Telefónica January-December 2013 Results Conference Call Transcript

27th February, 2014

<u>Important Notice</u>:

Although we try to accurately reflect speeches delivered, the actual speech as it was delivered may deviate from the script made available on our website

Introduction

Pablo Eguirón - *Telefónica S.A. - Head of IR*

Good afternoon, ladies and gentlemen, and welcome to Telefónica's conference call to discuss January-December 2013 results. I am Pablo Eguirón, Head of Investor Relations.

And before proceeding, let me mention that this document contains financial information that has been prepared under international financial reporting standards. This financial information is unaudited.

This presentation may contain announcements that constitute forward-looking statements, which are not guarantees of future performance and involve risks and uncertainties, and that certain results may differ materially from those in the forward-looking statements as a result of various factors. We invite you to read the complete disclaimer included in the first page of the presentation, which you will find in our website.

We encourage you to review our publicly available disclosure documents filed with the relevant securities market regulators. If you don't have a copy of the relevant press releases and the slides, please contact Telefónica's Investor Relations team in Madrid by dialling the following telephone number, +34-91-482-8700.

Now let me turn the call to our Chairman and CEO Mr. César Alierta, who will be leading this conference call.

Presentation

César Alierta - Telefónica S.A. – Chairman and CEO

Thank you Pablo. Good morning everybody and welcome to Telefónica's 2013 results conference call. Today with me are the members of the Executive Committee, so during the Q&A session you will have the opportunity to address to them any questions you may have.

Before starting let me briefly explain to you the agenda for this conference call. I will first explain the significant changes in our operating model that the Board of Telefónica approved yesterday. These changes are not just a change in our organisation, but to go one big step further in the transformation process started in 2011 to become a total Digital Telco. A Digital Telco that will be a sector reference on revenue growth and efficiency.

José María will provide some details on this new operating model and then Ángel will explain 2013 results in detail.

More than ever convinced about the digital opportunity

Please turn to slide number 3 to start talking about the digital opportunity.

We have talked many times about the Digital Revolution. This revolution is more and more evident each day, and fast evolution is making us more confident than ever about the big growth opportunities the Digital Revolution is putting in front of us.

Traffic, both fixed and mobile, is already exploding in our networks. However, fiber and LTE deployment, the massive adoption of connectivity from every device, the growth of video and the new digital services make insignificant the growth seen up to now. Because the volume of mobile traffic expected for the next five years is going to increase by 11 times the one in 2013.

Telcos are in a privileged position to capture the potential from the digital revolution

As we show in slide number 4, telcos have the privilege of being at the core of this Digital Revolution.

But there are new capabilities needed to optimise our response to this big opportunity. Our vision is very clear and has not changed. We need to become and we are becoming a Digital Telco, combining our traditional assets with digital skills to allow our customers to have access and enjoy all what technology can offer them to enrich their lives.

For this, evolution is key. We have differential assets: our networks and systems, our distribution capabilities and our customer knowledge are non-replicable.

At the same time, we need to transform our commercial propositions to capture the growth of new digital services.

Taking now the next step in our digital transformation journey

Slide number 5, shows the transformation journey towards a Digital Telco and the next step to be taken.

We started our transformation in September 2011, with the creation of Telefónica Digital and Telefónica Global Resources, taking strategic decisions in advance, as well as key initiatives in operating transformation.

All these actions are translated into new sustained improvement of our results, a significant increase of our financial flexibility and a reinforced asset portfolio; all of them improving our relative position in the sector.

Telefónica Digital, Telefónica Latam and Telefónica Europe have been key actors of this transformation.

But now we clearly need to move one step ahead, we need to accelerate our revenue and we need to accelerate our efficiency gains even further.

To fully capture the digital opportunity & maximise value creation we are evolving our operating model…

Moving to slide number 6, you can see some details about what this acceleration means.

We have very clear what are the four pillars to reach our target.

First, we need to generate more revenues and we are putting absolute focus on data traffic monetisation, digital services, customer insight, fast time to market and new commercial channels. These, among others, are basic skills needed to succeed.

Second, we will become a more technological Company accelerating network modernisation by deploying more fiber and LTE; applying an IT transformation and increasing virtualisation.

Third, we need to be even more efficient and improve our execution. We are announcing today a new synergy program based on Opex and CapEx savings that the new organisation will allow us to capture.

And fourth, we want to lead the sector to a new public positioning changing the rules of the current value chain.

It is very clear and evident that the new digital ecosystem requires clearly the elimination of outdated or duplicated regulation.

The implementation of a level playing field for all which will drive the increased investments in capacity and innovation will make the value chain of the digital ecosystem equivalent to each one real contribution.

And I want to underlying this; to make the digital ecosystem equivalent to each one real contribution, which is not the case now.

Trust, privacy and security are fundamental for the uptake and use of new digital services.

I am really sure that the new Single Digital Market in the EU, which I see will be implemented in the very near future will make all this a reality. And thus, all this will accelerate our sustainable growth and shareholder value creation.

…leading to a digital customer centric & leaner organisation

On slide number 7, you can see the new group organisation.

Basically we are creating a new Chief Commercial and Digital Officer to bring digital services to the core of the business, a new area to foster growth based on distinctive customer insights, which will clearly accelerate revenue growth.

In addition, we are reinforcing the empowerment of the Chief Global Resources Officer to execute the needed changes in network transformation to maximise efficiency generation.

We are also increasing the level of reporting of key markets, closing distances between strategic and operational decisions & increased visibility of key businesses.

Now, Jose María will give you further details on this operational transformation.

T. Digital: Towards a differential commercial proposition

José María Álvarez-Pallete - Telefónica S.A. – Chief Operating Officer

Thank you César. Turning to slide 8, we want to highlight the multiple advances that Telefonica Digital carried out in last 3 years towards a differential commercial proposition.

Thus, when we established our Digital unit we were pioneers moving forward to the Digital world, aiming at transforming the Company into a Digital Telco, with Digital at the core of our operating businesses.

Since then, all steps taken were focused on developing platforms, where our core capabilities are differential, finding opportunities alongside the innovation chain and partnering with category leaders to provide E2E solutions.

All in all, final target of enabling Telefónica to move one step ahead was clearly met, as revenue growth trend showed, accelerating to 19.4% organic year-on-year in Q4.

The Chief Commercial Digital Officer is key to ensure data monetisation

Please move to slide 9 where you can see how we believe the new Chief Commercial Digital Officer will ensure further data monetisation.

The Chief Commercial Digital Officer is the main responsible for revenue growth, with the role to implement a single data monetisation strategy for the whole Group, leveraging in market intelligence, channels and so on. We will define the value proposition for the customers, acting also as the single product “factory” for the Group, including core and new digital products. All in all, with a clear focus on the market, increasing commercial traction of a differential proposition for Telefónica’s customers.

