p.p. to revenue growth in Q3 (-7.0 p.p. in 9M)
 - ▶ -9.7 p.p. to OIBDA growth in Q3 (-6.9 p.p. in 9M)
- Changes in the perimeter (Atento) also deducted y-o-y
 - ▶ ~-2 p.p. and ~-1 p.p. in revenues and OIBDA respectively, in both Q3 and 9M

Enhancing cash flow generation across the year

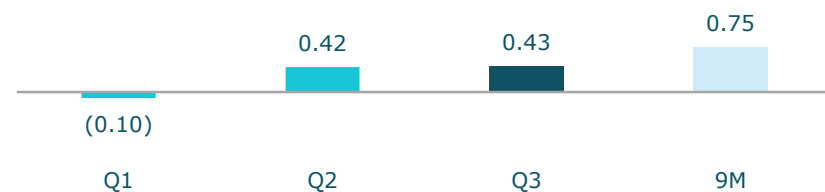
FCF 2013 (€ in millions)



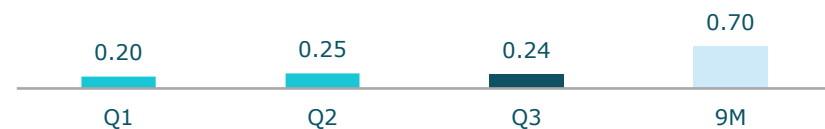
Stable FCF 2013 ex-spectrum payments (y-o-y)



FCF 2013 (€/share)



EPS 2013 (€/share)

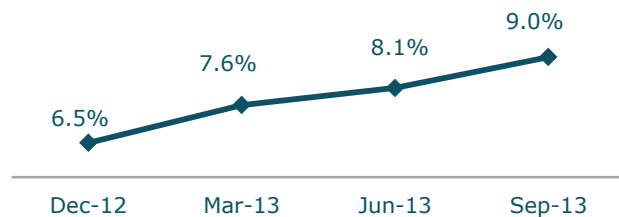


- *LTE spectrum already acquired in main markets*

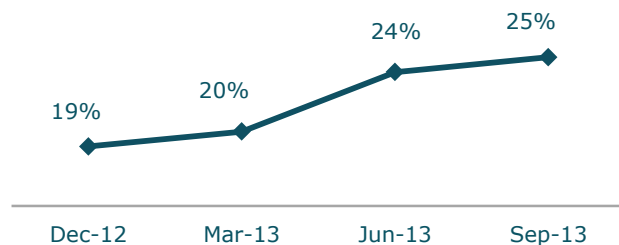
DPS 13
€0.75

Successfully acquiring and retaining high value customers

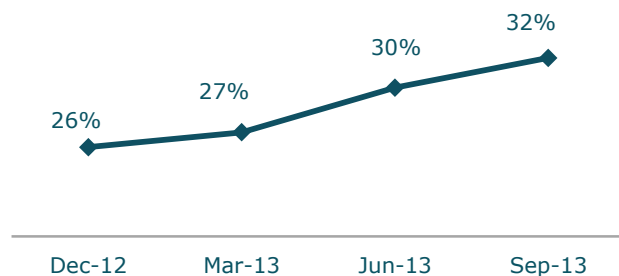
Mobile contract accesses (y-o-y)



Smartphone penetration (y-o-y)



UBB coverage (fiber+VDSL/ Fixed Accesses)



1. FBB and fixed accesses excluding the impact of the sale of the fixed business assets in the UK

Continued progress on quality growth

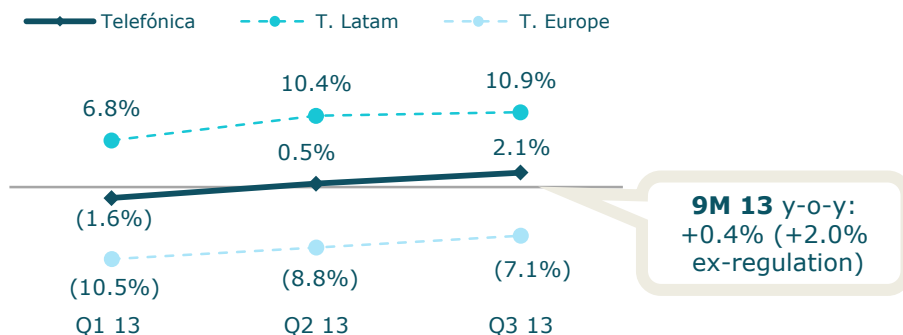
- **35% of mobile base in contract** (+2 p.p. vs. Sep-12)
- **Mobile contract net adds: +57%** vs. Q3 12 (+79% in T. Latam)
- **Booming smartphone adoption** (penetration: +8 p.p. vs. Sep-12; net adds 1.5x vs. 9M 12)
- **Deeper commercial approach** to be at the forefront of market expansion; tapping all growth opportunities

Investing in high growth opportunities

- **Targeted fiber roll-out**, mainly Spain and Brazil
- **Further advance on LTE deployment** (launched in Spain and UK in Q3 and already available in Germany, Brazil, C. Republic, Mexico)
- **UBB connected customers** (1.3 m; 1.6x vs. Sep-12)
- **Steady FBB¹ expansion** (+2.0% y-o-y) and better trends in fixed accesses¹ (-0.5% y-o-y), both boosted by T. Latam performance

Accelerated revenue growth translating into OIBDA

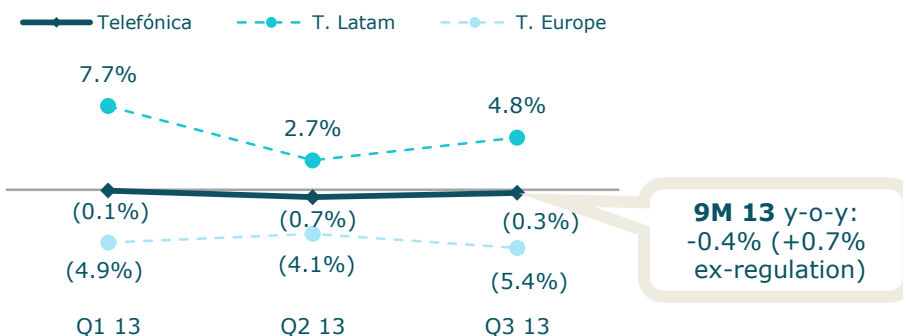
Revenue growth (organic y-o-y)



