

*Telefonica*

Results 2014 & Outlook 2015-2016

# Back to profitable growth



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# Our journey

**2012-14**

**TRANSFORMING THE BUSINESS IN ORDER TO...**

- Investing to set the foundation for growth
- Monetising data opportunity
- Growing digital revenues
- Simplifying the business
- Extracting value from scale
- Proactively managing regulation
- Focusing portfolio
- Recovering financial flexibility
- De-risking the balance sheet
- Displaying clear proof points

**FY 14 GUIDANCE ACHIEVED**



**2015-16E**

**...RETURN TO SUSTAINABLE PROFITABLE GROWTH**

- Accelerate growth
- Monetise booming data reality
- Invest further to grow (2017 to revert)
- Continue to simplify & transform
- Deliver synergies from consolidation (Germany, Brazil)
- Maintain leading profitability
- Continue to strengthen portfolio
- Maintain financial flexibility to support sustainable growth
- Grow cash dividend (Post proposed O2 UK sale closing)

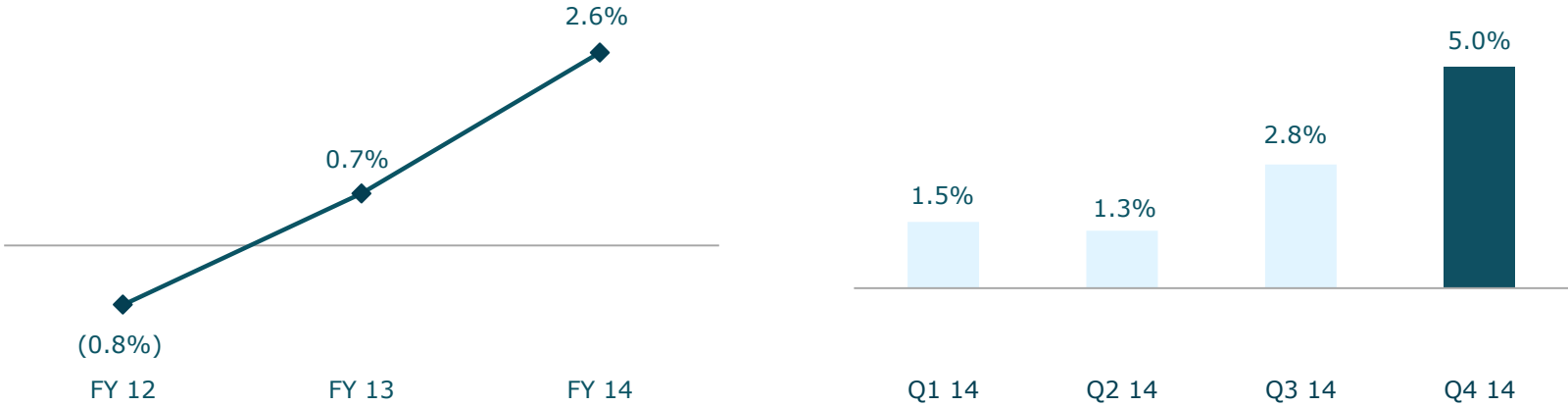
**UPGRADING AMBITION FOR 2015-16E**

# Clear proof points already evident in 2014

		FY 13	FY 14		
1	<b>Laying the foundations to monetise data &amp; digital services</b>	<ul style="list-style-type: none"> <li>Avg. Revenue / Access (y-o-y organic)</li> <li>Digital services revenues (y-o-y organic)</li> </ul>	(1.5%)	<b>+0.3%</b>	
			+16.2%	<b>+28.9%</b>	
2	<b>Technological transformation</b>	<ul style="list-style-type: none"> <li>FTTH (Premises passed)</li> <li>LTE (sites)</li> </ul>	7.6m	<b>14.7m</b>	
			10.5k	<b>&gt;20k</b>	
3	<b>Lean operating model</b>	<ul style="list-style-type: none"> <li>OpEx + CapEx savings from new operating model</li> </ul>		<b>€300m</b>	
4	<b>Stabilising Spain</b>	<ul style="list-style-type: none"> <li>Revenue (y-o-y)</li> </ul>	Q4 13	Q4 14	<b>Growth 2015E y-o-y</b>
			(11.9%)	<b>(4.9%)</b>	
5	<b>Strengthening Balance Sheet</b>	<ul style="list-style-type: none"> <li>Net financial debt (€bn)</li> </ul>	Dec-13	Dec-14	<b>€31.7bn</b> post VZ adjustment and proposed O2 UK sale
			45.4	<b>45.1</b>	

# Consistent improvement in our fundamentals: top line acceleration, with a strong performance in Q4 14...

## Revenue (y-o-y organic)



**Access Growth**  
(y-o-y organic)

+3.0%

+2.5%

+2.0%

**Avg. revenue/access**  
(y-o-y organic)

(6.4%)

(1.5%)

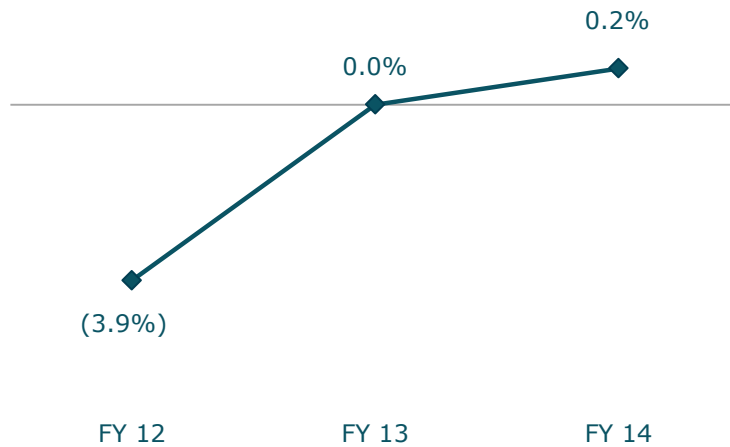
+0.3%



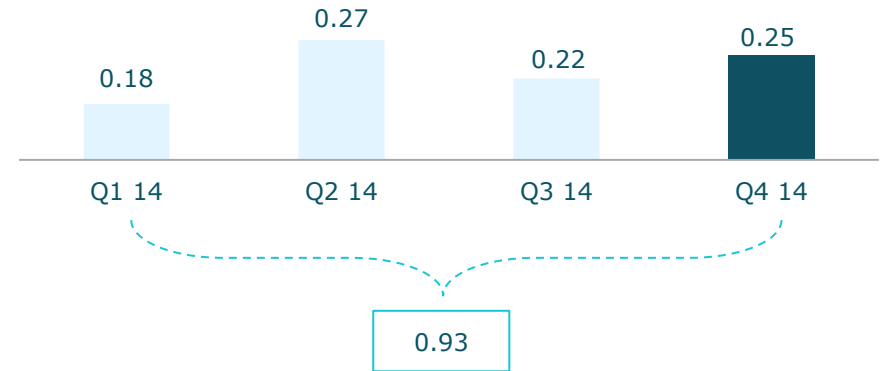
Back to growth

# ...while improving OIBDA & EPS trends

OIBDA (y-o-y organic)