T. Global Resources: Capturing value from scale and empowering the Digital Telco

Moving to Global Resources on slide 10. Main accomplishments reached by Global Resources are based around network development, IT simplification and value creation through global procurement.

In terms of network transformation and to meet increasing customer demand for data traffic, both fixed and mobile, we have devoted around 68% of our investments to growth and transformation, including fiber, LTE, 3G capacity and transport.

As a result, we have launched LTE services in main markets and we have passed 5 million homes with fiber in our two main markets, Spain and Brazil, 1.7 times more than a year ago. It is also to highlight, the efficient deployment of Ultra Broad Band, with network sharing agreements signed in markets such us UK, Germany, Brazil, Spain and Colombia, among others.

In IT, we focused our efforts around simplification and consolidation. As such, we have closed 6 data centres, reduced physical servers by 12% and increased mix of servers virtualised by 7 p.p. year-on-year. In addition, we have turned-off more than 1 thousand and hundred applications in 2013.

2014 building infrastructure based-long term advantages

In slide 11, we show our main priorities in terms of 2014 CapEx deployments.

First of all to highlight that our main focus in 2014 is to increase the capacity of our networks to support data traffic growth and to build network differentiation by developing high speed infrastructure.

In this sense, in 2014, 75% of our organic CapEx will be devoted to growth & transformation (+7 p.p. vs last year), with investments in fiber growing 65% year-on-year. This CapEx will translate into approximately 2 times more homes passed in a year to 10 million at the end of 2014. In Spain, population coverage will stand around 40%, and in Sao Paulo, with a coverage of approx. 25% of homes in urban areas.

On LTE, the number of LTE enabled base stations will be 2 times higher year-on-year, and in Europe, this will translate into a population coverage above 50%. Lastly, mobile base stations connected with Ultra Broad Band will increase more than 5 p.p. year-on-year.

At the same time in IT, we will continue with the simplification process fostering transformation; and generating synergies by reducing physical servers, increasing virtualised servers, closing more data centers and cancelling applications.

Opportunity to generate significant synergies trough a new operating model

On slide 12 you have detailed the savings we aim to capture with this new operating model.

We will extract significant savings from the Network operating in an integrated manner by adopting global standards and designs for key Network elements, and by transforming processes and OSS.

On IT, by implementing shared services and global initiatives we will be able to reduce costs and accelerate transformation in a Digital Telco by concentration production in regional Datacenters, increasing virtualisation levels, while we continue decommissioning applications and legacy.

Finally, in support areas we will also be able to work in a more efficient way by concentrating activities to achieve higher efficiencies and improve execution. On commercial, we will optimise channel mix, developing best online platform and building sustainable hardware models.

By applying these initiatives we will be able to generate up to 1.5 billion Opex and CapEx gross savings annually in the coming years, additional to the ones we should capture in Germany and excluding Venezuela.

Let me now hand the call over to Ángel.

2013 Highlights

Ángel Vilá - Telefónica S.A. - Chief Financial and Corporate Development Officer

Thank you, José María. Let me start with the highlights of 2013 on slide 13. It has been a year of significant progress in our strategic transformation towards a Digital Telco.

First, we are back to organic revenue growth in 2013. In the October-December period we posted the third consecutive quarter of year-on-year growth in organic terms. Increasing contribution from Latam, mobile data, digital services and the very rapid expansion of value customer base explain this performance.

Second, results up to December reflected business stabilisation, with annual organic OIBDA flat vs. last year driven by the growth posted in the fourth quarter, consolidating the improved trend already seen in Q3. Cost transformation and efficiency gains are translating into a stable OIBDA margin vs 2012, both in the year and in the quarter. Higher CapEx allocated to growth areas has though impacted OpCF.

Third, FCF generation was sound despite FX headwinds, allowing both FCFS and EPS to comfortably exceed DPS.

Fourth, we improved further our financial flexibility, as reflected in the ongoing debt reduction in 2013 to 45 Billion euros or 2.36 times OIBDA. Including post-closing events, net debt would stand at €42bn or 2.31 times.

Fifth, we successfully advanced in our portfolio rationalisation, focusing on our core markets to increase ROCE.

And finally, we continued delivering on our commitments, meeting our 2013 guidance.

Financial summary

Let me summarise key financials on slide 14.

In organic terms, revenue growth reached 1.8% in October-December and 0.7% in the full year to 57.1 billion euros. OIBDA amounted to 19.1 billion euros, stable vs. 2012 figure, reflecting the 1.2% growth posted in the fourth quarter. Profitability stood at 33.4% and net income at 4.6 billion euros, 17% above last year figure despite the reduction in the value of Telecom Italia investment of €245 million in the year, of which € 135 million was in this quarter.

2013 reported figures, and specially in the second half, are negatively impacted by forex and by changes in the perimeter of consolidation. Let me stress that the first factor, FX, deducted 7.5 p.p. to 2013 year-on-year evolution of revenues and OIBDA, but at the same time reduced CapEx, interest, tax and minorities payments in euros. As a result, about 2/3 of FX absolute impact on OIBDA is mitigated at FCF level.

I would like to highlight the outstanding debt reduction of 16 billion euros or close to 30% in the last 18 months since June-2012, allowing us to regain financial flexibility and significantly improve leverage metrics despite the mentioned impact of FX.

Maintaining strong cash flow generation

On the next slide, FCF generation remained very robust in 2013 and reached almost 5.4 billion euros or 6.9 billion euros before spectrum payments, absorbing most of the already mentioned adverse FX impacts.

FCF per share up to December was 1.19 euros, comfortably covering the dividend of 0.75 euros for 2013 and resulting in a FCF payout of 63%.

EPS also improved on a sequential basis and reached 0.31 euros in the period October-December and 1.01 euros in January to December.

Delivering on 2013 guidance

Please turn to slide 16 for a quick review of our 2013 targets.

In terms of operating guidance, all targets have been met. Even CapEx was just slightly above 2012 level, due to the accelerated investments in Venezuela devoted to improve quality network; and at the same time to improve the balance between real assets and cash position in the country.

As I already mentioned, net debt ended the year well below the €47 billion mark that we set as a maximum target for the year 2013. Also, we have met the 2.35 times leverage ratio target. These objectives were reached through both, organic and inorganic means.

Investing in quality, setting stage for future growth

Moving to slide number 17, we continued to capture high value customers, reaching more than 89 million contract accesses at the end of the year after growing by 9% year-on-year, increasing the weight over total base to 35% and representing 83% of total net adds in Q4.

Smartphone growth is the main driver of this contract base, reaching a penetration of 27%.

At the same time, we are proactively fostering UBB uptake, with 1.5 million connections at year end and a penetration equal to 34%.

Improved trends in 2013 across all items

Looking into slide number 18, in 2013 we have improved year-on-year performance across the board vs. 2012.

It is also highlighted what would be the Group's evolution excluding the negative contribution of Spain. As Spain is starting its recovery, this will flow and this flows into speeding-up growth at Group level. As such, our diversification is key for this performance.