Enhanced top line trends throughout the year (+1.6 p.p. q-o-q)

- **Improvement at all levels in Q3:**
 - ▶ 10 countries accelerating organic performance y-o-y vs. Q2
 - ▶ T. Latam ramping-up its y-o-y organic increase to 10.9%
 - ▶ Continued gradual recovery at T. Europe (-7.1% y-o-y organic)
 - ▶ T. Digital keeps accelerating growth (Q3: +17.9% y-o-y organic)
- **Non-SMS data revenues (+22.4% y-o-y) drives consistent growth in mobile data (+10.2% y-o-y organic; 37% of MSR)**
- Reaping the benefits of renewed commercial initiatives and investments in high growth areas

OIBDA growth (organic y-o-y)



OIBDA stabilisation driven by improved revenues

- **The value of diversification:** Latam is the main contributor to OIBDA growth and Europe to margin stabilisation
- **Sequential improvement in Q3 OIBDA y-o-y performance**
- **Q3 OIBDA margin 33.3%**, declining 0.8.p.p y-o-y organic
 - ▶ T. Latam impacted by higher commercial traction
 - ▶ T. Europe continued with its margin expansion
- **Strengthening efficiency**, limiting 9M margin erosion (-0.2 p.p y-o-y organic)

T. Global Resources: Capturing value from our scale

Best in-class networks; focus in efficiency and quality

Enhancing Data Coverage and Capacity

Fiber HHPP (Sep-13)



Sites with UBB Backhaul¹



Optimising and speeding up LTE roll-outs, with active sharing agreements



Network virtualisation:

- ▶ Speeding up vCPE trials in Brazil, benefits from simplified network management and enhanced user experience

IT Simplification and Transformation

Consolidation of Commodity IT YTD:

- ▶ Closed 6 Data centers
- ▶ Reduced more than 1,400 physical servers
- ▶ 33% virtualised servers

Simplify and Standardise Applications

- ▶ >700 Applications reduced YTD
- ▶ Better time to market
- ▶ Enabling growth in new businesses

Devices: Towards vendors map and OS rebalancing

- Working to change the industry dynamics in the device market
- More consolidated negotiation process generating efficiencies
- Agreements with key players benefits commercial offers

Delivering savings from global procurement on E2E

- Average Savings ~6-7% (depending of each global category)
- E2E Simplification & standardisation
- Best prices & best conditions achieving long term sustainable efficiencies
- Global & E2E benefits: i.e. Benchmark practice in tapping the LTE market (8x in 2013 vs. 1x average peers)

1. Fiber + Radio IP backhaul

T. Digital: Building up new services & capabilities

Building New Digital Services



- Continuous leading position in new Digital P&S in high growth markets. Key contracts won and new partnerships created:
 - ▶ **M2M Smart Metering contract awarded to deliver smart meter communications services in the UK**
 - The industry's largest M2M contract win to date (worth £1.5Bn)
 - ▶ **JV with CaixaBank & Santander:** European Union antitrust authorities cleared the creation of a joint e-commerce

The Best Core Value Proposition



- Evolving on our core offering, launching Digital enhancements to our communications services:
 - ▶ **Firefox OS handsets** launched in Colombia and Venezuela in August; Brazil in October; Peru in November
 - ▶ **TU Go** commercial launch in August, marketed by Telefónica UKs "Be More Dog" campaign: 161k active users

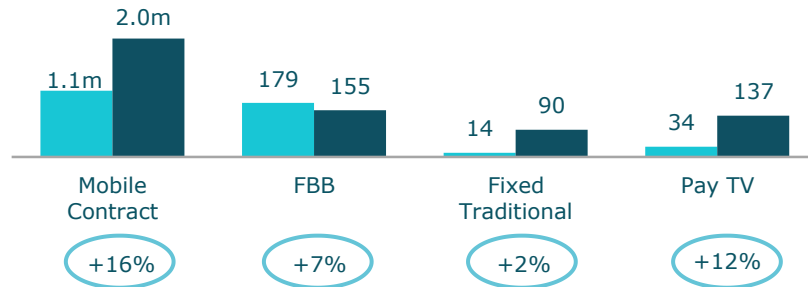


- Using investments and partnerships to create the best range of value-added services:
 - ▶ **Rhapsody investment:** Napster as our preferred music service provider
 - ▶ **Pinterest partnership:** Exclusive deal to provide the Pinterest Android widget
 - ▶ **Evernote:** Free access to the Premium version for 12 months: great customer uptake

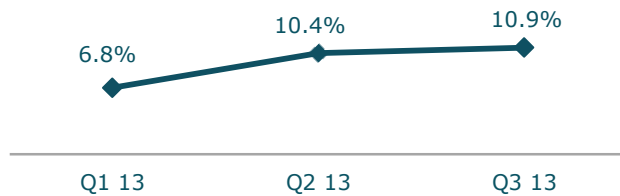
T. Latam: Revenue & OIBDA growth acceleration

Net Adds ('000)

■ Q3 12 ■ Q3 13 ○ Accesses y-o-y

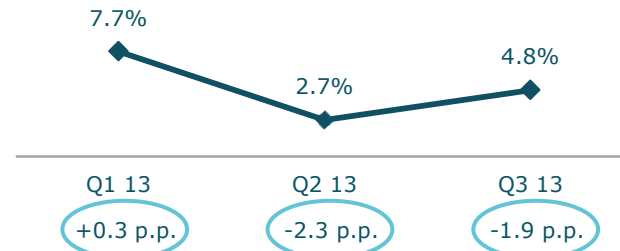


Revenues (organic y-o-y)



OIBDA (organic y-o-y)

○ OIBDA margin organic y-o-y



Strong commercial activity in the most valuable segments

- **Record high contract mobile net adds**, growing by 79% y-o-y in Q3
- **Smartphones almost doubling** y-o-y to 20% penetration
- **Building the largest smartphone community in Latam** (33.7 m; +86% y-o-y) fed by the largest contract community (44.5 m; +16% y-o-y)
- **Ongoing fixed services turnaround**: strengthening F2M cross selling and bundling strategy