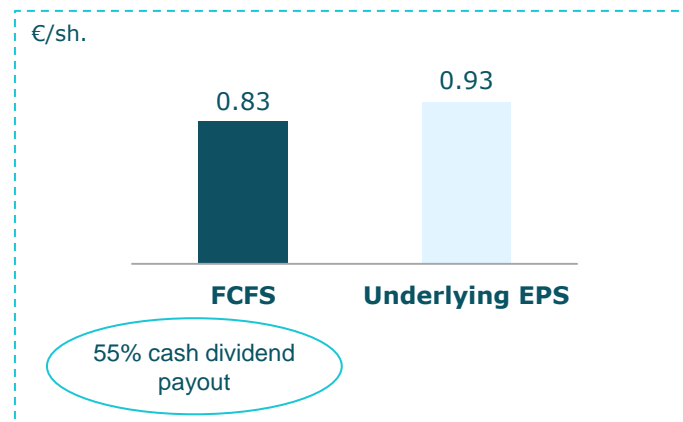
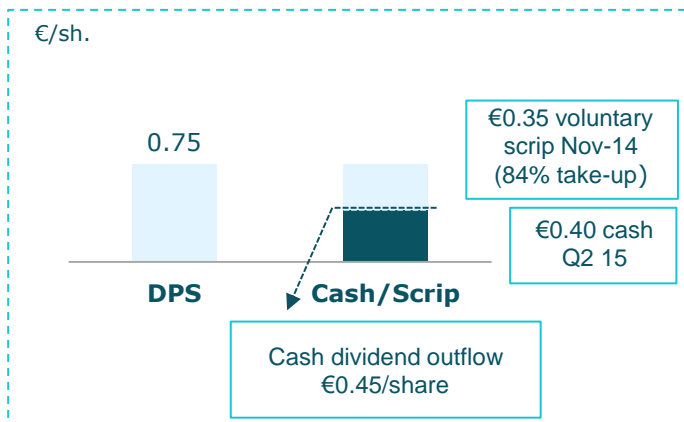


Underlying EPS (€/share)



# 2014 guidance met on strong execution

Guidance 2014 (organic and excluding Venezuela)	FY 14
<b>Positive revenue growth</b>	+0.7% ✓
<b>OIBDA margin towards stabilisation</b> (erosion around 1 p.p. y-o-y)	-0.8 p.p. ✓
<b>CapEx/Sales: 15.5%-16%</b>	15.9% ✓
<b>Reported Net Financial Debt &lt; €43bn</b>	€43.9bn pre-VZ adjustment €45.1bn post-VZ adjustment → <b>€31.7bn post-VZ adjustment &amp; proposed O2 UK sale</b> ✓
<b>Mid-term commitment Net Debt/OIBDA 2.35x</b>	2.15x post-VZ adjustment & proposed O2 UK sale ✓



# 2015 and beyond: positioned for growth acceleration

1

## Returning to growth in Spain

- Strong macroeconomic outlook
- Positive market trends: appetite for higher value services and market rationalisation
- Key differentiation assets /infrastructure (fiber, Pay TV, LTE)

2

## Fuelling data monetisation

- Higher data adoption (LTE across markets; prepaid smartphone penetration in BZ & Hispam)
- Monetising beyond the allowances and connecting everything
- Capturing digital opportunities: video, cloud, M2M & security

3

## Continued network & IT transformation

- Steady roll-out of a differential future-proof network
- Accelerating the transformation of the business leveraging Full Stacks
- Continue to optimise legacy

4

## Delivering synergies from acquisitions

- Germany: >€5bn NPV
- Brazil: >€4.7bn NPV
- Additional revenue streams from upselling / cross-selling

5

## Sustainable efficiency gains

- Delivering >€1.8bn savings in 2017E from simplification across markets and synergies from acquisitions



# External factors: from headwinds to tailwinds

## Improved Regulatory Environment

Europe	Consolidation	<ul style="list-style-type: none"> <li>Precedent-setting in-market mobile consolidations: Germany, Ireland, Austria and Nordics</li> </ul>	✓
	UBB networks	<ul style="list-style-type: none"> <li>Current fixed regulation provides certainty until 2020. Non-discrimination and cost methodology recommendation</li> </ul>	✓
	Investments	<ul style="list-style-type: none"> <li>Digital agenda requires a different approach to promote investments</li> </ul>	✓
LatAm	Mexico	<ul style="list-style-type: none"> <li>Telecoms reforms in progress; new regulatory framework in place (Aug-14)</li> <li>Asymmetry of MTRs already effective</li> <li>Consolidation into 3 mobile players</li> </ul>	✓
	Colombia	<ul style="list-style-type: none"> <li>Glide path of asymmetric MTRs reduction and on-net / off-net tariffs limits on dominant operator</li> <li>Consolidation into 3 integrated players</li> </ul>	✓