Revenue accelerating; profitability stabilising

Turning to slide 19.

Organic revenue growth ramped-up progressively along the year, to 0.7% up to December or 2.3% if we exclude the negative impact of regulation. Let me highlight that Latin America, representing 51% of Group sales, grew at double digit rate in Q4, while our push in mobile data has delivered a 22% annual organic growth in non-SMS data revenues also in the last quarter.

Organic OIBDA year-on-year variation recorded the second sequential quarter of improvement, growing for the first time since the fourth quarter of 2012. This was driven by revenue flow and further efficiencies and savings despite intensified efforts on smartphone acquisition and higher network costs related to a more data centric business.

As a result, year-on-year margin erosion was limited to 0.2 p.p., 1.1 p.p. lower than the erosion in 2012, and the absolute margin exceeded the level of 33%.

Focused CapEx to promote growth opportunities

Please turn to slide 20 for an update in our investment profile.

In 2013 we have been increasing our CapEx devoted to growth and have continued transforming our networks, investing in high speed broadband, both fixed and mobile and building differential networks. As a result, fiber CapEx increased 50% and investments related to TV increased 38%. On the mobile side, 3G and 4G spend was 38% higher while we also advanced on data transport and invested 15% more than a year ago.

It is also remarkable the effort done in acquiring spectrum in the last four years to secure valuable spectrum in main markets of operations; so the bulk of spectrum investments is already behind us. In 2013, spectrum acquisition amounted to €1.2bn; more than two times year-on-year.

T. Latam: Outstanding commercial activity boosting growth

Please turn now to slide number 21 to review our operations in Latin America.

In 2013 we led sector transformation towards data. We captured the most valuable customers, reaching 7 million new customers in the contract segment and accelerating smartphone adoption to 22% of penetration over mobile accesses. Moreover, the process of transforming the fixed business is already delivering visible results, with net adds improving across services in both Q4 and fiscal year 13.

This outstanding commercial activity is flowing into financials, with revenues accelerating to surpass once again the 10% mark this quarter and OIBDA growing by 6.1%, despite more intense commercial activity.

T. Latam: Revenue growth drivers ramping-up

Moving to next slide, let me highlight how revenue growth drivers are ramping-up.

Mobile service revenues improved their year-on-year performance in 2013 growing at almost 12% rate fuelled by booming data. It is particularly noteworthy the non-SMS data revenue trend, gradually accelerating to increase more than 40% year-on-year in the fourth quarter and already contributing with more than 6 p.p. to mobile service revenue growth this year.

At the same time, fixed business revenue trend improved significantly, stable year-on-year in 2013 but growing 3% year-on-year in Q4, on the back of increased contribution of fixed broadband and new services, growing by almost 13% in the quarter.

Brazil: Strengthened market position

In slide number 23, we review Telefónica in Brazil.

In 2013 we have reinforced our market position, posting record high net adds in the contract segment with 5 million new customers after capturing almost 60% of the market growth. This is the result of a superior competitive positioning, leveraged on the best quality proposition served by our best-in class network and brand.

In the fixed business, commercial turnaround started in the second half of 2013 and is reflected in improved commercial dynamics, with all fixed services posting positive net adds. Going forward we keep committed to the transformation process, and we'll increase our fiber coverage in 2014 to reach 2.5 million households, further reinforcing our commercial proposition.

Brazil: Solid revenue and OIBDA performance

This commercial progression is delivering solid revenue and OIBDA performance as we show in slide number 24.

Revenue trend along the year reflected a solid mobile service revenue performance, with growth above 5% every quarter, therefore faster than the market. This market share gains will become more evident with the stabilisation of the fixed business; which in the fourth quarter shows a significant improvement in revenue trends.

Furthermore, OIBDA margin erosion this year is mainly driven by the strong commercial activity, devoted to capture quality growth. In Q4, sequential margin improvement illustrates the cost control efforts and a moderation of commercial expenses increase.

T. Latam: Strengthened market positioning (I/II)

Moving to next slide, we review the performance of other operations in Latam.

Telefónica Peru keeps accelerating revenues to more than 10% in Q4 and we have been the first player launching 4G services to further differentiate ourselves in terms of quality and innovation.

In Argentina, we reached best-ever mobile net adds this year that are gradually fuelling into revenue performance. Meanwhile OIBDA margin erosion is gradually easing, surpassing 30% margin again this quarter.

In Chile, it's worth mentioning that new plans launched this year have bolstered commercial performance, resulting in better revenue trend in both businesses. 4G services are available from Q4 13, reinforcing our market positioning.

T. Latam: Strengthened market positioning (II/II)

In slide number 26, Colombia is accelerating its revenue share gains on the back of the renewed regulatory framework implemented in 2013, that is fostering mobile service revenue growth to 10% in Q4. 4G services were already launched in December.

In Mexico, despite ups & downs in financial performance, there are positive advances already visible in Q4 results. Commercial activity awakened in the quarter reaching record net adds of 1.2 million accesses. Also voice traffic is starting to show clear signs of recovery, growing by 38% year-on-year in Q4. At the same time we keep committed to a more efficient use of our resources by signing wholesale agreements.

Finally, in Venezuela strong growth in volumes is the main driver of revenue growth. Thus, voice and data traffic grew above 20% and 30% year-on-year respectively, driving revenue growth above 45% year-on-year.

T. Europe: Focused portfolio with enhanced margins

Moving to slide number 27, let me review the performance of Telefonica Europe, where we have looked for a new market equilibrium with focus on profitability.

From a trading standpoint, strong momentum continued in the quarter and proved our right positioning in a very dynamic and competitive environment, on the back of differential data-centric propositions across the footprint.

Amid this backdrop, ongoing efficiency measures, such as deep simplification and lower commercial costs, led to an organic OIBDA margin expansion of 1.3 p.p. in 2013 to 37%.

Lastly, I would like to remark the reshaping of the European asset portfolio, which improves our positioning to benefit from the data opportunity ahead of us.

Spain: Remarkable trading, strong push on fiber

In Spain, on slide number 28, commercial activity has improved during the quarter, and specially in the most valuable segments which seems to suggest an incipient change in consumption dynamics.

We are building a superior quality proposition to exploit this change in market dynamics, capturing in the quarter record net adds in Pay TV and fiber, to reach 600 thousand fiber connected customers as of December, doubling last year's figure. In addition, successful Christmas campaign drove a better contract mobile performance, despite increased subsidies from competitors in the quarter.

"Movistar Fusión" traction continued, surpassing 2.9 million customers. It is worth to highlight that 64% of quarterly gross adds were new or upselling customers. As a result, in the consumer segment more than 52% FBB accesses and 45% contract mobile were within "Fusión", so we could think that the bulk of the backbook impact is already behind us.