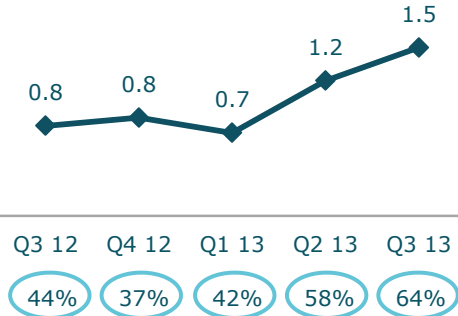
Double digit organic revenue growth

- **7 countries posting better organic y-o-y performance than in Q2**
 - ▶ **MSR growth improvement** (+13.7% y-o-y in Q3) led by strong mobile data revenues (+22.9% y-o-y)
- **OIBDA y-o-y organic growth ramping-up**
 - ▶ Revenue acceleration flowing into enhanced OIBDA trend
 - ▶ More intense commercial activity reflected in margin pressure

Brazil: Strengthening leadership on high-value customers

Contract Mobile Net Adds (million)

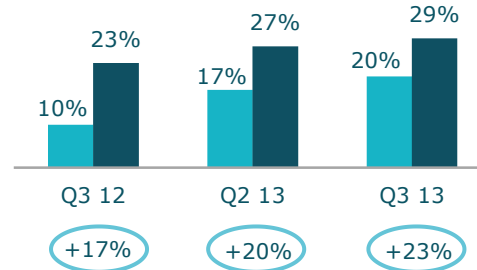
○ Net additions market share



Contract and smartphone penetration

○ Contract mobile accesses y-o-y

■ Smartphone ■ Contract

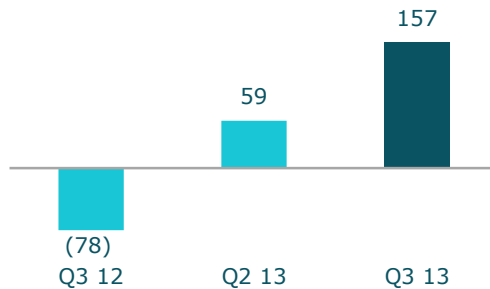


Outstanding performance in high-value segments

- **Record high contract net adds in Q3**, capturing 64% of the market to reach 39% of market share
- **Smartphones uptake driving accesses growth** (>2x y-o-y)
- **Commercial leadership on 4G services** already launched in 64 cities (28% of population) and 40% market share
- **Solid top ups** (+7.3% y-o-y in Q3)

Fixed Services Net Adds ('000)

(Fixed telephony, TV and FBB)

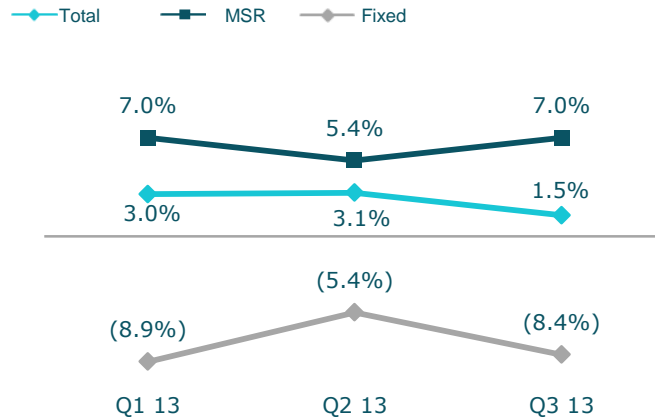


Continued improvement on fixed services

- **Fiber coverage reaching 1.5m households** (11% take-up). On track to reach 1.8m households by year-end
- **Focus on quality:** >90% FBB net adds with >= 4Mbps
- **Increased fixed traditional penetration; targeting new growth areas** through "FW" technology (95k net adds in Q3)
- **Pay TV** turnaround on reinforced commercial proposal (DTH & IPTV products)

Brazil: Strong commercial effort for a sustainable growth

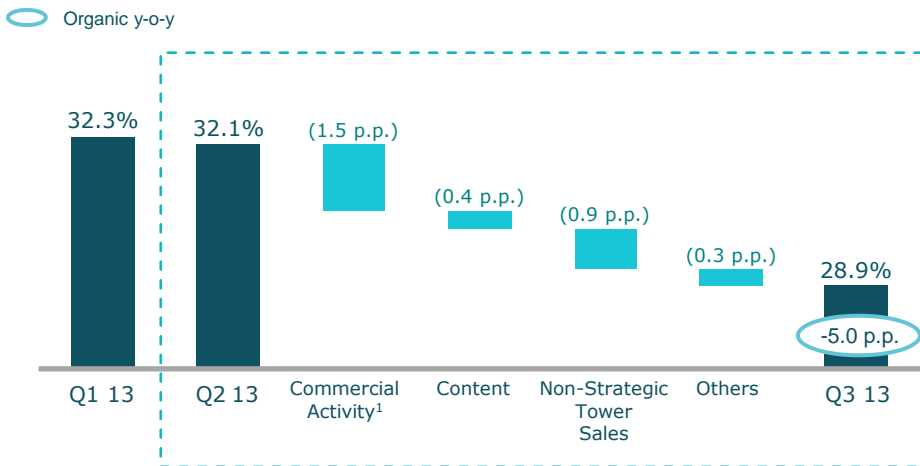
Revenue growth (organic y-o-y)



Strong MSR growth

- **MSR accelerating to 7.0%** y-o-y on booming data and steady voice increase
- Revenue y-o-y deceleration in Q3 mainly due to **lower handset sales growth**
- Fixed revenues y-o-y decline deterioration mainly on **volatility of IT corporate projects and specific factors negatively affecting traffic trends**
- **Regulation dragging y-o-y revenue growth by 1.6 p.p. in Q3**

OIBDA Margin



Higher commercial activity driving OIBDA margin erosion

- Sequential margin decline on the back of **variable commercial costs** and higher content costs
- **Corporate restructuring already delivering results on cash flow generation**
 - ▶ Savings reinvested to capture future growth