## Improved Macro Environment

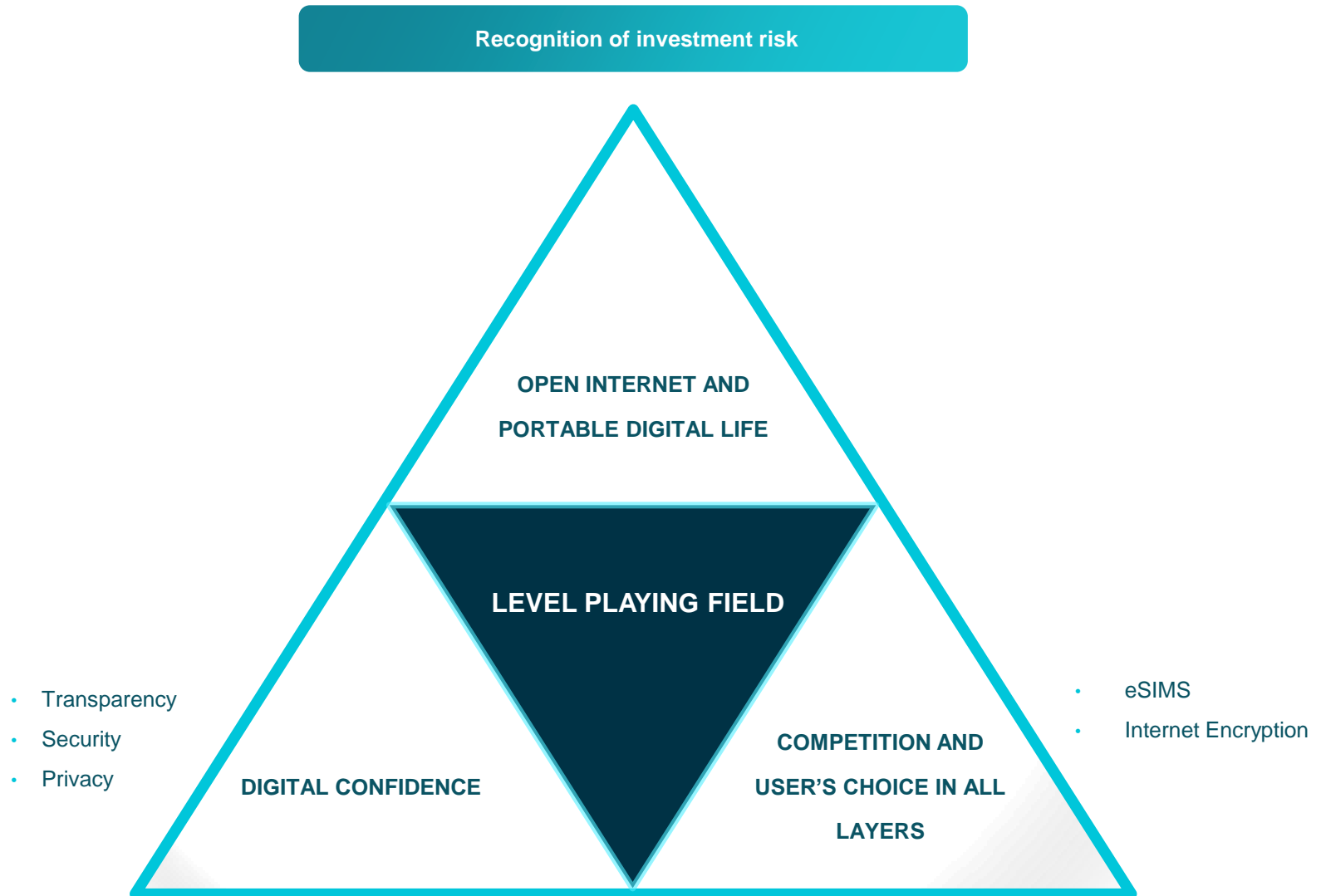
<p><b>Real GDP<sup>(1)</sup> growth in 2015-16E improving:</b></p> <ul style="list-style-type: none"> <li>At least 4.5 p.p. in Spain vs. 2012-13</li> <li>Around 2 p.p. in Germany vs. 2012-14</li> </ul> <p>Based in both cases in stronger consumption fundamentals</p> <p><b>Risk perception &amp; financial markets:</b></p> <ul style="list-style-type: none"> <li>From strong risk aversion &amp; expensive / illiquid markets</li> <li>To normalised risk levels &amp; low rates</li> </ul> <p><b>FX support:</b></p> <ul style="list-style-type: none"> <li>Competitive \$/€</li> <li>Sustainable BRL/€</li> <li>Venezuela adjusted to de-risk Balance Sheet</li> </ul>
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## Improved Market structure

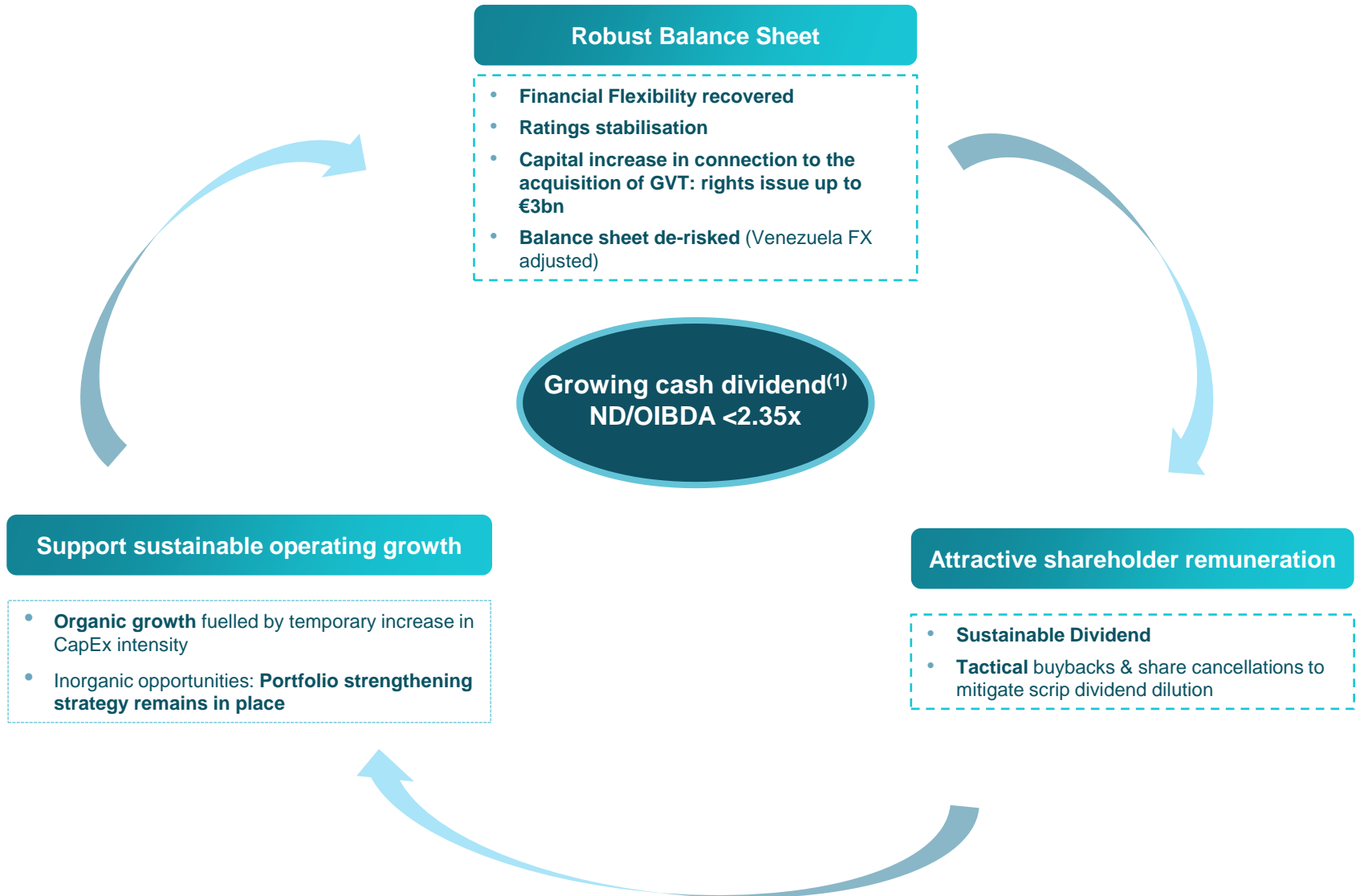
<p><b>Consolidation in Spain, Germany, Brazil, Mexico &amp; Colombia:</b></p> <ul style="list-style-type: none"> <li>From a price deflationary competitive model (no differentiation)</li> <li>To a quality of service model based on infrastructure</li> </ul>
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(1) Internal calculations & Consensus Forecast