Finally, we increased our quality leadership through the rapid deployment of LTE based on our differential backhaul, and the acceleration of fiber roll out in Q4 to cover 20% of total homes. In 2014 we will double FTTH coverage to 7.1 million homes.

Spain: Consolidating trends across the board

In terms of financials, Telefónica España showed a gradual stabilization across metrics throughout 2013.

Revenue trend consolidated the recovery path started in the first quarter of 2013, driven by improved performance of fixed revenue and handset revenue, and despite a negative drag from regulation. Please note that commercial momentum improvement was progressive along the quarter, so its full benefits are yet to be seen in the coming months.

The high level of profitability is remarkable. OIBDA margin reached 49% in 2013, 3.3 percentage points above 2012 figure organically, reflecting the large benefits of the simplification and transformation process.

Moreover, ongoing efforts on insourcing, simplification of CRM and the transformation of the distribution channel, are some of the initiatives we are executing to continue capturing further efficiencies.

Lastly, OpCF generation remained very solid at 4.8 bn euros in 2013 with an OpCF margin of 37%.

UK: Solid commercial momentum

In slide 30, Telefónica UK maintained momentum in the fourth quarter underpinned by the contract segment, up 8% year-on-year, after recording a market leading contract churn in the year.

"Refresh" continued gaining traction and reached over 1 million transactions.

The rapid roll-out of LTE translated into an outdoor coverage of 38% at the end of the year, with the target of reaching more than 60% by 2014 year-end. The data monetisation opportunity ahead of us is based on increasing data consumption, with LTE customers having 2 times average usage vs a 3G customer.

Total sales in the quarter increased 0.3% year-on-year driving to a flat performance in the full year. While profitability continued to expand in the quarter to 25.4%. As a result, Operating Cash flow excluding spectrum increased by an outstanding 19% year-on-year.

Germany: Data monetisation in a competitive environment

To review our operation in Germany please turn to slide 31.

Let me highlight that 2013 has been a transition year in the German market with competition focused on smartphone tariffs and devices. In this regards, the share of LTE enabled handsets sold over total grew to 80% in the quarter and LTE coverage was above 40% at the end of the year.

This operational performance has led to continuous strong growth of non-SMS data revenues, up 22% year-on-year in 2013, already representing 70% of data revenue in the fourth quarter. Nevertheless, revenue pressure remained through the year mainly on tariff renewals and further decline of SMS revenues.

Profitability remained at similar levels vs 2012, ending the year at 25.1% if we exclude asset sales in the fourth quarter.

Substantial net debt reduction, well below our 2013 target

Moving to slide 32, a strong FCF generation, combined with an active portfolio management and proactive refinancing, has allowed us to continue to improve our financial flexibility in spite of FX headwinds.

Reported net debt as of December, 31st stood at €45.4Bn, or 2.36 times OIBDA, achieving our targets. Including the divestments of Telefónica Czech.Republic (already closed in January) and Telefónica Ireland, net debt would stand at €42.3Bn or 2.31 times OIBDA.

Outstanding liquidity while reducing interest costs

On slide 33, I would like to emphasize the ample liquidity cushion, above €22Bn, which allows us to comfortably address the maturities going forward. The average debt life is above 7 years.

We have executed a diversified financing activity, across products and geographies, raising above €12Bn of well diversified long term financing. Effective interest cost stays at 5.34%, in the lower half of our long term guidance.

2014 outlook

Let me now highlight the guidance for this year.

2014 is going to be the year when we will increase the investments to build network differentiation for fostering future revenue growth, allowing simultaneously to stimulate FCF generation and improve strategic market positioning and return in core markets.

Our outlook for the year is on organic basis and excludes Venezuela. So, regarding operating targets, we expect revenues to be in the positive territory on the back of continuing healthy growth in Latam and improved trends in Europe. OIBDA margin will trend towards stabilisation, with an erosion around 1 p.p. to allow for commercial flexibility if needed. CapEx to sales ratio will be increasing to 15.5% to 16% as we will be accelerating network, IT and digital capabilities transformation.

On the financial guidance, we will continue to deleverage in 2014, with a final goal of net financial debt lower than 43 billion euros at the year-end, let me also remark that we reiterate our commitment with a leverage ratio of 2.35 times.

We will do all of this maintaining our dividend for 2014 at 0.75 euros per share and further improvement in financial flexibility.

This year the dividend will be payable in two tranches: 0.35 euros voluntary scrip dividend in the fourth quarter of 2014 and 0.40 euros in cash in the second quarter of 2015. Scrip dividend will let us reinvest into business growth while CapEx growth crystallizes in higher FCF.

Closing remarks

To finish, please move to slide 35 to sum-up the final conclusions.

We are moving one step further in our evolution to the Digital era; we are transforming ourselves to maximise returns from the Digital opportunity.

We will be stronger technologically and we will have differential infrastructure that are non-replicable advantages on the base.

In 2013, we have done significant advances. We recovered revenue organic growth, posted stable organic OIBDA and margin along with strong FCF generation. We have regained further financial flexibility, increasing the focus in core markets and improved Group’s growth potential through in-market consolidation.

In 2014, we will accelerate growth, building stronger networks to improve our market positioning in key markets coupled with increasing efficiency levels.

Financial discipline and superior shareholder remuneration are our core principles, and we keep having capacity to further exploit our portfolio.

Thank you very much and now we are ready to take your questions.

Q&A session

Luis Prota - Morgan Stanley

Yes, hello. Couple of questions, please, one is on your strategy in content in Spain. You have been in the press recently, mentioned as having been buying rights to broadcast motorbikes and Formula 1 this year. I wonder if you could summarize a little bit what you've done, and what's the cost and how you are going to get returns out of that.

And secondly, in terms of Venezuela and the currency, we've seen already a couple of companies moving to translate their accounts using this kind of parallel exchange rate closer to VEF12 per $1. I don't know whether you have been looking into it, or are you doing to be sticking to the official exchange rate of VEF6.3, or planning to, at some point, move towards this other exchange rate?

Eva Castillo - CEO Telefónica Europe

Thank you Luis, and let me just give you a bit of overview of what pay TV and also content will mean for us from now on. First of all, as you know, since last year we have managed to make a turnaround on our trading in pay TV, and specifically that has happened during the fourth quarter. As you know, that is on the back of our strategy of the positive impact of the Christmas campaign and our enhanced offer of Movistar Mini included in the Fusión fiber bundles.

So as you know, on the numbers we had a record net adds of 63,000 and we have increased with 73,000 in TV Mini, not accounted in our customer base, with an upselling potential. So our strategy to invest in fiber to upsell into TV needed to have a third leg in which, as we have been talking in the last few quarters, we wanted to add properly content.