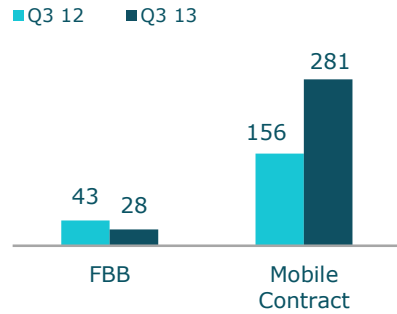
1. Commercial activity includes subsidies and commissions

T. Latam: Widespread revenue acceleration (I/II)

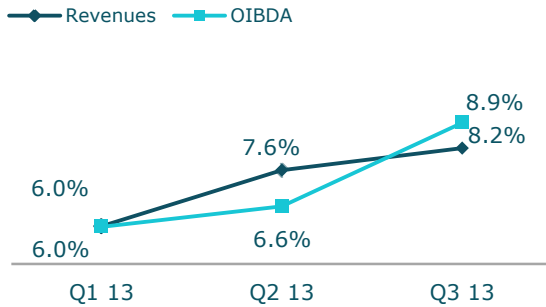
○ % out of Group revenues

Peru 4.3%

Net Adds ('000)



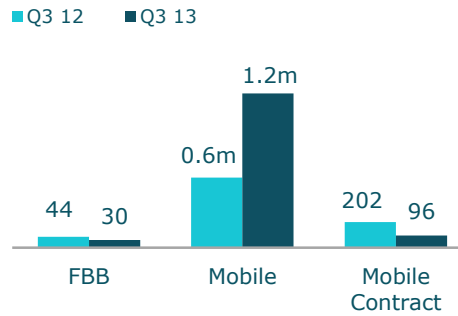
Revenues & OIBDA (Organic y-o-y)



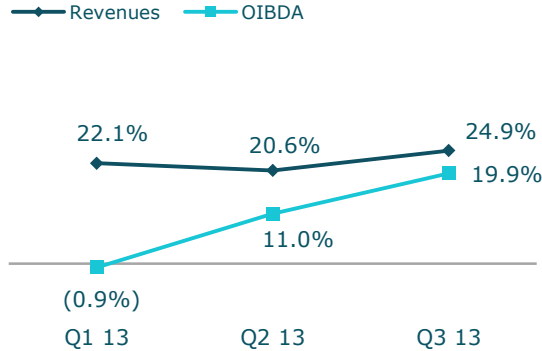
- Record high in contract gross adds for 2nd quarter in a row
- Consistent revenue & OIBDA growth acceleration

Argentina 6.5%

Net Adds ('000)



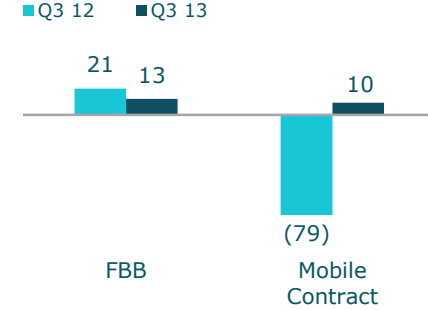
Revenues & OIBDA (Organic y-o-y)



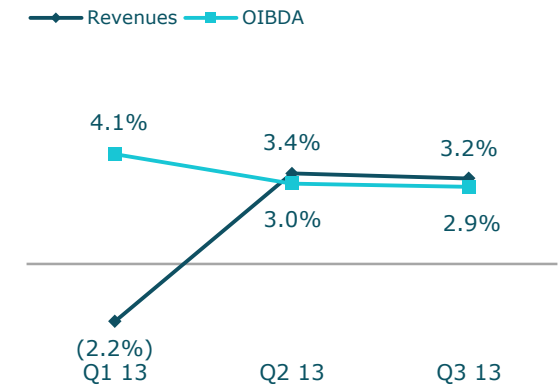
- Best ever mobile net adds (x2 y-o-y)
- Strong revenue increase, with OIBDA growth on easier costs comps y-o-y

Chile 4.4%

Net Adds ('000)



Revenues & OIBDA (Organic y-o-y)



- Revenue & OIBDA organic growth recovery consolidated on enhanced commercial trend

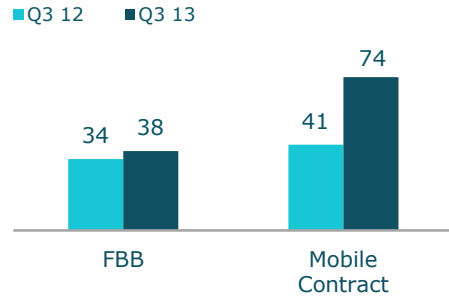
T. Latam: Widespread revenue acceleration (II/II)

○ % out of Group revenues

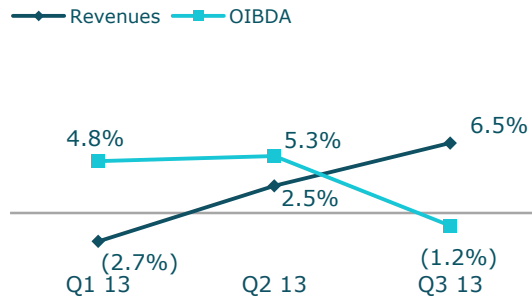
Colombia

3.0%

Net Adds ('000)



Revenues & OIBDA (Organic y-o-y)

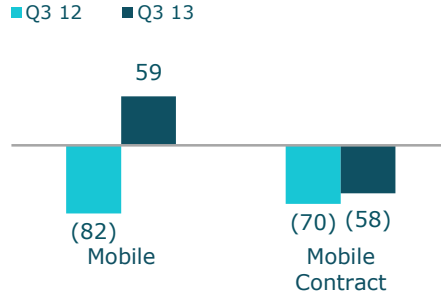


- **Strong commercial activity** across services
- **Steady revenue y-o-y growth acceleration** with **OIBDA margin** decline led by higher commercial activity

