Results

January - March 2014

Telefónica, S.A.
Investor Relations

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Q1 14 Highlights

- **Solid beginning of the year**
  - Delivering on 2014 strategy; increasing customer value and network differentiation while improving financials
- **Continued strength in revenue growth & consistent OIBDA stabilisation**
  - Organic sales up for the fourth consecutive quarter (+1.5% y-o-y)
  - Robust growth in high-quality customer base (smartphones, LTE, fiber)
  - Organic OIBDA growth of 0.5% y-o-y, with strong margin at 32.1% (-0.3 p.p. organic y-o-y) on efficiency progress
- **Targeted investments for future growth and top quality networks**
  - CapEx devoted to growth & transformation: 69% of total
  - Speed-up network modernisation: creating a more efficient platform for innovation and differential customer experience
- **Best Q1 FCF in the last three years**
  - Lower spectrum payments & working capital improvement offsetting CapEx increase, FX impact and asset disposals
  - Q1 FCF +€796m y-o-y
- **Further leverage reduction**
  - Net financial debt reduced by €2.7Bn in Q1 to €42.7Bn (2.30x ND/OIBDA), absorbing seasonal effects on FCF and Venezuelan implicit devaluation
- **Full year guidance and dividend reiterated**
  - Quarterly performance aligned with 2014 guidance (Revenues: -0.1%; OIBDA margin erosion: -0.4p.p.; CapEx/Sales: 11.5%; all organic and excluding Venezuela)

Key financials

€ in millions	Q1 14 Reported	Q1 14 Reported y-o-y	Q1 14 Organic y-o-y
Revenues	12,232	(13.5%)	1.5%
OIBDA	3,929	(14.0%)	0.5%
OIBDA Margin	32.1%	(0.2 p.p.)	(0.3 p.p.)
OpCF (ex-spectrum)	2,561	(22.9%)	(10.6%)
Net Income	692	(23.2%)	--
EPS	0.15	(27.0%)	--
FCF	339	c.s.	--
Net financial debt	42,724	(17.5%)	--

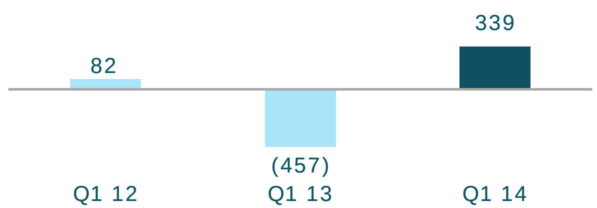
Reported figures hit by FX & changes in the perimeter

- Depreciated FX rates, mainly BRL, ARG and VEF drained y-o-y:
  - Revenue: -11.8 p.p.; OIBDA -11.7 p.p.
- T. C. Republic deconsolidation deducted y-o-y:
  - Revenue: -3.1 p.p.; OIBDA -3.7 p.p.

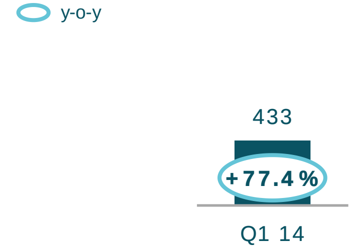
- **FX impact in OIBDA neutralised at FCF level** through lower CapEx, Interest, Tax and Minorities payments
- **Outstanding debt reduction** (-€16Bn in the last 7 quarters) in spite of implicit VEF devaluation

Strongest Q1 FCF since 2011, despite CapEx and FX

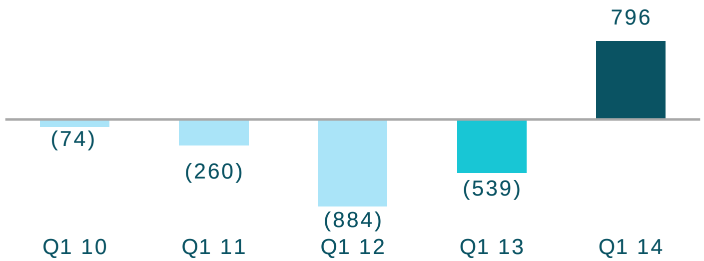
FCF (€ in millions)



FCF (ex spectrum)



FCF absolute change y-o-y (€ in millions)



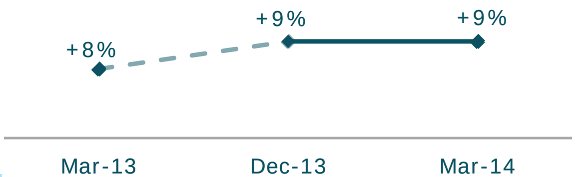
FCF improvement y-o-y

- **WC improvement** (+€613m) on optimisation measures executed in Q1 14
- **Lower spectrum payments** (+€607m)
- **Savings on tax payments** (+€314m)
- **Lower interest payments** (+€105m)
- **Reduced minority drag** (+€29m)

FCF to improve sequentially as Q1 is traditionally impacted by seasonal effects

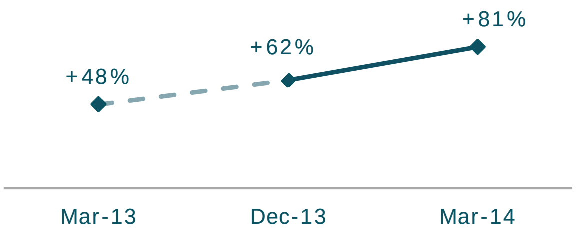
Selective commercial approach; increasing customer value

Mobile contract accesses (y-o-y organic)



	Mar-13	Dec-13	Mar-14
Smartphone Penetration	20%	27%	30%

Fiber homes passed (y-o-y)



TV accesses (y-o-y)

Focus on quality, setting basis for future growth

- **Contract mix improved to 35%** (+1.3 p.p. y-o-y)
- **5.6 million smartphone net adds,** 2x vs. Q1 13
- **Smartphone leadership driving mobile data revenue** (Q1 +8.8% y-o-y organic; +1 p.p. q-o-q)
- **Opportunity in low prepaid smartphone penetration**
- **Progressive fiber** (connected homes +90% y-o-y) **and LTE deployment**