So as we see Movistar TV as a key lever for growth going forward. This needs to be based on differential content offer, so we have already reached agreements to offer, for example, the Roland Garros in exclusivity; we've got the rights until 2017. We have the Formula One, together with A3 Media; Telefonica will live broadcast Formula One World Championship. Additionally, we will offer an own exclusive channel, will be called Movistar F1, Formula Uno, to follow all grand prix with exclusive reports, high definition, six cameras and without advertising cuts. We will also have a joint running of the Moto GP rights with Telecinco and Telefonica will live broadcast the 19 grand prix of Moto GP Championship in high definition and again with six simultaneous cameras and Telecinco will offer in live broadcast of nine of the races and the other 10 prix recorded.

This is very exciting because also we have the right for the football league, to broadcast the following football matches, and I can give you all the details if I have time. I can give it to you later, but this, all of the major UEFA's Champion Leagues.

I think that again we need to differentiate ourselves in this offering and the content and the experience based on an improved platform, it is very clear.

The investment is based on our case on fiber, and represents a slight increase versus the previous year, which is well included in the business case for increase of investment during 2014. Hope this is clear.

Luis Prota - Morgan Stanley

Can you disclose the cost of these contents recently acquired?

Eva Castillo - CEO Telefónica Europe

Luis, I'm afraid I cannot do it at the moment, but maybe during the year there will be more opportunities. Thank you.

Ángel Vilá - Telefónica S.A. - Chief Financial and Corporate Development Officer

Hi, Luis, this is Ángel. Regarding Venezuela, in January this year some new local regulation came into force affecting the FX settlements of certain sectors and items, which will be settled at the FX rate that results from the allocations conducted through a system called the SICAD.

Although the rules and procedures applicable to this system have yet to be enacted, we consider that the settlements of the foreign currency will be conducted through SICAD and rates at which SICAD has been allocating dollars so far in the year are above VEF11 per US$ 1.

So what we plan to do is in the first quarter to move from the official VEF6.3 rate to something closer to VEF11.4, and we would do this recording in the first quarter. So that, among other impacts, the cash position that we have at year end at the official exchange rate that is equivalent to EUR2.7 billion would be reduced in something close to or around EUR1.2 billion; so would be converted from EUR2.7 billion to around EUR1.5 billion.

Nick Brown - Goldman Sachs

Two questions please. Firstly in Spain you said the bulk of the back book re-pricing is coming to an end, but when should we expect this to translate into the stabilization of revenue and earnings?

And secondly, it looks like you've retained the financial flexibility to consider other inorganic options after Germany. Do you still see the opportunity to participate in consolidation in any of your other core markets?

Eva Castillo - CEO Telefónica Europe

I think I understood you're talking about revenues stabilization and the outlook that we have. Let me say first that the revenues have stabilized in Spain, quarter-over-quarter, showing a very similar trend excluding MTRs.

And underlying revenues actually are slightly improving as a result of three major things. We have had a very accretive contribution of Fusión, which is more visible in the fourth quarter. Although we have had much tougher market conditions in the fourth quarter, which have impacted our performance in the non-convergent mobile space, as you have seen in our net adds figure. The third factor is we have seen a much better trading in December, due to a very strong Christmas campaign, which actually is not yet reflected in our revenues.

Let me say going forward that we expect top line trend to improve on the back of Fusión trading and also leveraged on fiber and premium content services, as I explained earlier to Luis, in order to capture growth from an improving environment.

Frankly, what we are seeing is that, in general, the macro sentiment in Spain is slightly better. We are seeing also our customer starting to look at much higher-end and more added-value products. That's obviously starting to be part of our more intense commercial activity. We feel good investing in fiber and in LTE.

And frankly, actually in the next quarters, you will start seeing that getting into the revenues more clearly.

I hope I answered correctly.

César Alierta - Telefónica SA - Chairman & CEO

This is César Alierta. As Eva was saying, the situation in Spain is improving, not only in our sector but in other sectors. We see clearly an improving trend in consumption and we see a very improving trend in investment by local companies. And we are totally sure that every quarter is going to be better the preceding one. And this will be reflected clearly in Telefónica España revenues.

With regards to consolidation of the market, let me tell you that Telefónica is the more global telco operator in the world. What do I mean by that? We are the most diversified telco in the world; we are very well in Latin America and we are very well in Europe.

We are where we want to be, and we want to increase our revenues in the markets where we are. We have the portfolio we want to have, and the whole focus will be in the markets where we are.

For us, I say, the consolidation has been already done. We have strong alliances with our partners in Telecom Italia, China Unicom, Etisalat, that I think are very important in this new digital ecosystem in which altogether we reach more than 1 billion customers, and this is going to be very important. So, for us, the consolidation is done.

Georgios Ierodiaconou - Citi

My first question will be around the leverage target of EUR43 billion for 2014. Obviously, there could be some potential for M&A, and I'd be interested to hear your thoughts around Canal+ and maybe some of the other regions you are present.

So I'm just trying to understand from what I realize, part of the debt reduction will be done through hybrids. Is it possible to give us an idea of the level of hybrids you expect to have at the end of the year, or, if possible, give us an indication what would be the maximum amount the rating agencies will give you credit if you would issue more hybrid bonds?

My second question is around the higher CapEx and the strong demand you anticipate across your markets. You gave a lot of detail around the different technologies that the investment will go towards, is it possible to give us a bit of color around the regional breakdown; where we'll see 3G and 4G investments, whether that's in Latin America where we'll see fiber, which markets will see most of this investment? Thank you.

Ángel Vilá - Telefónica S.A. - Chief Financial & Corporate Development Officer

Hi Georgios, this is Ángel. On your first question, when we set our financial policies, we have a firm determination to ensure compatibility of three interactive targets.

The first one, being to maintain the adequate investments in the operation to accelerate growth and future free cash flow generation; the second one, to continue reinforcing our financial flexibility and having full commitment to our target debt and rating levels; and third, to have an attractive shareholder remuneration.

These, as we have seen in 2013, will be achieved by different means; the first one, clearly being organic free cash flow generation, the second one, through continued portfolio management, and we will continue to focus on core operations and looking at the options that are available to us to optimize the value position in the markets where we are present and optimize the return on capital employed. So, organic free cash flow generation; inorganically continue managing our portfolio. And third, we are taking financial flexibility measures as the partial voluntary scrip dividend that we have announced today and some hybrid issuance.

The limit depends a little bit on agencies, but you could consider the figure of EUR 7 billion as the limit that we could have of hybrids. As of now, we have issued around EUR 2.5 billion and you could expect some issuance during 2014 to the tune of EUR 1.5 billion/EUR 2 billion depending on market conditions.

José María Álvarez-Pallete - Telefónica S.A.- Chief Operating Officer

Taking your question on CapEx and geographical split, we tried to provide some color on slide 16, but basically, it's going to be in both regions.

Remember that, for example, we are going to do a significant fiber-to-the-home effort in Spain and in Brazil. We are going to be basically increasing significantly the number of our base stations connected with ultra-broadband capacity to the backhaul, more than 65%. And this is going to happen in both sides of the Atlantic.