# Driving a fair policy framework in the digital ecosystem



# Capital discipline: financial priorities 2015-16E



(1) Post proposed O2 UK divestment execution

# 2015 guidance & 2016 ambition

<b>Base 2014</b> (Ex-UK; Ex-VZ; incl. 3M E-Plus and 6M Ireland)	<b>2015 Guidance &amp; 2016 Ambition</b> (Constant FX 2014; ex-UK; ex-VZ; incl. 12M E-Plus and 6M GVT in 2015 and 12M in 2016)	<b>Guidance 2015E</b>	<b>Ambition 2016E</b>
42,853	<b>Revenues</b>	>7%	>5% CAGR 2014-16E
32.6%	<b>OIBDA margin</b>	Limited margin erosion around 1 p.p. (to allow for commercial flexibility if needed)	Stabilising in 2016
16.7%	<b>CapEx/Sales</b>	Around 17%	Around 17%

Revert in  
2017E:  
-2 p.p.  
vs 2016E

	<b>Net Debt/OIBDA</b> (adjusted for proposed O2 UK sale)	<2.35x	<2.35x
<b>€0.75/sh.</b> <ul style="list-style-type: none"> <li>• €0.35/sh. volunt. scrip</li> <li>• €0.40/sh. Cash</li> </ul>	<b>Dividend</b>	<b>€0.75/sh.</b> <ul style="list-style-type: none"> <li>• €0.35/sh. voluntary scrip Q4 15</li> <li>• €0.40/sh. Cash Q2 16</li> </ul>	Post proposed O2 UK sale Closing:
			€0.75/sh. cash
	<b>Share buyback: % share capital cancelled</b> (treasury)	1.5%	1.5%
	<b>Rights issue in connection to the acquisition of GVT</b>	Up to €3bn	

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# 1. 2014 Results

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# 2014: Highlights

## 1 Built a solid platform; already clear proof points

- **Inflection point to organic growth**
  - ▶ Recovered robust Revenue growth (+2.6% y-o-y in FY); further improving trends in Q4 to +5.0% (+1.7% ex-VZ; but +8.0% ex-Spain which is turning to positive)
  - ▶ Picked-up commercial momentum on high-quality services
  - ▶ Increasing customer value (Avg. Revenue/Access +2.6% vs Q4 13)
- **Monetising booming mobile data**
  - ▶ Integrated tariff bundles; tiered pricing
- **Simplify the operations through a new operating model & synergies**
  - ▶ Robust profitability; Return to FY organic OIBDA growth y-o-y and margin decline contained at 0.8 p.p.
  - ▶ Run-rate synergies from simplification: €0.3Bn in FY 14
- **CapEx intensity; speed-up network modernisation & differentiation**
  - ▶ Consistent investments in growth & transformation activities (15m FTTH premises passed; >20k LTE sites; TV accesses x1.5)

## 2 Enhanced Balance sheet strength

- **Solid FCF generation** (FY 14: €3.8bn)
- **Net Debt /OIBDA 2.15x** incl. proposed O2 UK sale; financial flexibility recovered

## 3 Superior asset portfolio with a focused footprint

- **Active in-market consolidation with value enhancing deals**
  - ▶ Inorganic movements to strengthen position in key markets (Brazil, Germany, Spain)

## 4 Delivered 2014 operating guidance; confirmed 2014 DPS

# Financial summary

€ in millions	2014			Q4 14		
	Reported	Reported y-o-y	Organic y-o-y	Reported	Reported y-o-y	Organic y-o-y
<b>Revenue</b>	50,377	(11.7%)	2.6%	12,399	(14.1%)	5.0%
<b>OIBDA</b>	15,515	(18.7%)	0.2%	3,190	(35.9%)	0.0%
<b>OIBDA Margin</b>	30.8%	(2.6 p.p.)	(0.8 p.p.)	25.7%	(8.7 p.p.)	(1.6 p.p.)
<b>OpCF (ex-spectrum)</b>	7,361	(32.5%)	(12.7%)	582	(68.2%)	(3.9%)
<b>Net Income</b>	3,001	(34.7%)	---	152	(89.5%)	---
<b>EPS</b>	0.61	(38.1%)	---	0.02	(93.1%)	---
<b>Underlying EPS</b>	0.93	(21.2%)	---	0.25	(32.0%)	---
<b>FCF</b>	3,817	(29.2%)	---	978	(50.9%)	---
<b>Net financial debt</b>	45,087	(0.6%)	---	45,087	(0.6%)	---

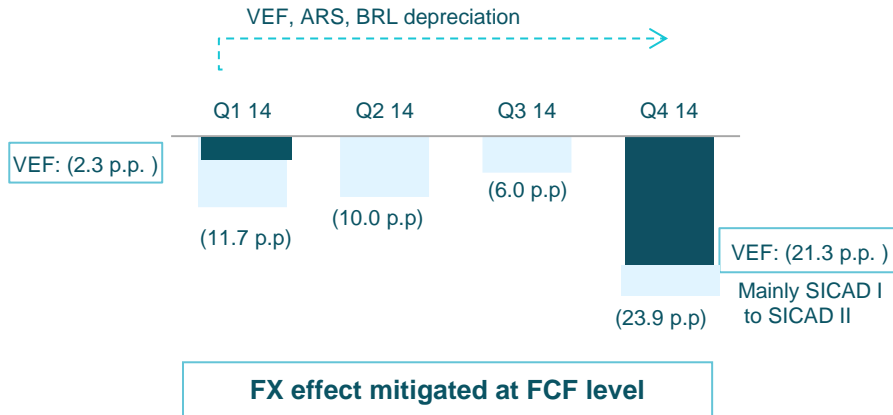
## Q4 results strongly impacted by non-recurrent/non-cash effects

- **Adjustment in Venezuela from SICAD I 12 VZ/\$ to SICAD II 50VZ/\$** (-€915m in OIBDA; -€399m in net income)
  - ▶ Venezuela contribution reduced to 1% of revenues & €390m net cash position. Minimising the impact of any further potential adjustment
  - ▶ Venezuela adjusted from 6.3VZ/\$ to 50VZ/\$ in 2014
- **Restructuring costs to further enhance efficiency** (-€644m in OIBDA; -€405m in net income)
- **Telco value adjustment** (-€257m in net income)
- **Asset sales** (+€179m in OIBDA)

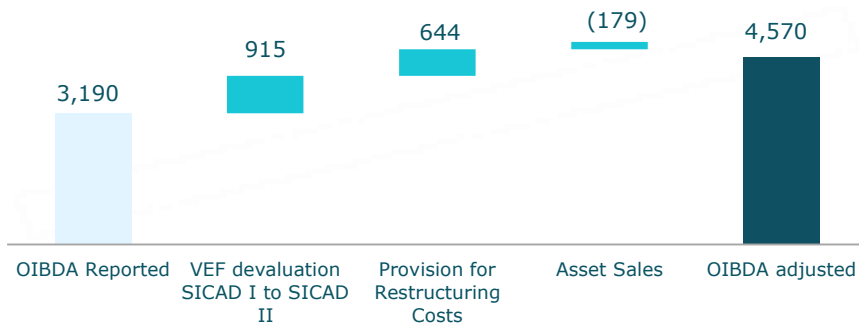
# Q4 results impacted by non-recurrent, non-cash effects