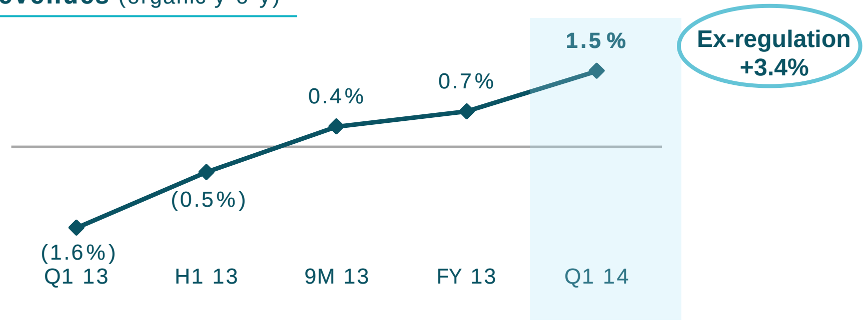
Further progress on data traffic monetisation

- Ongoing **innovation and tariff refreshment**
- **Customer insight** in each market:
  - New technologies: LTE, fiber
  - Share data plans: *Multivivo* in Brazil*, Datos Compartidos* in Spain
  - Digital services
- **Tiered pricing:** common approach to bundle

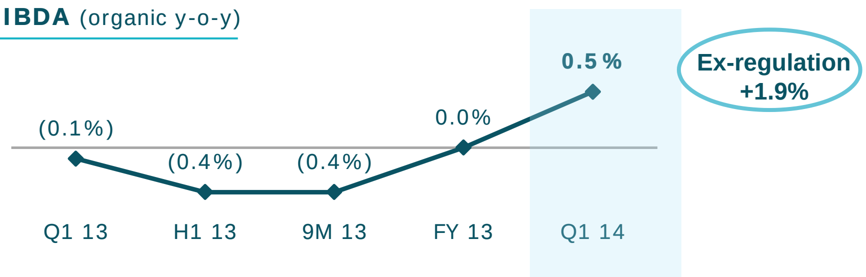
Organic growth: in 2013 excludes the accesses of T. Czech Republic and T. Slovakia as well as the accesses relating to the fixed consumer business in the UK

Revenue & OIBDA growing organically

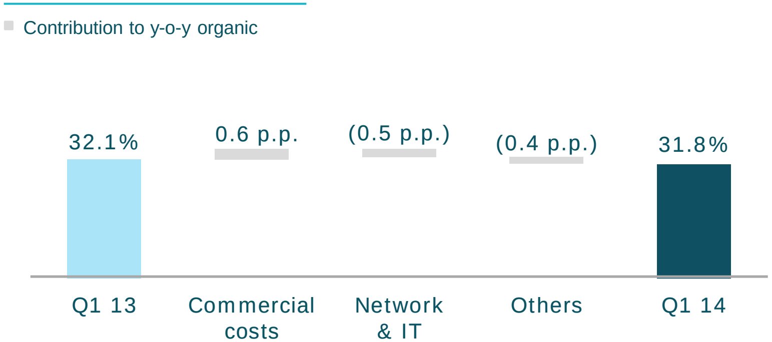
Revenues (organic y-o-y)



OIBDA (organic y-o-y)



Organic OIBDA margin



Revenue improvement leveraged on diversification

- **Spain sales y-o-y decline improving** (-3.7 p.p. q-o-q)
- **Hispam drives Q1 Group organic growth:**
  - 28% of revenues; +14.8% y-o-y
  - 27% of OIBDA: +15.0% y-o-y
- **Transforming top line mix towards data** centric business
- **Increased demand for mobile data** (non-SMS/data revenues 71%; +8 p.p. y-o-y)

Growing OIBDA

- **Continued strict cost management and savings from efficiencies**
  - Lowest OpEx increase in four quarters (+1.5% organic y-o-y)

Flattish profitability

- **Limited OIBDA margin erosion in Q1** (-0.3 p.p. y-o-y organic) reflected:
  - Lower commercial expenses (-1.3% y-o-y organic)
  - Higher network & IT costs (+5.1% y-o-y organic) related to network investments

TGR: speeding up technological transformation in network, IT and operations

Accelerating deployments to provide the best user experience

CapEx in Growth and Transformation: 69% in Q1 14

FTTH (homes passed Mar-14)

- 4.1m
- 1.5m
- 5.6m x1.8 y-o-y

LTE

Coverage	
Spain	44%
Germany	50%
UK	41%

3G+4G site with UBB backhaul

- >80%
- >10,200 4G sites ~x10 y-o-y

+Speed, +Simple, +Sustainable

- Continued progress towards **future-proof networks:**
  - **Spain: Single RAN modernisation**
    - Increased flexibility and speeds
    - Enhanced customer experience
    - LTE dual-band capable
    - Quality plan to assure outperformance
  - **Germany:** Trialing LTE-A with carrier aggregation & VoLTE

IT Transformation: simplification on track and new major initiatives

- **IT transformation:** implementing core commercial application suites in most of Hispam countries
  - Simplification and transformation of the business through standardised customer oriented processes
  - Reutilisation and standardisation resulting in major savings vs. local contract
  - Quantum leap in customer experience and business agility

- **IT infrastructure consolidation** in EU & Brazil
- **Decommissioning ~80 applications** (25% of 2014 target)
- **More than 35% servers virtualised**

Digital Services: Advancing across different P&S

Consumer: Towards new and sustainable revenue opportunities

Video

- Revenue (organic y-o-y): 12%
- Accesses (y-o-y): 8% — 11% (Spain), 14% (Brazil)
- Exclusive Moto GP & F1 content rights signed in Spain
- Increasing Pay TV market share

Security

Mobile Security

- 3.9 m accesses (Brazil) → x4 y-o-y

Global device management

- 65% of total shipments are smartphones
- x9 y-o-y LTE handsets volume

Strategic Partnerships

Accesses

Rhapsody	Evernote
74K	185K

- Adding value to our data proposition

Ehealth

Saluspot

- New agreement with Saluspot enables to offer free online health advice and consultations

Financial Services

- Announcement of Yaap brand for the digital services to be launched in Spain jointly with Santander & CaixaBank:
  - Yaap Shopping, a virtual showroom
  - Yaap Money, a P2P payment service

Yaap

B2B: Digital Services to move forward to a digital telco

Advertising

AXONIX

- Creation of Axonix, 1st mobile advertising exchange platform owned by a mobile operator and powered by MobClix technology

Cloud

- Revenue (organic y-o-y): >20%
- Adding value, leveraging Corporate & SMEs offering
- Acquisition of eyeOS, pioneer in the open-source web desktop to offer DVS(1)

eyeos

M2M

- Revenue (y-o-y growth): >50%
- Accesses (y-o-y): 20%(2)
- Managed M2M connectivity for urban solutions with JCDecaux
- Partnership with Tesla for M2M connectivity