TV effort is going to be significant in Spain and in Brazil and in other countries of Latin America. So it will be in IT as well, with probably some strong effort in the case of Latin America.

CapEx over sales ratio is going to be higher in Latin America than in Europe. But, basically, the effort is going to be transversally done through technology and in both sides of the Atlantic.

So, I would say that it's not going to be more biased to one place or to the other.

Ivón Leal - BBVA

Hi there, good morning everybody. My two questions; the first one is in Spain. What do you need to do to stop mobile line losses in Spain in 2014 and if you foresee that you can stabilize that this year?

And the second one is in Brazil. I've noticed that there's a slight improvement on revenue trends on the fixed line in Brazil. So, I don't know if you could share with us a bit what's going on there, whether it's driven by fiber or not and see what's maybe the outlook for 2014?

Eva Castillo - CEO Telefónica Europe

Thank you, Ivón. Let me take your first question. I think it's quite clear that our contract net adds and net portability have improved in the fourth quarter, on the back of the successful Christmas campaign that I mentioned earlier, which has focused again quite a lot on our TV take-up and despite quite a strong competition in the market, with still high subsidies.

So, we are really confident that our mobile trading will continue to improve in following quarters and the main reasons, let me explain, are the following:

First of all, we have been speaking about Spain being a market about convergence and we have a strong position there. We have completed a very competitive portfolio on mobile-only and we have addressed all customer needs pretty much. As you know, we enhance our contract portfolio and what we aim is to give more value for the same price. So, we included the 4G and TV and higher data/minutes in the packages.

I think that overall, we have seen a slow or less active January, but very good February.

Santiago Fernández Valbuena - CEO Telefónica Latinoamérica

Ivon, this is Santiago. On fixed line Brazil, we are happy that the trends that we thought would be in place by now are in place and that is shown in the presentation that we just provided.

Looking out, this is a slow-moving animal that we now think that we have squared the circle, so to speak, by putting together the deployment, the sales, the provisioning and the customer service that is required to make broadband, and especially fiber, a viable product.

Fiber, still has the best to show, which means that the improvement you have seen in the quarter is related to broadband, but not yet to fiber. And so, I would say that, in terms of fiber, the best is still to come. So we are very positive on the outlook for broadband, and especially fiber, going forward.

Fabian Lares - JB Capital Markets

Hi, good morning, thank you for taking my questions. The first one with regards to mobile again. I appreciate your answer you give to Ivón, with regards to the improvement in uptake.
But I just want to clarify whether you foresee that despite the high competitive trend, you believe that as 4G becomes a greater reality, with the digital dividend, you will have an opportunity to start overtaking rivals, as you're still net portability loser to other players. And you're still having a difficult

time to be a net gainer in lines on a monthly basis, at least with the data that we have, which is true only up to November. But if you could give some color as to where you think this growth may come from and whether we can more or less begin to think that as of 2015, when Spain kicks into a greater recovery, whether you can foresee that revenue trends should be better?

And the second question is regards to Brazil. I know that you do not favor speaking much about things related to M&A, but I was wondering whether you had any additional news flow with regards to the TIM Brazil situation, and the ruling by Cade that you have to make a decision between either introducing a new shareholder in Vivo or exit Telecom Italia. Thanks.

Eva Castillo - CEO Telefónica Europe

Well thank you very much. Going back to the mobile only in Spain, and additional to what I answered to Ivón, let's talk about now 4G becoming a reality. It is now, for us, a 40% coverage of population with the 1800 spectrum. As soon as we get the 800, and it is a reality, we believe this is just a matter of deploying and adding into our customer base.

There're two components; one, having the spectrum; and two, having the handset. We've seen by experience in the other markets that we have in Europe, the UK and Germany, that the combination of both spectrum and 4G handsets make an important business case, overall, that we will see in Spain.

So we are very optimistic. We know that we are deploying faster than some of our competitors in this country, which is great, but still is not under the 800 spectrum, which we are expecting as soon as it is released by the authorities.

We have, as you know, a target of 50% coverage for 2014, and we are confident to get more 4G handsets for our customers. That's been very clearly improving in the UK and Germany.

As you know, we probably will explain during the next quarters, the LTE experience is very good, increases consumption of data, and obviously helps us to improve our ARPU uplift. So, I think overall, it's a positive message to give for the next quarters, not just in Spain, but also for the rest of the market.

Ángel Vilá - Telefónica S.A. - Chief Financial and Corporate Development Officer

Hello Fabián, regarding the question on potential M&A in Brazil, the first thing that we want to say is that in Brazil we have a very strong position.

We continue leading the market, especially in the higher value mobile segments, where we are having spectacular share of net adds, month after month. It's a very attractive market. It's also competitive, and will require substantial investments going forward.

In this context, you know that we are firm believers in the benefits of in-market consolidation, which can be a win/win for operators and citizens alike. And we have demonstrated this belief quite a few times in the last year.

But for this type of transaction to materialize, it is necessary that lots and lots of stars align themselves, and this is definitely difficult and complex. And again, we have the strongest position in Brazil as we stand.

Frederic Boulan - Nomura

Good morning gentlemen, thank you for taking my questions. A couple of points, first of all, one on the UK, if you could clarify the impact of the Refresh accounting on your EBITDA in the fourth quarter.
And secondly, more broadly, if you can talk a little bit about your free cash flow expectations for 2014, versus what you produced this year, and considering your increasing margin investment,

increasing CapEx. So where do you see Group free cash flow going, ex. Venezuela and after minority dividend, or what's left to pay a dividend?

And I would like to come back on your decision to offer a voluntary scrip dividend so what of rationale for maintaining headline dividend at EUR0.75, if a significant portion of that, in the end, will end up being paid in shares. So, if you could come back on the rationale a little bit, that would be much appreciated? Thank you.

Eva Castillo Sanz - CEO Telefónica Europe

Well, Frederic, I think that you know all the data that we have provided on the trading activity continues being a very successful proposition to the market. And we have continued gaining traction, quarter-over-quarter, reaching, as you know, the 1.1 million transactions, since launch.

I think that one of the most positive effects is that 56% of contract commercial activity, has been done under Refresh, while in previous quarter, was 53%, and 20% in the second quarter.

We have an impact on revenues, as you know, which is positive, on operating revenues, which comes from higher handset revenues. And I think that when you look at the OIBDA and the impact on OIBDA, as I mentioned last quarter, we cannot disclose that impact, because it is commercially sensitive.

In any case, just to highlight the acceleration of hardware revenue flows, into the bottom line, as mentioned earlier, and although there are many moving parts to the calculation of the impact on OIBDA, quarter by quarter, it becomes more difficult to give a precise figure.

Again, worth mentioning and stressing, that going forward, the effect of Refresh will be unwound along 2014, which will mean that we'll go back to a normalized rate. And I think that I would recommend and remind that we will start comparing on a like-for-like basis. And just to remind you, it will be compared to when we started in April 2013.