## FX movements: VZ adjustment in Q4 14

### Forex impact OIBDA (y-o-y)

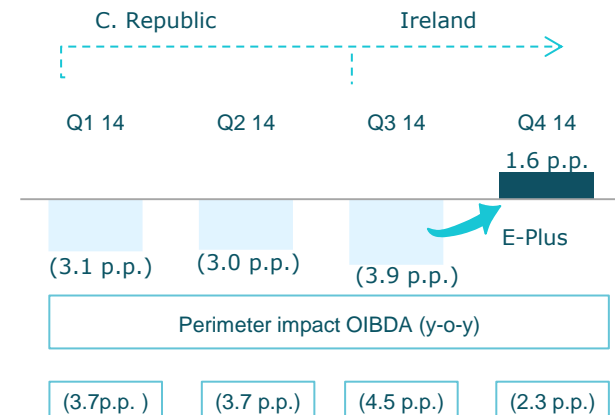


## Q4 non-recurrent impacts in OIBDA (€1.4bn)

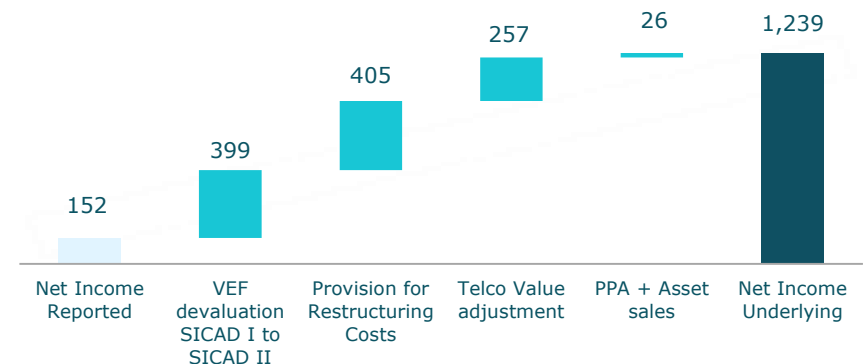


## Perimeter: E-Plus in Q4 14

### Perimeter impact revenue (y-o-y)



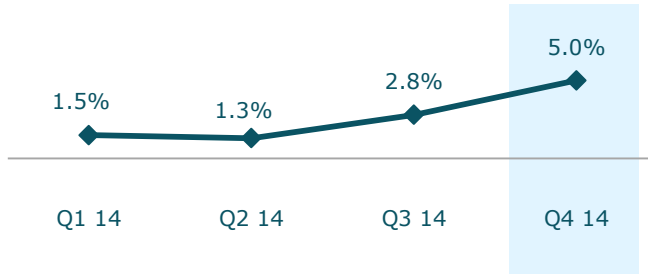
## Q4 non-recurrent impacts in Net Income (€1.1Bn)



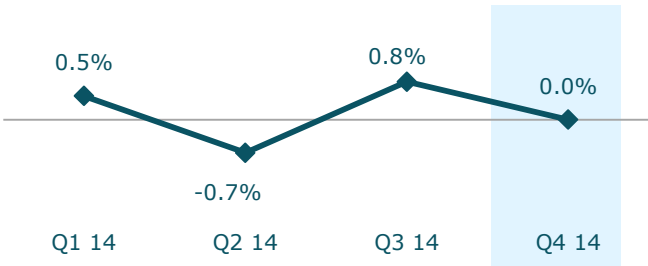


# Consistent improvement in growth profile

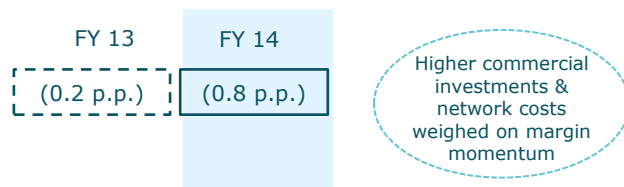
## Revenues (organic y-o-y)



## OIBDA (organic y-o-y)



## Organic OIBDA margin (y-o-y)



## Strong top line acceleration in Q4 (+220 bps vs Q3 y-o-y)

- **Focused commercial activity on value**
  - ▶ Mobile Contract customers (+11% y-o-y); Smartphones +39%
  - ▶ Fiber connected customers 2.1x y-o-y; record net adds in Q4 14
  - ▶ Pay TV customers surpass the 5m mark (x1.5 y-o-y organic)
  - ▶ FY Churn stable y-o-y
- **High-class diversification; better revenue mix**
  - ▶ Robust mobile data in Q4 (+10.6% y-o-y)
  - ▶ Progressive improvement of T. España in Q4 (+1.7 p.p. q-o-q); +7p.p. in last 4 quarters
  - ▶ T. Hispam key driver of growth

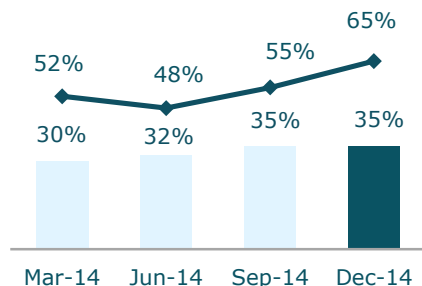
## Towards sustainable OIBDA growth

- **Positive OIBDA growth in FY**
  - ▶ Revenue flow, efficiency gains and organisational simplification leading to a contained margin erosion
- **FY OpEx up 3.8% y-o-y**
  - ▶ Gaining differentiation on higher content and commercial costs (+5.5% y-o-y): Foster competitiveness (i.e. Brazil), regain leadership (i.e. Spain)
  - ▶ Network and IT costs (+9.3% y-o-y): More data Co + data traffic expansion

# Strong and clear progress on mobile data

## Smartphone penetration

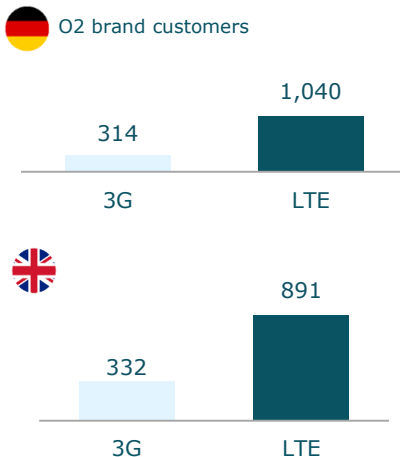
◆ Mobile Data traffic (y-o-y quarterly)