Information Security

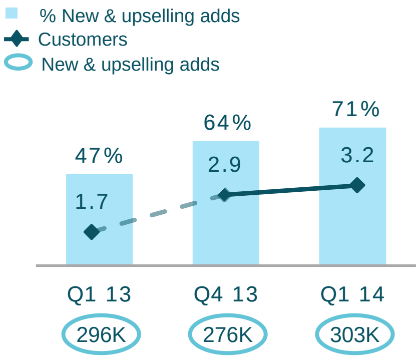
- Revenue (y-o-y growth): >20%
- Relevant CyberSecurity projects awarded in Spain and Colombia leveraging global SOC(3) roll-outs

(1) Desktop Virtualisation Service
(2) Organic and impacted by the disconnection of 0.6m inactive accesses in Spain in Q1 14
(3) Security Operation Center

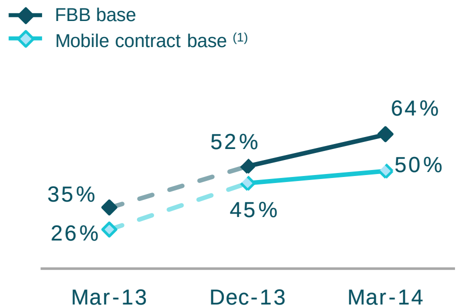
Spain: Unique assets driving quality trading

24% of Group revenue

Movistar Fusión

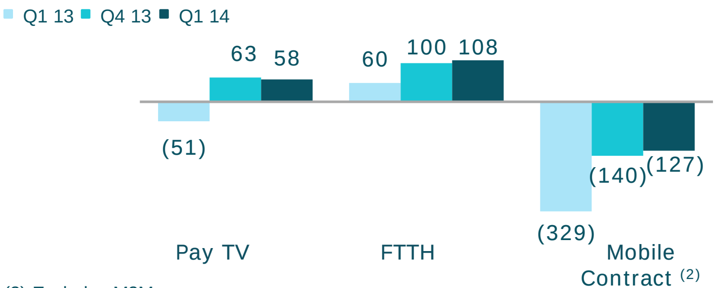


Fusión penetration (consumer)



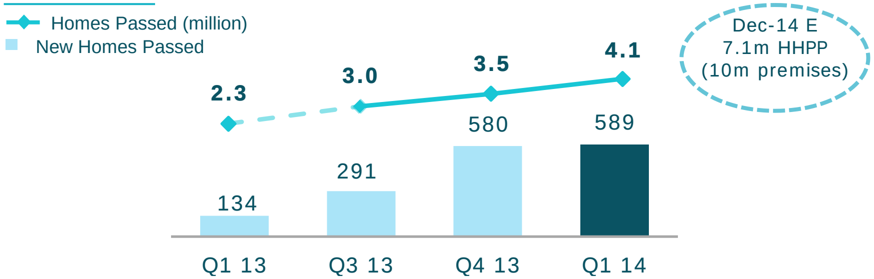
(1) Includes 1.2 million mobile add-ons

Net adds ('000)



(2) Excludes M2M

FTTH ('000)



"Movistar Fusión" improving momentum

- **Significant contribution of new/upselling services**
- **2/3 of contract mobile base in "Fusión" & new mobile tariffs**
- **"Fusión TV" focused on differential value**
  - TV in all packages with exclusive content & functionalities
  - New portfolio (end April) adding value for the same price
- **"Fusión" churn lower than standalone services**
  - FBB lifetime x1.8; Mobile contract x2.8
- **"Fusión" ARPU at high level (70€)**

Strong growth of high value customers

- **New record in Q1 FTTH net adds**
  - Fiber customers at 701K (x1.9 y-o-y)
  - "Fusión Fiber" priced at 10€/month premium (ex-VAT)
- **"Movistar TV" gaining traction**
- **Mobile contract improved** (Q1 net loss(2) -62% y-o-y)

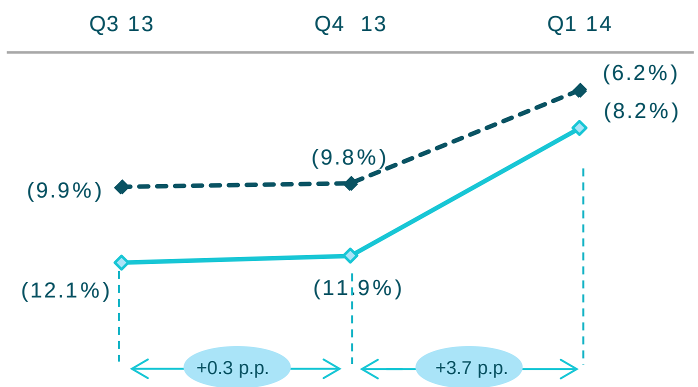
Enlarging network differentiation

- **FTTH roll out acceleration** (Mar-14: 4.1m HHPP; 6.1m premises)
  - Coverage at 24% of total homes in Spain (+4 p.p.vs Dec-13)
  - Uptake maintained at 17% despite accelerated deployment
- **LTE at ~44% of pop.** by Mar-14 (~60% Dec-14E)
  - 800 MHz will enable more efficient deployment

Spain: Revenue improvement trend accelerates

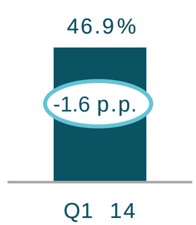
Revenue (y-o-y)

Revenue   Revenue ex-MTR



OIBDA margin

organic y-o-y



y-o-y

Handset upgrades	+12%
Handset sales	+40%
Fiber gross adds	+75%
TV gross adds	x3
Mobile contract gross adds	+9%

Top line improvement in a very competitive market

- **Commercial turnaround** delivering results
- Increasing customer **preference for premium quality**
- **Back book repricing largely digested**
- **Growth in handset sales** (+23.2% y-o-y in Q1), changing trend vs Q4 13 (-13.0% y-o-y)

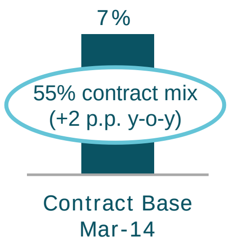
Very solid profitability; combining improved commercial activity with efficiency gains

- **Continued efficiency gains from transformation**
  - Personnel, simplification, insourcing
  - Distribution channel and call centers
- **Increased commercial effort**
  - Higher gross adds y-o-y (fiber, TV, mobile)
  - Higher handset upgrades