César Alierta - Telefónica S.A. - Chairman & CEO

With regards to the dividend, I want to tell you that we are fully, fully committed to our dividend, and as Ángel was saying, we are mentioning before that the scrip dividend in November is voluntary, I want to underline that it is voluntary. So, shareholders that want to take it in cash will take it in cash. Shareholders that want to take it in shares will take it in shares. And the reasons to be voluntary in the scrip, because there are many, many shareholders that because of fiscal reasons they prefer to take it in shares rather than in cash, so it's a decision to each shareholder. But the decision is voluntary and the one that wants in cash will have it in cash and the one that wants in shares will have it in shares.

Ángel Vilá - Telefónica S.A. - Chief Financial and Corporate Development Officer

We do not give, Frederic, as you know, guidance of free cash flow, but I can give you some directional indications, that you can take in making your calculations.

Regarding OIBDA, well, this can be derived from the guidance that we're giving and one would have to take into account that Cesky is deconsolidated; Ireland at some point will be also deconsolidated; E-Plus at some point will be consolidated in our accounts.

So those change of perimeter factors need to be included in the estimate. CapEx will be intensified, but we have also given some indication in the guidance.

The remaining lines to get from operating cash flow to free cash flow would be:

Spectrum. Here, as I said in the presentation, the big spectrum outlays are behind us and you can estimate something which is lower than this year.

With respect to working capital, we are aiming to something which is in line with the positive impact that we had this year.

And with respect to financial expenses, the trend of our debt and the trend of our cost of our debt would imply that there would be a decline; a decline in the upper single-digit or low double-digit.

With respect to cash tax we have concluded 2013 with 28.8%. You should think going back to our guidance of 25%-26%. And there will be less dividends to minorities, because we don't have any more, for instance, the Czech Republic minorities.

This is all the color I can give you, which, I guess, should be enough.

Mandeep Singh - Redburn Partners

Hi guys, it’s Mandeep from Redburn, thank you for taking the question. I had a couple of questions please. First of all, on your new organizational structure and the operating model, you've talked about EUR1.5 billion of gross cost savings. Can I ask if there will be any restructuring charges associated with achieving those cost savings? That's the first question.

The second question is really on your deleveraging profile where, post-closing events, you've said EUR42.3 billion of net debt and your guidance to be below EUR43 billion for the end of 2014. Given that in absolute terms, given FX and Cesky and so on, the absolute EBITDA number for 2014 will be lower than 2013. Is this the end of the deleveraging for the Company and is net debt to EBITDA actually going to be rising from there? Thank you.

José María Alvarez-Pallete - Telefónica S.A. - Chief Operating Officer

With regard to your first question in terms of the figure that we have provided of synergy, this is gross figure synergy and therefore it is not including any potential restructuring. A significant part of that figure is about network, both OpEx and CapEx, 55% to 65%. IT is around 10% to 15% and the rest is about support and commercial.

We don't have right now details of what could be the impact on that in terms of restructuring costs. We are working on a process-by-process basis; we'll give you more color during the quarters to come.

But let me stress, that this is a gross figure rather than a net, because we think that we should include into the calculation the run-rate of that at the end of year three.

But again, we will be providing more color to a specific operator around the next quarters, so you can see the different products in which we are working.

Let me stress, the fact that a significant part of that number is going to come from more efficiency from doing more things together, in terms of common platforms, common purchasing of technology, and a more coordinated deployment of technology, and those do not include or do not imply workforce reduction.

Ángel Vilá - Telefónica S.A. - Chief Financial and Corporate Development Officer

With respect to deleverage and the leverage profile, we're setting the target of EUR43 million net debt by the end of 2014, and we remain fully committed to our target of leverage of 2.35 times, which is our mid-term target that we are maintaining across the last years and for our rating levels.

As I said before, we plan to achieve these via organic free cash flow generation and I have given color on how to look at it in a previous response.

And then, you can also factor what could be the impact of current already announced non-organic situations. So for instance, if you look at the figure at the year-end of EUR45.4 billion, the closing of

Czech Republic and Ireland, Cesky was already cashed in January, would reduce debt by EUR3.1 billion.

The moment when we need to pay for E-Plus we'll increase it by EUR4.1 billion, but we have said that we will issue a mandatory convertible that, for modelling purposes, we already said when we announced the deal, that this could be around EUR1.2 billion-EUR1.3 billion.

So all in all, closing the current transactions, including the acquisition of E-plus does not increase, rather slightly decreases our debt level. And since all the OIBDA from E-plus would come along, the ratio would improve.

On the other hand, we will account for the Venezuela devaluation that I said before will increase our net debt in EUR1.2 billion. And then we will continue managing our portfolio and you can make some simulations on the partial voluntary scrip dividend tranche of EUR0.35 due to be paid in November, and you can get to how we construct our targets.

Jerry Dellis - Jefferies & Co.

Yes. Good morning. Thank you for taking my question. Two questions please.

Firstly, on the pace of cost reduction in Spain going into 2014, I suppose the two big drivers of cost reduction last year were commercial and personnel; looks as though the pace of current commercial cost reduction, sort of 21% in the fourth quarter down from 31% at the full year. Also, mindful that I think the collective wage agreement ran to the end of 2013. So, I wonder whether you could give any guidance on the direction of the commercial costs in Spain in 2014. And where we stand in respect of potential wage inflation and perhaps also pension payment going into 2014?

And then the second question focuses on Brazil. I suppose on yesterday's TEF Brazil call, they highlighted a rather weak macro backdrop. And I noticed that mobile service revenues declined to sort of 2% growth from 7% in recent quarters. Was that Q4 trend rather odd? And then, allied to that, the lighter commercial costs which kept the margin up in Brazil last quarter, should we see that as sustainable through the rest of the year? Thank you.

Eva Castillo - CEO Telefónica Europe

Let me go to the first question, and I think that you know that we have already a proven track record of delivering more than EUR2.4 billion of OpEx and CapEx reductions since 2011. And we have had, as you mentioned earlier, significant cost savings in 2013 from various areas including commercial savings, redundancy plan and part of the simplification and in-sourcing activities.

So with that already in our journey, let me tell you what we expect going forward. I think that we will continue managing our cost base in a very efficient way and we have room for maneuver still there. We, obviously, will have some fluctuation quarter-over-quarter, depending on market dynamics, and that's related to your question on the commercial cost. But looking at what happened in the last quarter of 2013, we applied the increasing commercial costs just very tactically and driven by the market situations.

When we talk about pure efficiency in 2014, it is basically based on three pillars.

First of all, on the call center simplifications, and on that we have done quite a lot during the last two years; we have been working to reduce the claims; we have put them down to less than 0.5 million from 2 million claims in 2012, and you know that. This reduction of activities has allowed us also to inshore call centers. At the moment, we have 70% traffic already inshored and we have brought them back to Spain, almost 85% of the positions are already transferred to the regions without cost increase and improving the quality, which was one of our aims. This year, our objective is to simplify and also optimize its structure.