**LTE traffic**  
x15 y-o-y in Q4  
(10% of mobile data traffic)

## Avg. smartphone usage

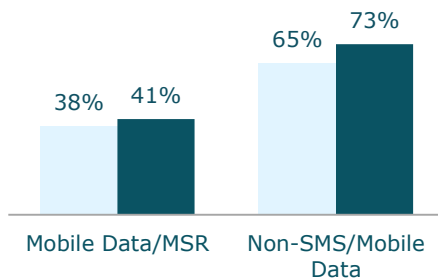
Q4 14 (Mbytes /month)



**Non-SMS Revenue**  
+23.9% y-o-y organic  
FY 14

## Mobile data revenue

■ FY 13 ■ FY 14



## Booming data traffic

- **The sweet spot: increased penetration + increased usage**
  - ▶ Traffic growth accelerating in all regions
  - ▶ Huge opportunities in Hispam: 18% prepaid smartphone penetration in Dec-14
- **LTE as the main trigger to foster growth**
  - ▶ 13m LTE customers<sup>(1)</sup> in Dec-14; 5% penetration
- **Strong Q4 y-o-y growth in average smartphone consumption (Mbytes/month)**
  - ▶ Spain: +43%; Germany: +48%; UK: +79%; Brazil: +21%; Hispam: +44%

## Monetising the opportunity

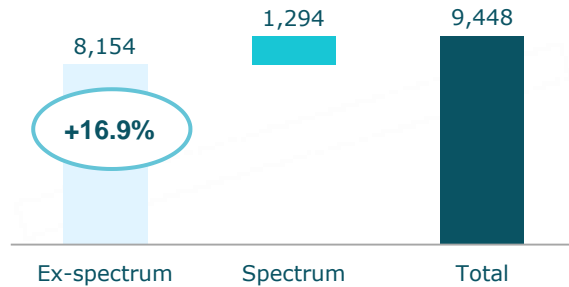
- **Breaking the decoupling between traffic and revenues**
- **Monetising beyond the allowance:**
  - ▶ “Bundle breakage” in ~1/3 of customers, using more data than they initially subscribed to in their data plan
  - ▶ >1/3 of them enjoying best experience by subscribing to additional “data snacks”
- **Plenty room to upsell**
  - ▶ ~1/3 of customers >1Gb plans

(1) LTE devices with data plan attached, except Brazil (devices)

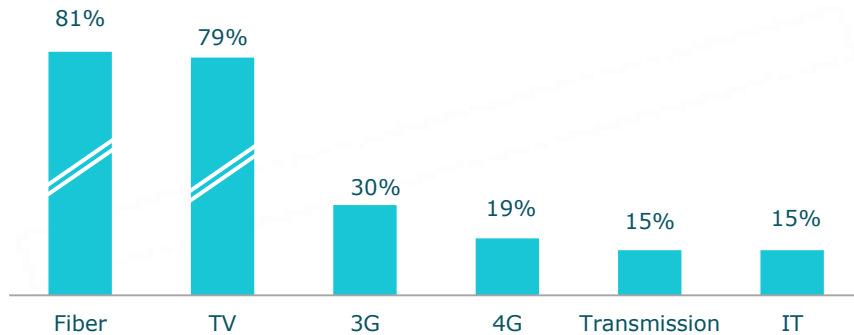
# Capital intensity to structurally change the Company

## CapEx ex-spectrum 2014 (€ in millions)

○ Organic growth y-o-y



## CapEx 2014 (organic y-o-y)



**75% of 2014 CapEx ex-spectrum to Growth & Transformation: +6 p.p. y-o-y organic**

### Increased investments to grow

- Technological transformation and modernization
- Stimulate revenue opportunity & differentiation
- Addressing data traffic boom
- Built differential spectrum (Brazil, Hispam)

### Deep network transformation; Increasing differentiation

- Developing high-speed networks (LTE & FTTH)
- Better quality and customer experience
- Global platforms accelerating time to market

### Benefits on investments from efficiencies

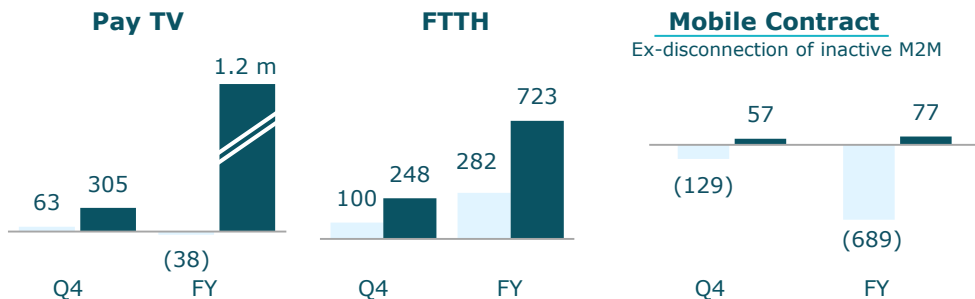
- Lower maintenance CapEx vs. 2013
- Savings & operational efficiency coming from simplification, homogenisation and standatisation

# Spain: Rebuilt a superior franchise

24% of Group revenue

## Net adds ('000)

2013 2014

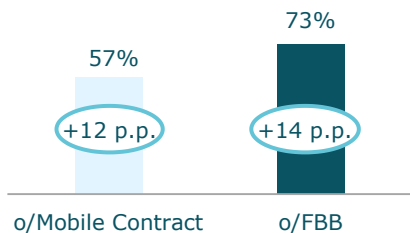


## Gaining scale in high value; base growing

- **Becoming market leader in Pay TV**
  - ▶ 1.9m customers (x3 y-o-y); 36% E market share
- **FTTH base: 1.3 m (>x2 y-o-y); 22% of FBB base**
  - ▶ 1m Fiber 100 Mb (10€ premium; churn 0.5x lower vs. DSL)
- **Mobile contract growth (+0.5% y-o-y)**, first time since 2011
  - ▶ Portability loss significantly improved (-30% y-o-y in FY)
- **Churn declining across services**

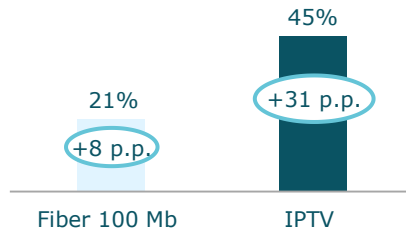
## "Fusión" penetration (%)

Consumer segment  
Dec-14 y-o-y



## High value in "Fusión"

Penetration of services in "Fusión"  
Dec-14 y-o-y

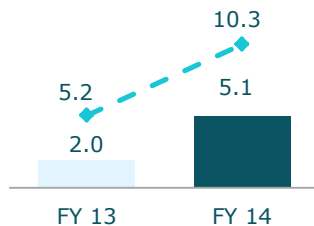


## Enhanced convergent offer fostering loyalty and upselling

- **Differential assets: Competitive TV and Fiber**
  - ▶ Improved content, MBB data volumes, VAS
- **3.7m "Fusión" customers (+27% y-o-y); 1.4m mobile add-ons**
- **Highly satisfied customers:** Q4 "Fusión" churn 1.1%
  - ▶ Longer lifetime vs. stand-alone: 2.2x FBB & 2.5x mobile contract
- **Q4 "Fusión" ARPU virtually stable q-o-q at 69.3 euros**
  - ▶ Seasonal extra consumption out of bundle in Q3 (summer)