UK: Growing contract customer value

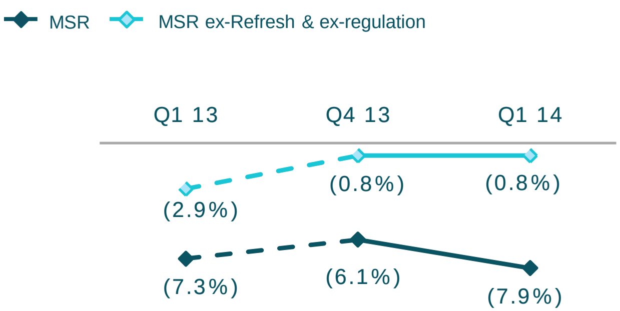
13% of Group revenue

Mobile performance (y-o-y)

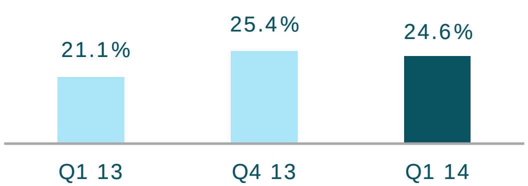


Sustained low contract churn:
5 consecutive quarters at 1.1%

Mobile Service Revenues (y-o-y)



OIBDA margin



Financial y-o-y change in local currency

Focus on LTE & Refresh

- **Upgrading customers to LTE**
  - 41% outdoor coverage; ongoing investment in LTE expansion through network sharing
  - ARPU uplift (high-single digit %): higher data consumption (2x vs 3G)
- **Strong adoption of "O2 Refresh"**
  - Strengthened loyalty
  - New tariffs from Feb. 28th: incorporating a wider range of handsets
- **135k contract net adds in Q1**

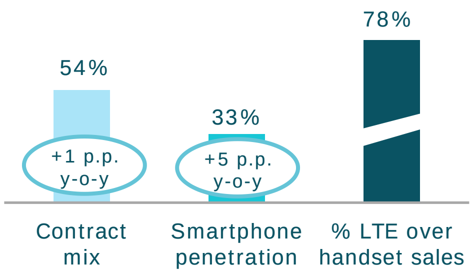
Sequential consolidation of trends in MSR y-o-y (ex-Refresh&egulation)

- **Revenue remained broadly stable** (-0.3% y-o-y in Q1)
  - "Refresh" added 6.0 p.p. and fixed assets disposal deducted 1.7 p.p.
  - Solid growth of non-SMS data revenue (+13.9% y-o-y)
- **Q1 OIBDA** up 16.3% y-o-y
  - Benefits of "O2 Refresh" proposition; Lower trading activity; True-up of past commissions (€24 m); Tight cost control (OpEx -5.1% y-o-y)
- "O2 Refresh" impact gradually normalising from April-14 (anniversary of launch)

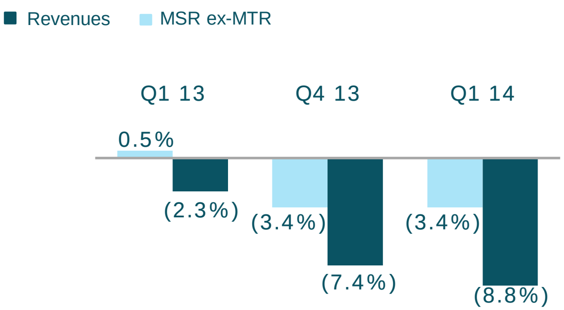
Germany: Investing in opportunities around LTE

9% of Group revenue

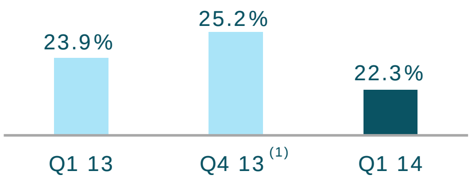
Increasing value of the base



Revenues (y-o-y)



OIBDA Margin



(1) Q4 13 excludes €76m of asset sales

Best positioned to benefit from data monetisation opportunities

- **O2 Blue All-in portfolio refreshed from April**
  - LTE is included in all tariffs plus attractive roaming packages
  - New Premium tariff & continued attractive bundle offers
- **New tariff "O2 Unite" announced for the business segment**
- **LTE outdoor coverage at 50%** at the end of April (~40% in Dec)

Stabilising MSR performance q-o-q

- **Revenue pressure on:**
  - Lower handset sales (-33.2% y-o-y): price & volume driven
  - MSR: accelerated decrease of SMS volumes, renewal of tariffs within the base and weakened prepaid dynamics
- **Sequential lower ARPU dilution**
- **Non-SMS/data revenues at 72%** in Q1 (+9 p.p. y-o-y)

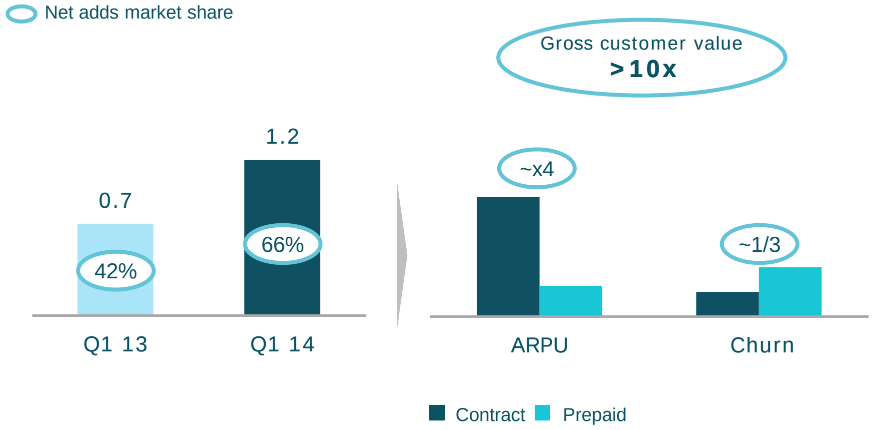
Margin erosion on increasing commercial spend

- **OIBDA performance** (-14.6% y-o-y) affected by:
  - Higher commercial expenses
  - Revenue flow-through

Brazil: Reinforcing leadership in high value customers

22% of Group revenue

Contract Mobile Net Adds (m)