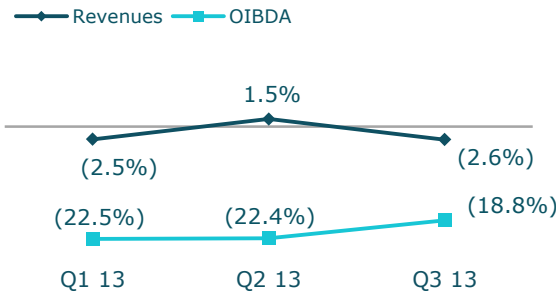
Mexico

2.8%

Net Adds ('000)



Revenues & OIBDA (Organic y-o-y)

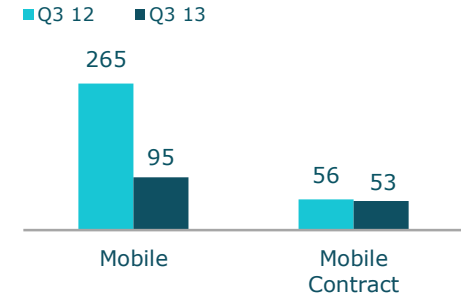


- **New commercial offers progressively gaining momentum**
- **Revenue performance** affected by customer base repositioning to new plans

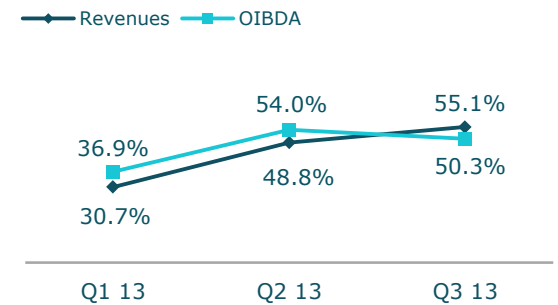
Venezuela

5.7%

Net Adds ('000)



Revenues & OIBDA (Organic y-o-y)

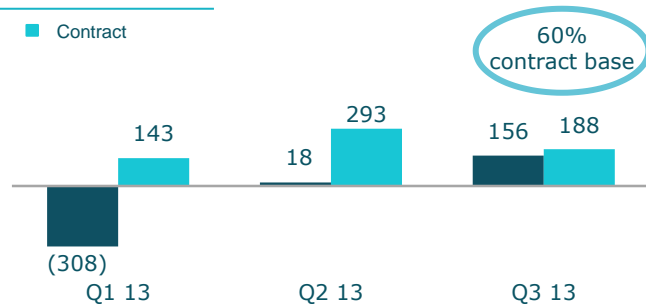


- **Increased usage/volumes leads outstanding revenue performance**
- Data traffic ramping-up (+43% y-o-y; +6% q-o-q) while voice traffic grew 21% y-o-y (+6% q-o-q)

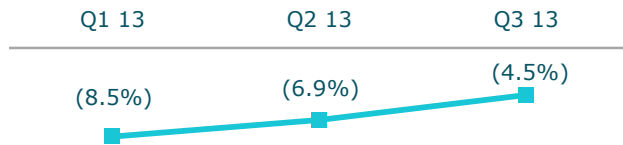
T. Europe: Transforming to lead a changing market

Mobile net adds ('000)

■ Total ■ Contract

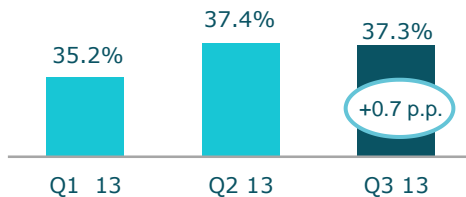


Revenues (y-o-y organic ex-regulation)



OIBDA margin

○ y-o-y organic



OIBDA (€ mill)

2,348

2,516

2,505

Commercial portfolio adapted to more data-demanding customers

- **Enhanced competitive profile amid intense competition**
 - ▶ Compelling data-centric offer gradually away from subsidies
 - ▶ LTE services in all footprint after launch in UK & Spain in Q3
- **Smartphone solid growth** (40% penetration Sep-13; +8 p.p. y-o-y)

Profitability supported by a sustainable business model

- **Sequential revenue improvement** despite higher negative regulatory impact in Q3
- **OIBDA margin growth y-o-y organic** driven by cost discipline and rationalisation of resources
- **CapEx focused to expand top quality networks** (LTE, fiber)
 - ▶ Capturing benefits from network sharing

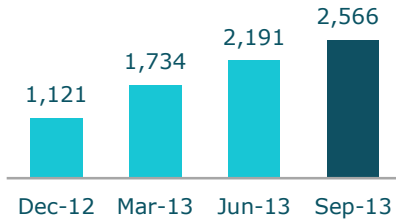
Spain: Focusing on premium quality and convergence

Movistar Fusión, year one

Movistar Fusión

Customers ('000)

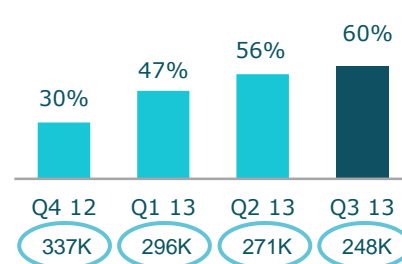
Including Fusion Mini



Movistar Fusión

% New services & upselling/Gross adds

○ Gross adds of new & upselling customers



- **Fiber traction sustains FBB market share**
 - ▶ **FBB churn at record lows** (1.5% in Q3, -0.4 p.p. y-o-y)

Enhanced offer to increase competitiveness

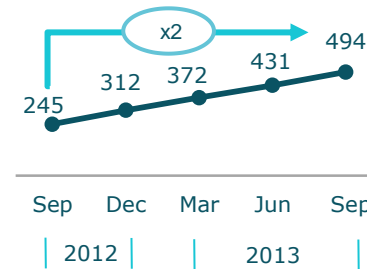
- Higher value for the **same price**
- **Key features leverage on differential strengths**
 - ▶ **4G** in all Fusión products
 - ▶ **TV Mini** in all Fusión **Fiber** products
 - ▶ Unlimited mobile voice in Fusión high value
 - ▶ Completing mobile portfolio with “Movistar 20” 4G
 - ▶ Increased mobile data allowance
 - ▶ Remove mobile commitment
 - ▶ Competitive handset portfolio
- **Positive preliminary results on trading**