Secondly, we are looking for optimization of the distribution model with the aim to increase profitability and exclusive stores and improve customer experience. We are reducing more than

20% our point of sales from 2,100 to 1,300-1,600, and fostering the online channel which, as you know, happened all across Europe. In Spain specifically, we are moving from a 7% online activity in 2013 to more than 20% in 2014.

We will have further savings from insourcing activities and we will continue working over our 1.3 billion euros of outsourced cost to achieve similar savings as we obtained in 2013.

Specifically, when you asked me about pension plan and on the wages, I don't think I can answer that question. But on the pension plan, we still have part of what we initiated last year. I think I can give you roughly it's going to be around EUR150 million between still the program that we had started a few years ago, and also the pension effect.

Santiago Fernández Valbuena - CEO Telefónica Latinoamérica

This is Santiago. In terms of margins and commercial activity in Brazil, we are happy the way things are developing. It's not easy and the headwinds from the macro side are certainly not helping.

But as I think Ángel mentioned in his previous question, we are probably taking the better part of this rise in the market.

We have more clients; we have better quality clients as the contract weight is increasing. We've been able to capture higher ARPU and higher contract and data revenues than we had. This, of course, comes at a price. And, depending on what the competitors do, we will sometimes have to step on the accelerator. But we think that we stand in a sustainable position and we do expect that this lead is probably going to be held, if not increased, as the year progresses.

Justin Funnell - Credit Suisse

Just following up on that last question, the macro effects in Latin America, I'm just wondering if you could detail a little bit more what you're seeing, obviously in Brazil, but also in some of the other markets. What's actually going-on, in the ground in Argentina? How's it affecting your business? And in some of these smaller markets, are you seeing a macro headwind across the region or is it actually just a couple of the markets?

Secondly, the progress in Mexico and the regulatory change. And it's good to see the turnaround in Colombia. How close are we now to seeing the same thing come through in Mexico?

And then finally, on fiber in Spain, do you think most of these extra homes passed you're going to be doing on your own, or do you think Jazztel, Orange, perhaps Vodafone, will be part of these extra fiber homes as well? Will it be a co-build or will it be largely your-self just doing it? Thank you.

Santiago Fernández Valbuena - CEO Telefónica Latinoamérica

Justin in terms of the effects in the macro environment as we see it from the ground, let me just make two general statements.

Without talking about Venezuela and Argentina, which are special situations that have to be analyzed on a case-by-case basis, I'd say one thing. And it is that the weakness of the Latin American currencies has a lot to do with capital flows; and very little to do with competitiveness and the products and services market.

So it's impossible to say when things will reverse, but we do expect some kind of mean reversion to happen in the not-troubled countries. And when the capital markets settle, as they eventually always do, we think the true value will out and that the products and services markets will take again the lead.

This is to say that headwinds are likely going to be with us. Volatility is unlikely to come down in the next couple of quarters as we have events, both from the political and from the economic scene. But we do expect that despite that volatility, the overall trend will continue being supportive.

Eva Castillo - Telefonica SA - CEO, Telefonica Europe

Going into the fiber question in Spain, let me update that at the moment we have 3.5 million households passed which means 5 million premises. And our commitment is to have 7.1 million homes passed in 2014, which means close to 10 million premises. This includes our commitment agreement with our partner, Jazztel, and doesn't include any extension at the moment. Thank you.

Simon Duff - M&G

I've just got a quick one, on LatAm debt, and one on Spanish MVNOs. On LatAm debt, can you quantify the amount of debt issued out of Latin America on a non-recourse basis at the moment, and how that compares to your previous two times operating free cash flow policy there? Can you just talk a little bit about the hedging policy around that debt?

And on the Spanish MVNO agreement, can you clarify whether ONO has 4G LTE access at the moment, and whether you would or could consider refusing that access if they don't have it?

Ángel Vilá - Telefónica S.A. - Chief Financial and Corporate Development Officer

Hi, Simon. Regarding the first question, our benchmark in Latin America is to have 2 times free cash flow before interests hedging in the countries where one can hedge. In Venezuela, Argentina, we cannot hedge in those positions.

In the rest of countries, at this point, we have maybe excess debt in Mexico and Colombia, with respect to this benchmark. And in Brazil, we are below it with a basket approach to hedging the Brazilian real exposure, but we maintain the same benchmark across the region that we had and that we are committing to.

Simon Duff - M&G

Okay. And the absolute amount is?

Ángel Vilá - Telefónica S.A. - Chief Financial and Corporate Development Officer

EUR7.8 billion equivalent.

Eva Castillo - CEO Telefónica Europe

Well, thank you for your question. I think that there are some MVNOs asking for 4G access. In our case, we work very closely with our partners. And the specific case of ONO, I feel we cannot disclose the information; I think this is sensitive commercial information.

César Alierta - Telefónica SA - Chairman & CEO

Okay. This is César Alierta. I want to make my final comment, just in line with the first comment I made.

We are totally convinced in Telefónica that the digital world is there. And we are totally convinced, and that is the reason why we made the new organization, because we want to be leading a digital world, and that's the reason we create the Chief Commercial & Digital Officer.

Our whole business is going to be mentalized to drive the revenues and become Digital.

But I want to make a couple of comments, which I think are extremely important. Every country in the world, wants to make the digital world a fact, because it's needed not only for the economy, but for everybody. But to make the digital world a reality, you need to make it possible by investing, and I'm going to give you some figures.

In 2013, in Europe, we, the telcos, we invested EUR60 billion. We employed 1.5 million people; we pay EUR6 billion in spectrum, and we pay a lot of taxes. And our famous colleagues, the OTTs, invested in Europe EUR30 million versus EUR60 billion. They don't employ anybody; they don't pay any taxes; and they don't pay any spectrum. And the same numbers for Europe are in Latin America.

So, it is clear that the world has changed. It is clear that the regulation we have in many parts of the world is related to an age in which voice was the important thing and data was irrelevant. We all know that data is now the relevant factor.

What does it means? It means that, clearly, an unfair level playing field in which only telcos are regulated, and the others are not regulated, is going to finish very, very soon. This is going to make a tremendous difference in the revenues or in the value chain. And it will be coming in the near future.

And when I say that Europe is going to make a single digital market, and this is going to be a fair level playing field, it's because I see it's going to happen very soon, because everybody sees that. And that will happen in Latin America and the rest of the world.

And we, in Telefonica, we took the decision to be a very relevant player in this new digital ecosystem in which the rules are going to be fair level. Everybody is going to be regulated on the same way, and this will make possible the fantastic digital world. If this is not changed, there will be no digital world in the world.

Well, thank you very much for attending our conference call. I hope to see you in the near future. Thanks a lot.