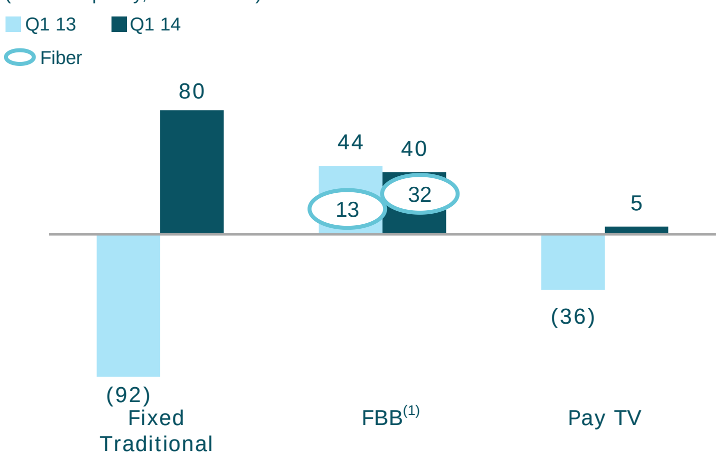


Outperforming in mobile market

- **Reinforcing market leadership in the contract segment** to 40.6% of market share (+3.5 p.p. y-o-y)
  - **Mobile contract penetration:** 32% (+6 p.p. y-o-y)
  - **Smartphone penetration:** doubling y-o-y to 28%
- New **"Vivo Tudo" prepaid** offer (bundling voice, data and SMS), boosting prepaid net adds (4m customers in 2 months)
- **Superior networks and lower complaints,** towards a more sustainable growth model

Fixed Services Net Adds ('000)

(Fixed telephony, TV and FBB)



Focus on fiber deployment and increased coverage of FW

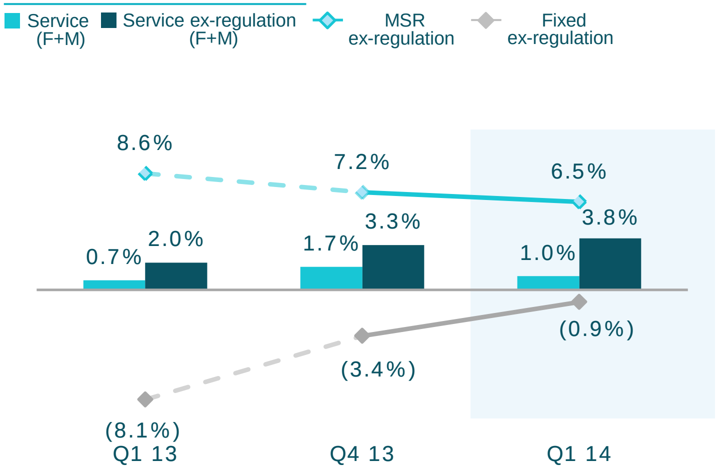
- **Fiber reached 1.5m households** (2.3m premises), with 236k already connected
- **Expansion of Fixed Wireless technology** (169k net adds in Q1 to 653k customers)

(1) Includes Fixed Wireless broadband

Brazil: Solid financial performance

22% of Group revenue

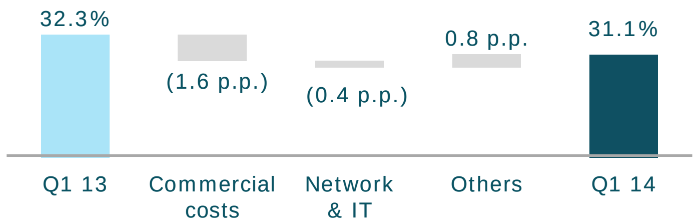
Revenue (organic y-o-y)



Consistent revenue growth

- **Total revenues up 0.2% organic y-o-y,** with negative impact of regulation and lower handset sales (-2.7 p.p. and -0.8 p.p., respectively)
- **Outgoing mobile revenue** +8.7% y-o-y organic on strong data growth (+20.7%) boosted by non-SMS revenues (+42.0%)
- **Best fixed revenues y-o-y performance in almost 3 years** thanks to commercial turnaround from H2 13

OIBDA Margin (y-o-y)



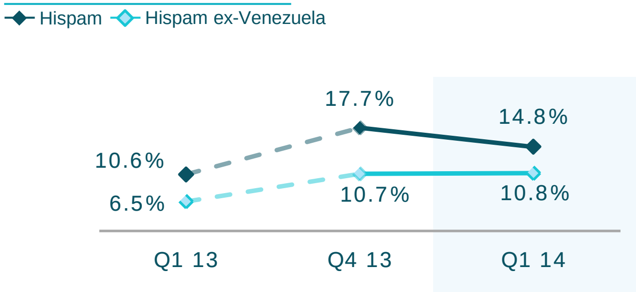
Limited OIBDA margin erosion y-o-y

- **Strong commercial activity and higher network expenses** dragging profitability
- **Strict cost discipline** delivering savings on personal expenses and other G&A costs

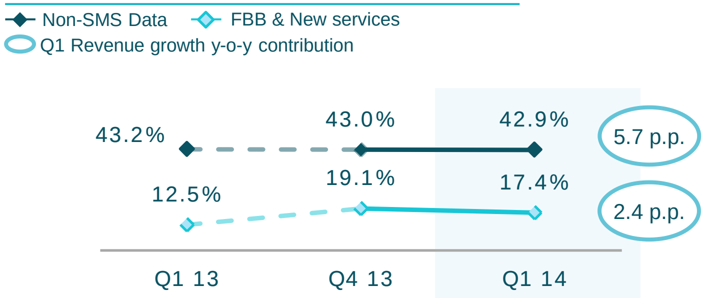
Hispam: Strong revenue & OIBDA growth

28% of Group revenue

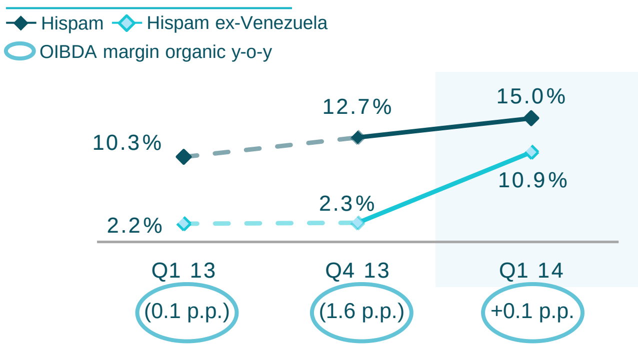
Revenue (organic y-o-y)



Revenue growth drivers (organic y-o-y)