## FTTH New premises passed (m)

Total Premises Passed



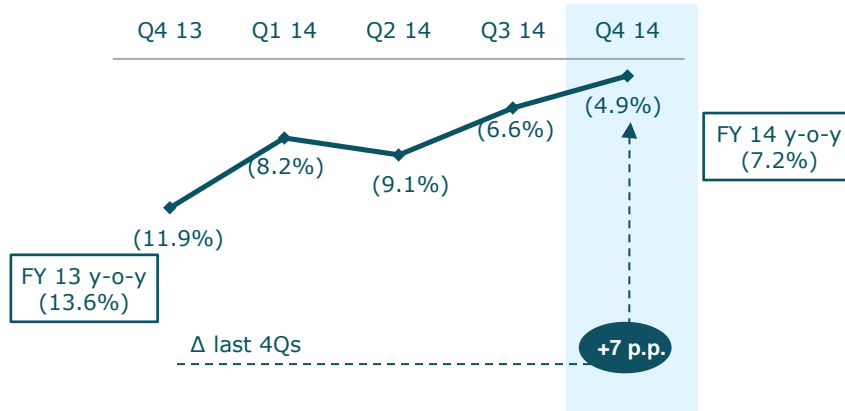
## Leading network coverage

- **FTTH 2014 target met;** ~10m premises passed
- **LTE coverage:** 58% pop. in Dec-14
  - ▶ 800 MHz availability in Q2 15
  - ▶ 1.8m LTE customers, driving usage and ARPU up

# Spain: Improved revenue trend on solid fundamentals

24% of Group revenue

## Revenue y-o-y (%)



## Positioned for the upcoming revenue growth

- **Consistent revenue improvement along the year**
  - ▶ Revenue y-o-y drop halved in 2014
  - ▶ Quarterly revenue stabilised: ~€3bn in the last 4Qs
- **Structural changes supporting performance**
  - ▶ Commercial turnaround on restored competitiveness
  - ▶ Backbook reducing impact (high convergent base)
  - ▶ Price deflation stabilised / consolidation to drive more sustainable dynamics
  - ▶ Higher demand for quality (macro recovery)

## OIBDA Margin (%)

○ y-o-y organic

Q4 13	Q1 14	Q2 14	Q3 14	Q4 14	FY 13	FY 14
50.2%	46.9%	44.7%	46.0%	51.0%	48.9%	47.2%
Ex-tower sales				Ex-tower sales	Ex-tower sales	Ex-tower sales
48.0%				46.5%	48.4%	45.6%
				(1.4 p.p.)		(2.8 p.p.)

## Top line improvement flowing to OIBDA

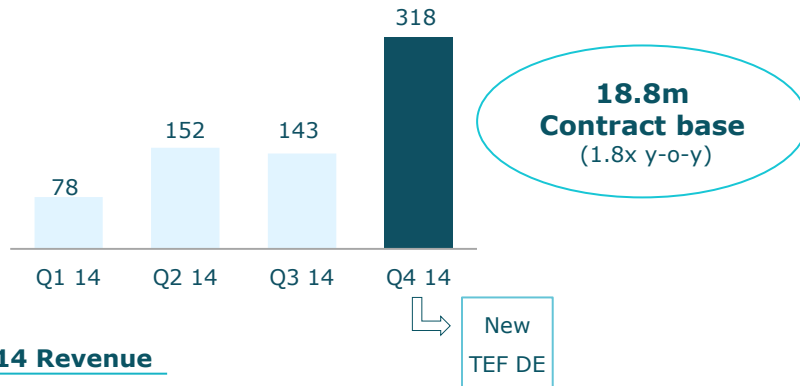
- **Cost control** (OpEx -1.1% y-o-y in FY; -0.1% in Q4)
  - ▶ Efficiencies offsetting higher commercial costs
  - ▶ Content and handsets costs up
  - ▶ Insourcing, retail stores optimisation
- **Q4 OIBDA improvement q-o-q** (-7.8% y-o-y organic)
  - ▶ Q4 14: tower sales (€136m); real state sale (€41m)
  - ▶ FY 14: tower sales €191m
- **14.0% CapEx/Sales** (+2.7 p.p. organic vs FY 13) to support structural transformation/differentiation

# Germany: a solid start from a new leading position

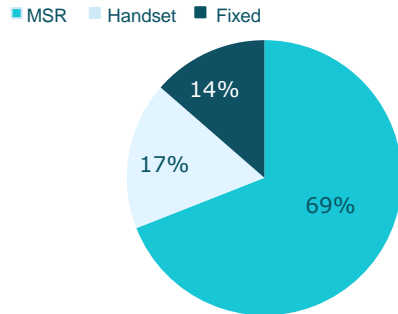
11% of Group revenue

## Contract net adds ('000)

Ex 428k customer adjustment in E-Plus in Q4



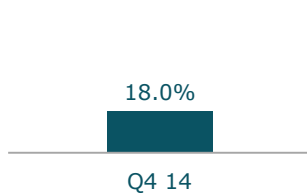
## Q4 14 Revenue



**€8Bn Revenue**  
(E-Plus proforma since 1<sup>st</sup> Jan)

## OIBDA margin

Ex-restructuring costs



**19.4% OIBDA margin**  
(E-Plus proforma since 1<sup>st</sup> Jan)

## Trading momentum maintained after a successful start

- **Total mobile base of 42.1m** (>2x y-o-y); Contract at 45%
- **Balanced mobile structure:** ~30% MSR market share (Sep-14)
- **LTE and attractive bundles driving favorable adoption mix**
  - ▶ Smartphone penetration at 29%
  - ▶ LTE outdoor coverage: 62% at Dec
    - Open to all O2 contracts from Feb-15
    - New data automatic top-up from Feb-15 to drive upselling

## Stabilised revenue

- **MSR trend maintained in Q4**
  - ▶ Strong performance from premium brands
  - ▶ Data revenue: 52% of MSR in Q4
- **Better fixed revenue** (Q4: -7.7% y-o-y ; +1.3 p.p. q-o-q)

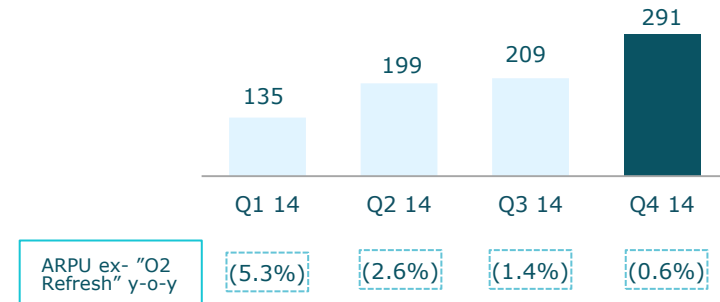
## Commercial momentum and initial integration driving Q4 OIBDA