Launch
mid-Sept

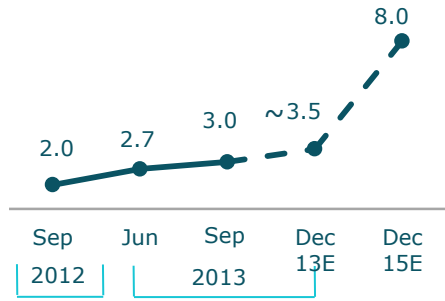


Fiber: a long term structural differentiation

Homes connected ('000)



Homes passed (million)



- **Fiber customer delivering 3x gross value vs. ADSL**
 - ▶ 1.5x ARPU
 - ▶ 0.5x churn

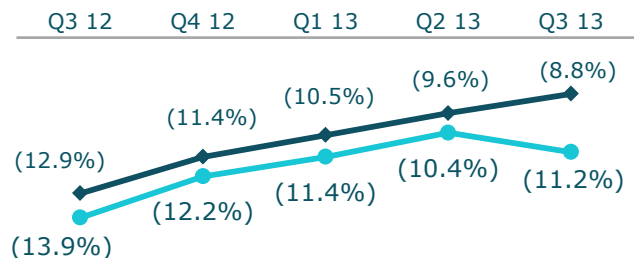
LTE roll out

- **4G launch in October** with 20% pop. coverage (~50% 13E)
 - ▶ Deployment of own 4G network (1,800 MHz)
 - ▶ Roaming agreement with Yoigo
- **To continue deploying on the most valuable spectrum** when it becomes available
 - ▶ 800 MHz spectrum already secured
- **UBB backhaul** available for ~64% sites

Spain: Improved revenue trend, record levels of profitability

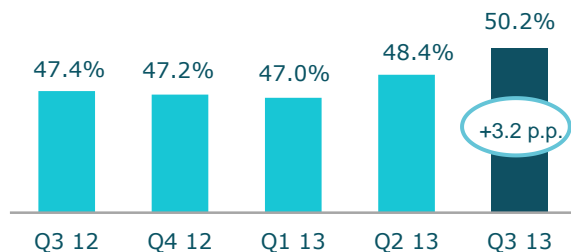
Revenue ex-handset sales (organic y-o-y)

■ Revenue ex-handset sales ■ Revenue ex-handset sales ex-regulation



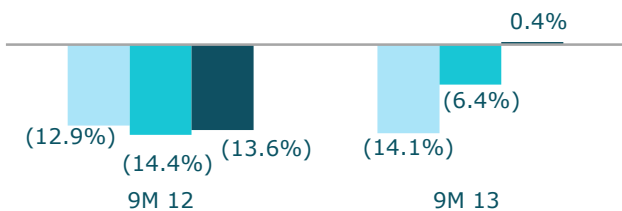
OIBDA Margin

○ organic y-o-y



Main Financials (organic y-o-y)

■ Revenues ■ OIBDA ■ OpCF



Revenue trend continues its recovery path

- **Fixed revenue improvement** on the back of Fusión commercial traction
- **Strong impact from last MTR cut of glide-path** (-60% on 1st July)
- **Lower y-o-y decline in mobile handset sales** on easier y-o-y comps due to new commercial model of Mar-12 (Q3: -32.8% vs. Q2: -51.6%)

Continued improvement on OIBDA margin

- **Proven capacity to manage cost base and bring efficiencies** (Q3 OpEx: -15.8% y-o-y)
 - ▶ Reduction in commercial costs (subsidy removal)
 - ▶ Restructuring Program and temporary suspension of pension plan
 - ▶ Benefits from simplification, insourcing activities and higher quality
- **Working on insourcing, call centers and reshaping of distribution channels** to deliver further savings and increase quality of sales

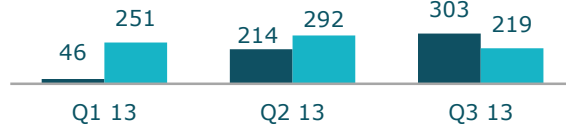
Very solid OpCF (€3.8 bn in 9M)

- **Prioritisation of investments** (9M CapEx: -28.8% organic y-o-y)
 - ▶ Recurrent savings (legacy, IT, systems, churn reduction...)
 - ▶ Increased investment in fiber and LTE
- **Outstanding OpCF margin** at 39.2% in 9M
- **OpCF stable organically y-o-y**

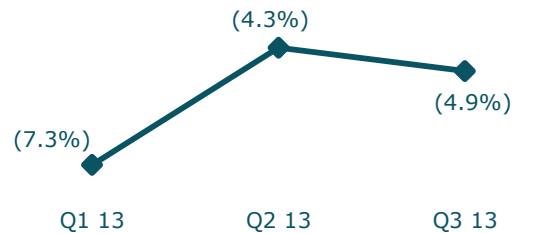
UK: Maintained momentum in a very dynamic market

Mobile net adds ('000)

■ Total ■ Contract

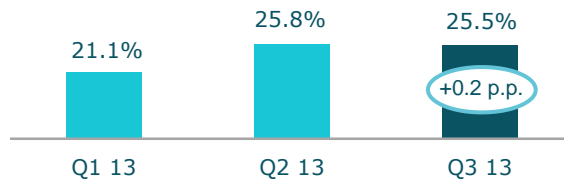


Mobile Service Revenues (y-o-y)



OIBDA margin

○ y-o-y



Financials y-o-y change are in local currency

Successful commercial proposition

- **“O2 Refresh” gaining traction**
 - ▶ Available in all direct channels since July
 - ▶ 53% of contract commercial activity on “Refresh”
- **Successful launch of LTE on August 29th**
 - ▶ Available in 11 cities by now
 - ▶ Outstanding customer experience
 - ▶ Encouraging results in terms of data consumption
- **Contract base up 9% (54% of total):** churn <1% for third quarter in a row

Revenue growth (Q3: +3.1% y-o-y)

- ▶ “Refresh” contributed with 9.2 p.p.
- ▶ Fixed business disposal deducted -1.9 p.p.
- **MSR growth negatively impacted by “Refresh” model (-1.7 p.p. in Q3)**
 - ▶ Regulation dragged -2.3 p.p. to MSR growth in Q3