OIBDA (organic y-o-y)



Balanced portfolio with all the countries contributing to growth

- **Increased contribution of Mexico, Chile and Colombia:**
  - **Mexico:** Revenue acceleration y-o-y driven by steady commercial activity improvement
  - **Colombia:** Revenue y-o-y growth improved by 12 p.p. in just 1 year
  - **Chile:** Best revenue growth ex-regulation in almost 4 years on better commercial activity

Healthy revenue expansion on new revenue sources

- **Strong increase across services in Q1** (MSR +17.5% y-o-y; Fixed +8.9% y-o-y)
- **Non-SMS data main growth driver** (9 p.p. out of MSR y-o-y growth)
- Recent launch of 4G services in Chile, Colombia and Peru
- **Record-high mobile voice traffic volumes** with y-o-y trend accelerating (+26% in Q1 vs. 15% in Q4 13)

OIBDA margin increasing y-o-y

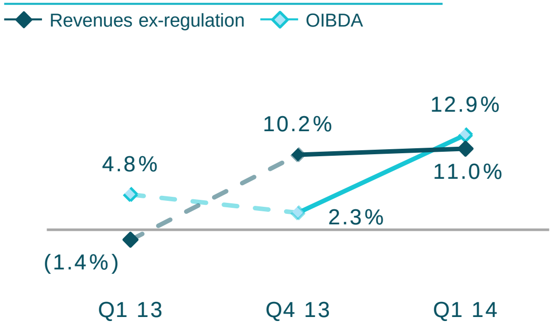
- **Solid double digit OIBDA y-o-y organic growth** on efficiency savings more than offsetting higher network & commercial expenses

Hispam: Consolidating growth across the board (I)

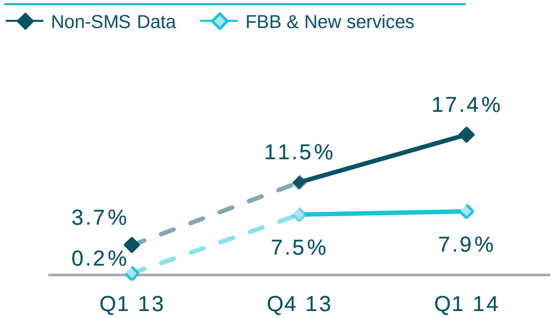
Colombia

3% of Group Revenue

Revenues & OIBDA (organic y-o-y)



Revenue breakdown (organic y-o-y)

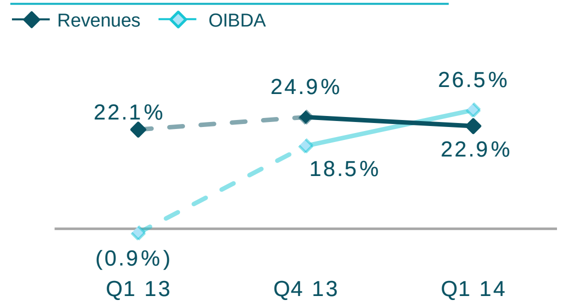


- **Strong acceleration of accesses** (+8% vs +5% in Dec-13)
- **OIBDA margin expansion** (+0.9 p.p. y-o-y)

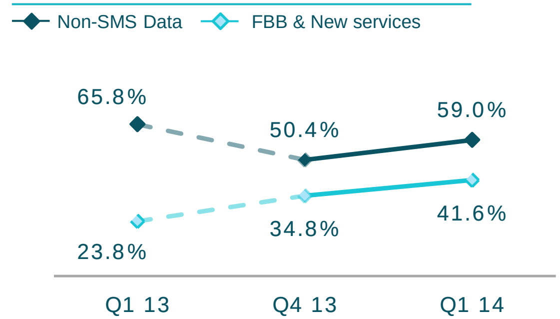
Argentina

6% of Group Revenue

Revenues & OIBDA (organic y-o-y)



Revenue breakdown (organic y-o-y)

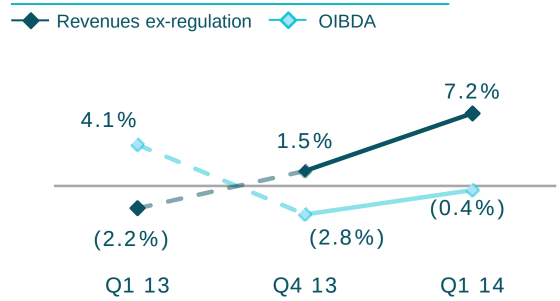


- **Higher OIBDA margin** (+1.5 p.p. y-o-y) on efficiency efforts and lower commercial activity

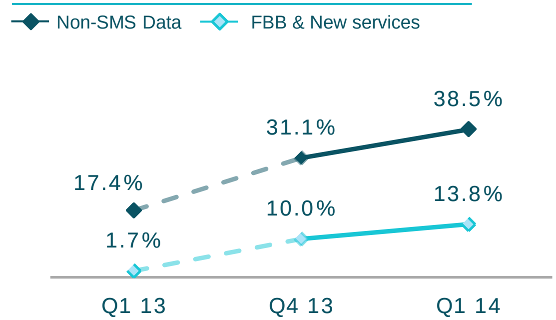
Chile

4% of Group Revenue

Revenues & OIBDA (organic y-o-y)



Revenue breakdown (organic y-o-y)

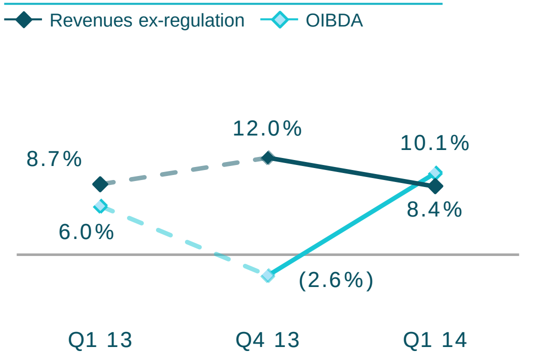


- **Robust revenue y-o-y acceleration** on steady fixed and contract mobile commercial momentum

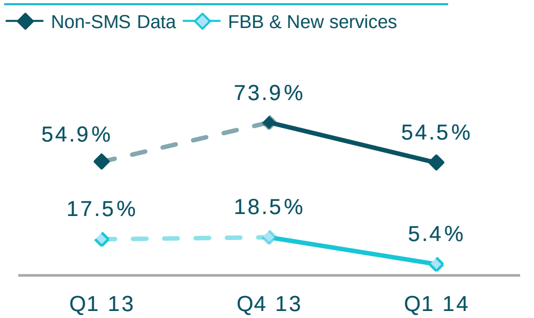
Hispam: Consolidating growth across the board (II)