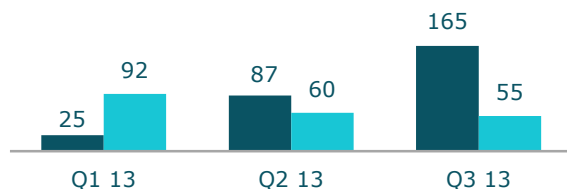
Working on efficiencies to improve business sustainability

- **OIBDA up 3.7% y-o-y** in Q3 benefitting from “Refresh” model
- Optimising investments through network sharing
- Benefits from the outsourcing of the customer service

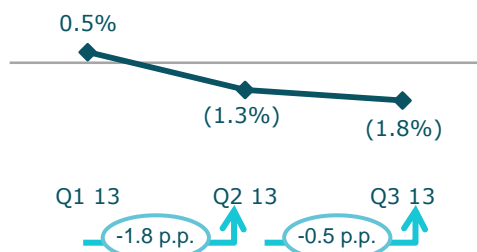
Germany: Building the fundamentals of data monetisation

Mobile net adds ('000)

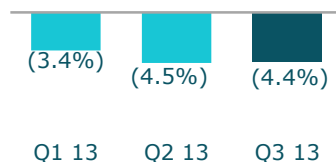
■ Total ■ Contract



MSR (ex-MTR y-o-y)

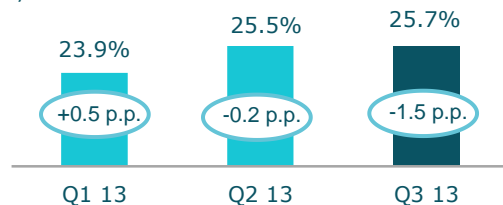


ARPU (ex-MTR y-o-y)



OIBDA Margin

○ y-o-y



LTE gaining traction as a purchasing decision factor

- **Smartphone penetration 30%** (+6 p.p. y-o-y)
 - ▶ 55% of devices sold were LTE enabled in Q3 (40% in Q2)
 - ▶ Data usage of LTE smartphone 3x higher vs. non-LTE
 - ▶ LTE coverage in 10 metropolitan urban areas
 - ▶ Doubling CapEx in LTE
- **Contract churn down 0.1 p.p.** y-o-y to 1.3%
- Strong prepay net adds in Q3 driven by secondary brands

Sequential improvement of MSR y-o-y trend

- **MSR decline due to combination of trading momentum, tariff renewals & lower SMS volumes**
- **Better ARPU performance:**
 - ▶ Improved tariff mix in "O2 Blue All-in", focus on mid-range
 - ▶ Lower average dilution per user renewing their tariff
 - ▶ Higher smartphone penetration leads to better trends in prepay ARPU

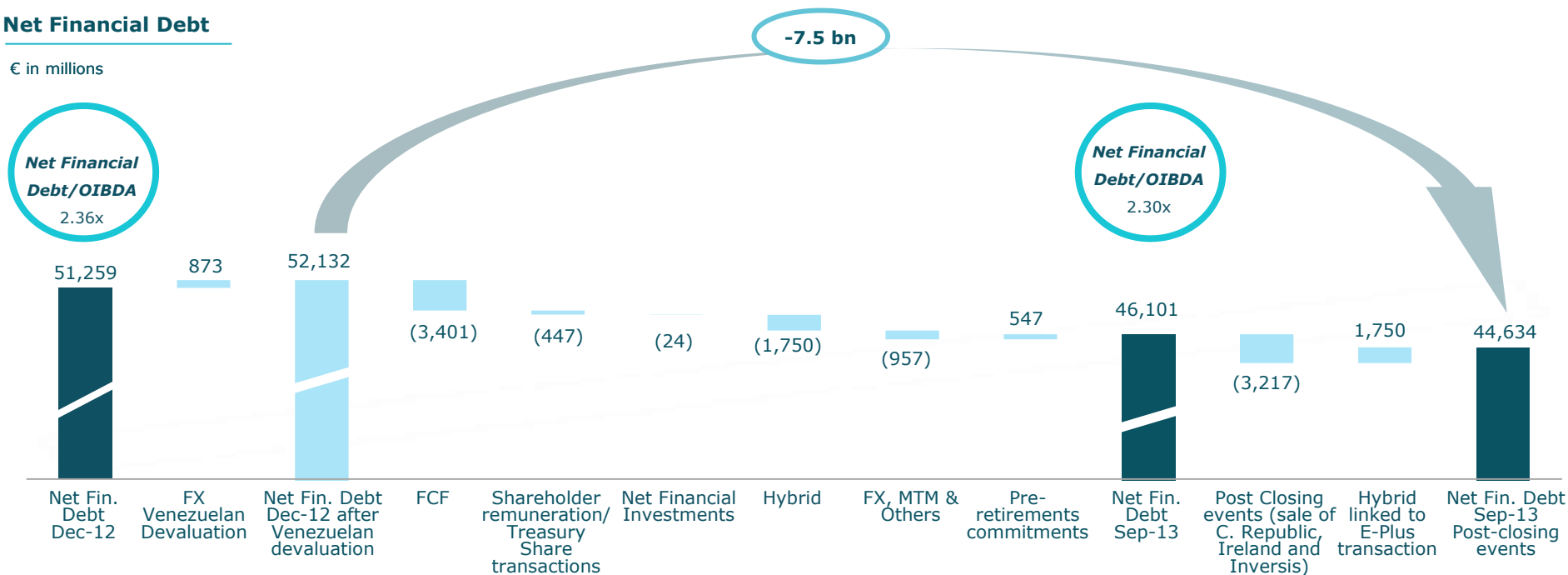
OIBDA margin impacted by increasing commercial activity

- OIBDA -12.0% y-o-y in Q3:
 - ▶ Investing in retention activity focused on high value tariffs
 - ▶ Tariff & handset bundles
- Taking the appropriate actions to maintain market momentum

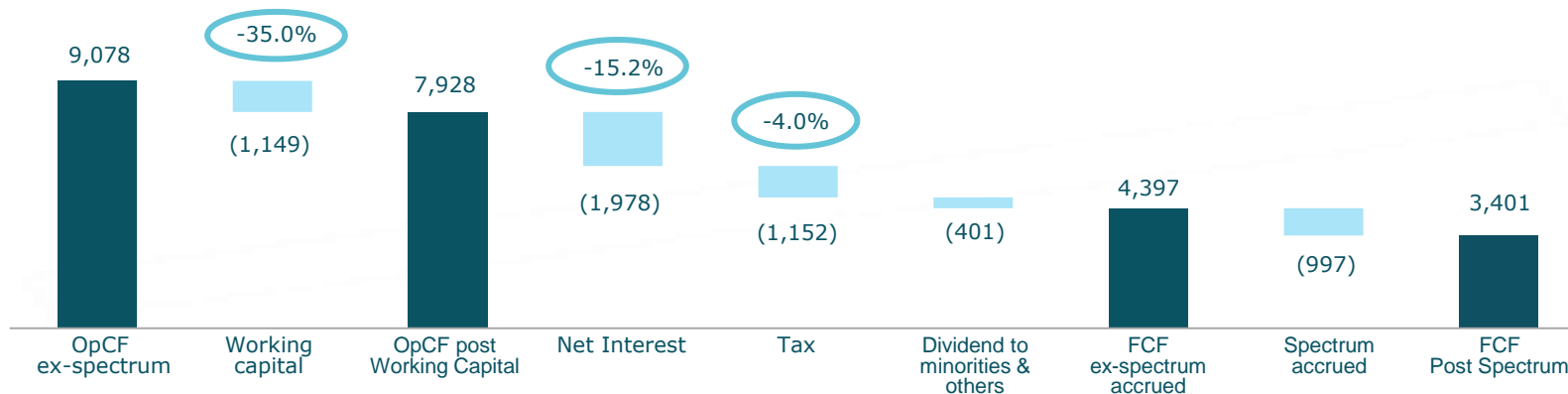
Leverage and net debt targets achieved

Net Financial Debt

€ in millions



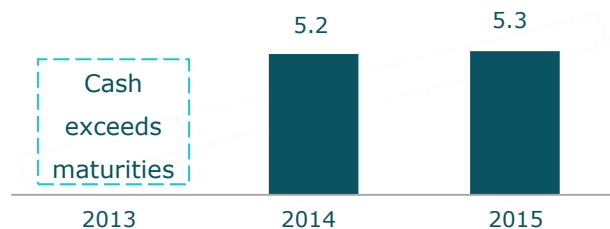
○ y-o-y



Outstanding liquidity while reducing interest costs

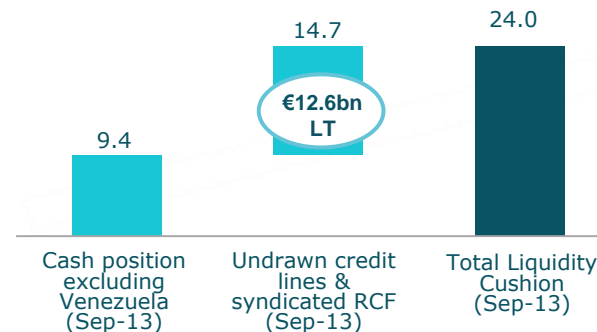
Increased average debt life close to 7 years ⁽¹⁾ (Sep-13)

Net debt maturities (€ in billions)



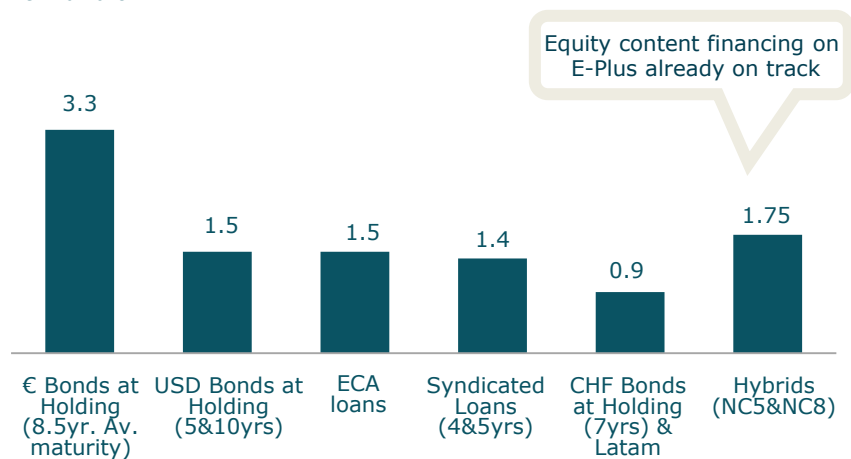
Outstanding liquidity (+€2.4bn vs. Jun-13)

€ in billions



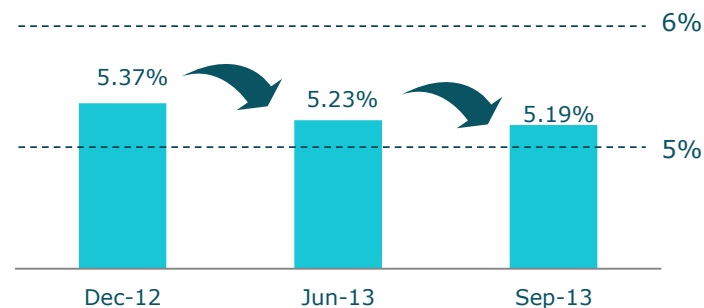
Over €10bn 2013 YTD long term financing

€ in billions



Effective interest cost at guidance bottom (12 month rolling)

----- Guidance



(1) Includes Hybrid maturing at Non-call dates (year 5 and 8)

Conclusion

Recovering Growth & Stabilising margin and CF

- **Revenues growing & accelerating**
- **Stabilising OIBDA and OIBDA margin**
- **Virtually stable 9M OpCF** (y-o-y organic)
- **Solid FCF generation in 9M** (stable y-o-y ex-spectrum)

Reducing Debt & Increasing Value Growth Potential

- **Net Financial Debt at € 46 Bn as of September; leverage ratio: 2.30x**
- **€ 14 Bn net debt reduction since Jun-12** including post-closing events to € 45 bn
- **Active portfolio management** fostering in market consolidation and improving growth potential

2013 guidance and dividend confirmed

Telefónica