Peru
5% of Group Revenue

Revenues & OIBDA (organic y-o-y)



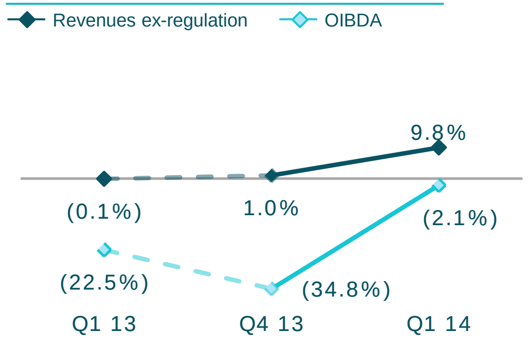
Revenue breakdown (organic y-o-y)



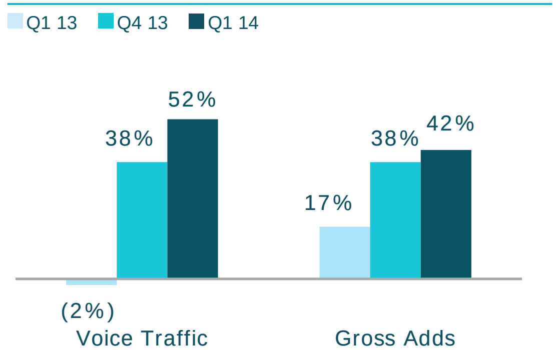
- **Solid revenue and OIBDA performance** with margin expanding by 1 p.p. y-o-y
- **Successful launch of "Planes Vuela";** unique provider of 4G services

Mexico
3% of Group Revenue

Revenues & OIBDA (organic y-o-y)



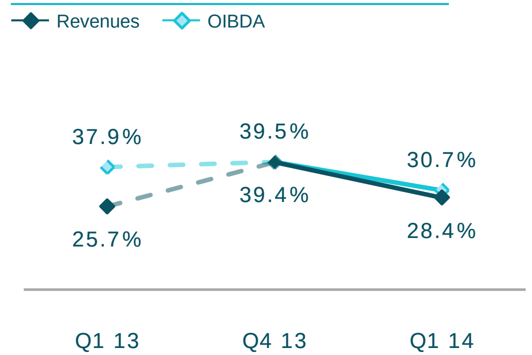
Voice Traffic & Mobile Gross Adds (y-o-y)



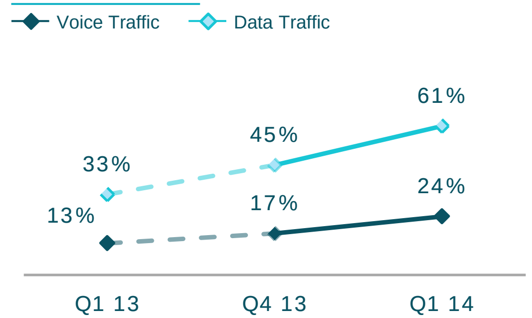
- **Outstanding improvement on commercial metrics** flowing into **revenues**
- **New regulatory framework** to positively impact business performance from Q2 14

Venezuela & Central America
5% of Group Revenue

Revenues & OIBDA (organic y-o-y)



Traffic (y-o-y)

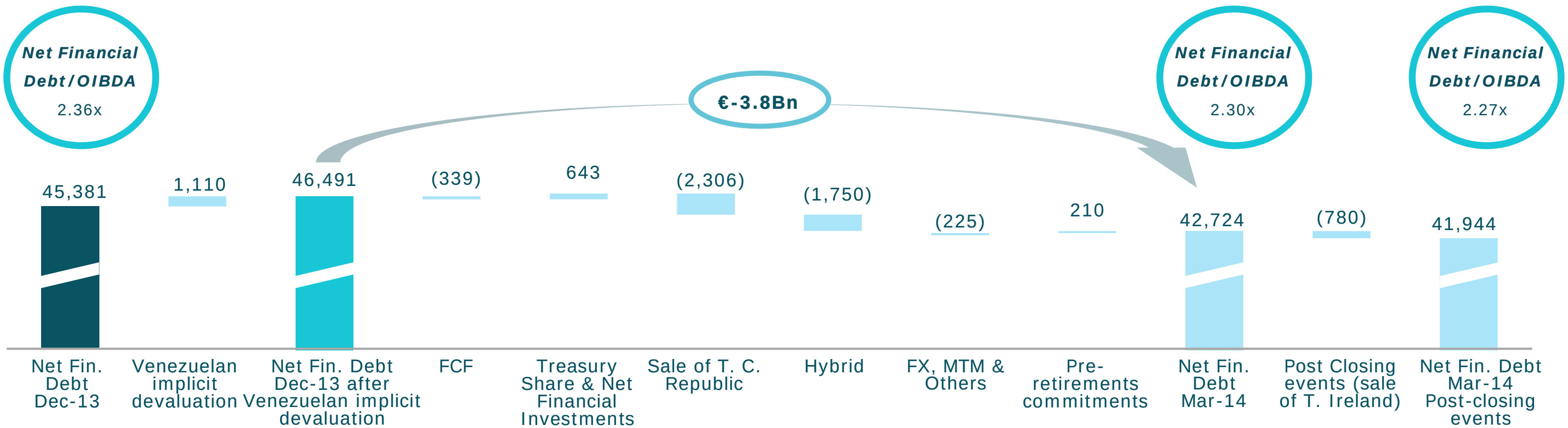


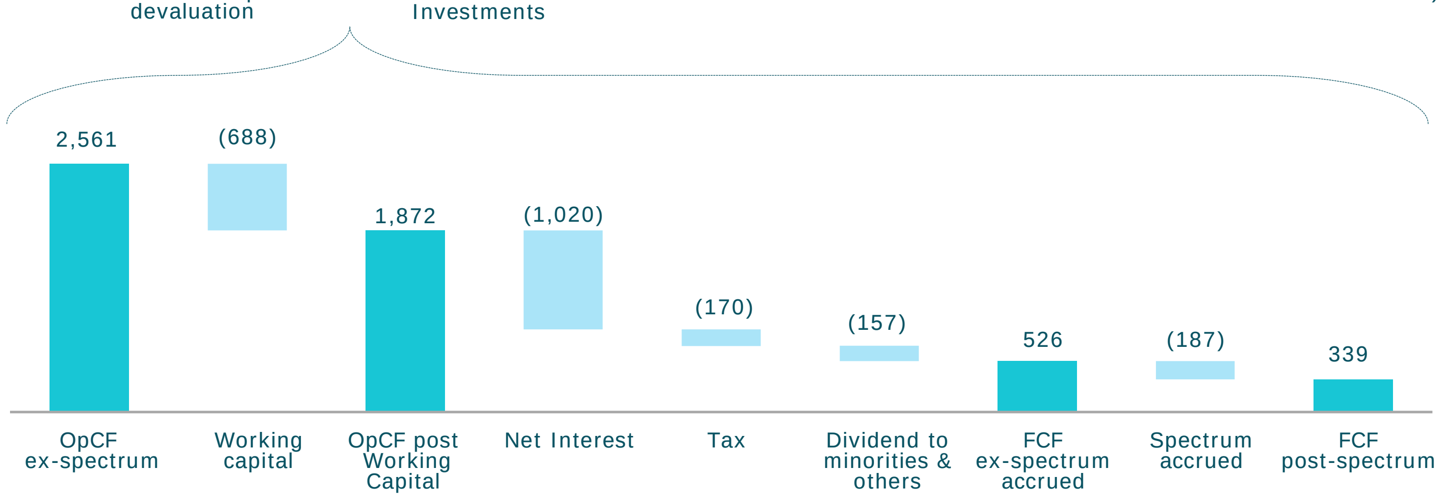
- **Volume driven growth;** voice & data traffic steadily accelerating
- **Q1 revenue growth decelerates on lower handset sales** (-28.9% organic y-o-y)

Ongoing net debt reduction & leverage improvement

Net Financial Debt

€ in millions



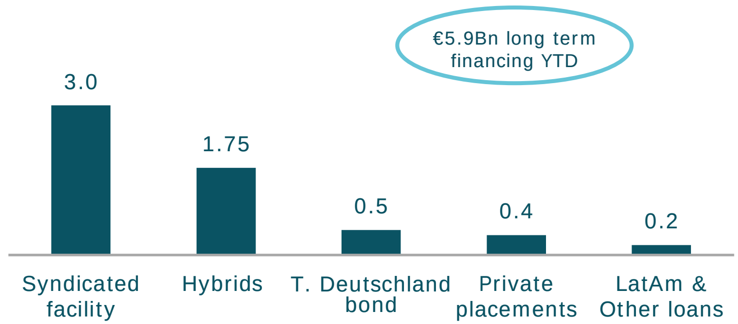


Telefonica

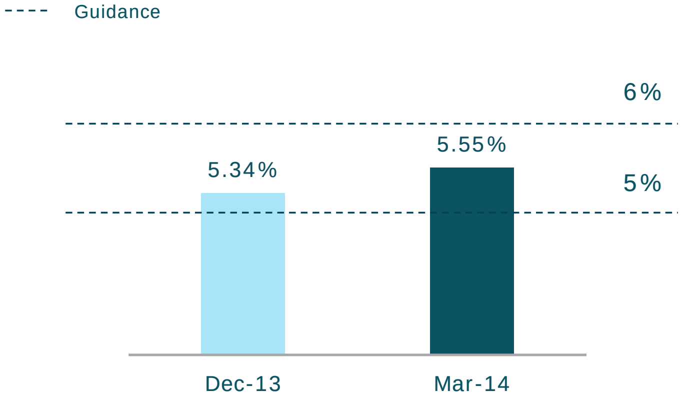
Broad financing while maintaining ample liquidity

Long term financing: well diversified

€ in billions



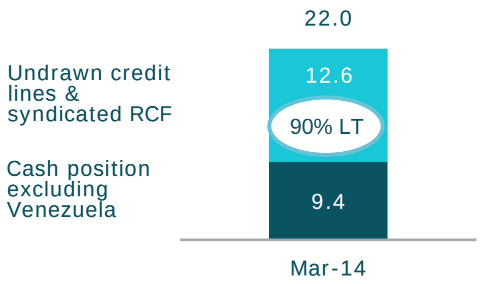
Effective interest cost (12 month rolling)



Increasing average cost of debt driven by reduction of debt mainly in € and CZK (lower cost than average) and the cost of keeping hedging strategy

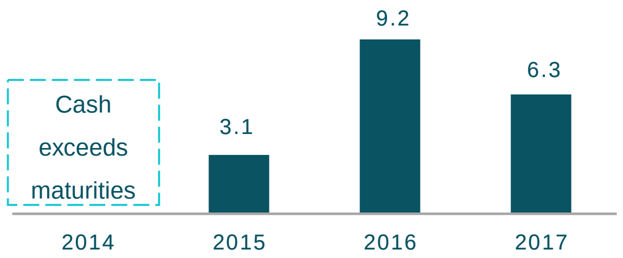
Liquidity cushion

€ in billions



Net debt maturities (Mar-14)

(€ in billions)



Conclusion

- **Solid earnings momentum**
- **Increasing value of our customer base**
- **Improving revenue growth trends**
  - Consolidated revenues up 1.5% y-o-y organic (+3.4% ex-regulation)
  - Continued strength of mobile data revenues and Hispam, while Spain accelerates recovery
- **High profitability at 32.1%, nearly flat vs. Jan-Mar 13**
  - Revenue flow and lower cost structure lead to a +0.5% y-o-y organic OIBDA growth
  - Maximising value from scale and efficiency measures transformation
- **Continue to invest in high speed networks (FTTH & LTE)**
- **Best Q1 FCF in the last three years**
- **Strong debt reduction to €42.7Bn**

Guidance criteria 2014: 2014 guidance in organic terms assumes constant exchange rates as of 2013 (average FX in 2013), excludes Venezuela in both years and considers constant perimeter of consolidation. OIBDA level guidance for 2014 excludes write-offs, capital gains/losses from companies' disposals, towers sales and other significant exceptionals such as restructuring costs, etc. CapEx excludes spectrum acquisition.

Organic growth: Assumes constant exchange rates as of 2013 (average FX in 2013), excludes hyperinflationary accounting in Venezuela in both years and considers constant perimeter of consolidation. In OIBDA and OI terms, excludes write-downs, capital gains/losses from the sale of companies, tower sales and material non-recurring impacts. CapEx also excludes spectrum acquisition.