- **Q4 OIBDA performance**
  - ▶ Strong commercial activity to capture market growth
  - ▶ Restructuring costs due to the integration with E-Plus (€401m) including leaver program
- **Integration: quick wins**
  - ▶ Cross & Upsell; Align procurement; Network grid defined; FTE restructuring agreed

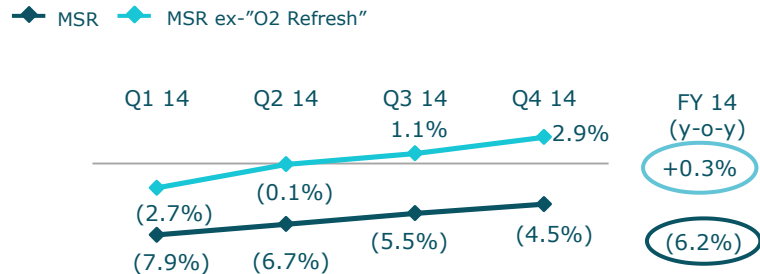
# UK: Strong customer growth & improving trends

14% of Group revenue

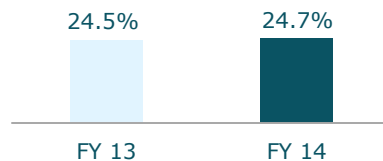
## Mobile contract net adds ('000)



## Mobile Service Revenues (y-o-y)



## OIBDA margin



## Solid trading performance continued

- **Mobile base growth at 4% y-o-y (24.5m)**
  - ▶ **Strongest net adds in 6 years:** (394 k in Q4)
  - ▶ **Sustained expansion of contract** (+6% y-o-y); 56% of total
    - Sustained leadership in contract loyalty in Q4 (1.0%; -0.1 p.p. y-o-y)
    - LTE penetration at 19% over total base
  - ▶ Continued LTE roll-out (58% outdoor coverage at Dec-14)
- **Improved ARPU trends**
  - ▶ Successful commercial proposition leading to price stabilisation
  - ▶ Data monetisation (LTE usage 3x vs 3G; high single digit ARPU uplift)

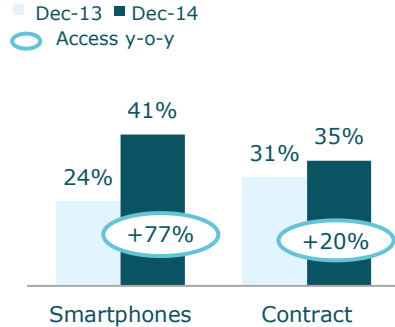
## Robust set of financials

- **Revenue growth** (ex-"O2 Refresh") accelerated in Q4 to +5.4% y-o-y (+0.6% y-o-y in FY)
  - ▶ Ongoing MSR improvement on solid operating performance
  - ▶ Handset revenues up on high-end strong trading devices (FY: +28.4%)
- **FY OIBDA** grew 1.1% y-o-y on efficiencies execution (OpEx:-0.9% y-o-y)
  - ▶ "O2 Refresh" adds 3.7 p.p. to OIBDA margin in FY 14
  - ▶ Broadly flat impact of "O2 Refresh" to y-o-y growth

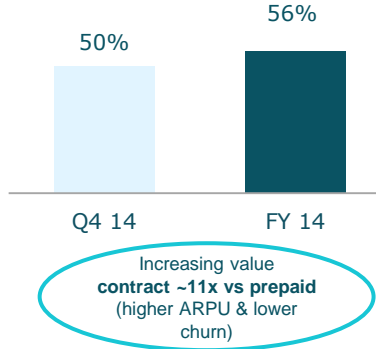
# Brazil: Capturing the best customers

22% of Group revenue

## Mobile accesses penetration



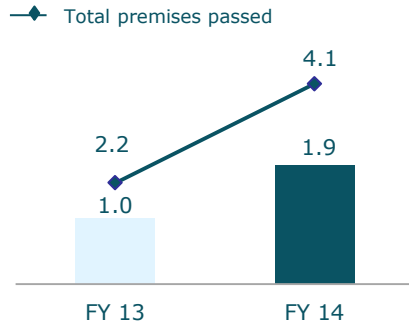
## % Contract net adds share



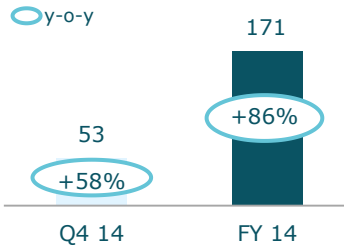
## Strengthening mobile leadership

- New contract portfolio offer launched in December, **reaching new monthly gross adds record**
- **Contract market share increased to 41.8%** (+2.0 p.p. y-o-y) on **best network** (quality and coverage) and **brand perception**
- Strong outgoing **ARPU** y-o-y (Q4: +5.9%; FY: +5.3%)
- **LTE leadership** (140 cities covered; accesses market share: 38.9%)

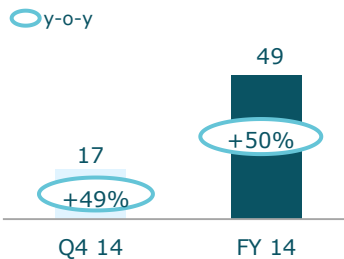
## FTTH New premises passed (m)



## FTTH net adds (000)



## IPTV net adds (000)



## Transformation into a fiber Co.

- **375k fiber accesses** at Dec-14 (+84% y-o-y): ~3x customer value vs. average FBB
- **Strong Pay TV performance** (Q4: 43k net adds, FY:131k)
  - ▶ Growing IPTV net adds delivering higher ARPU
  - ▶ Reshaped commercial proposal fostering DTH gross adds volume

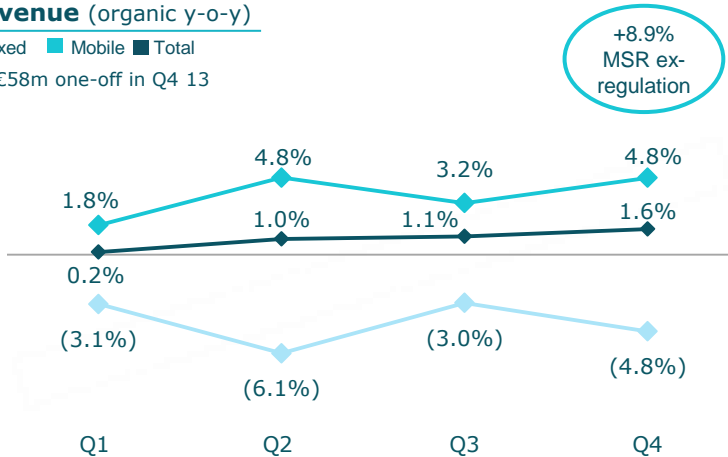


# Brazil: OIBDA returning to growth in 2014

22% of Group revenue

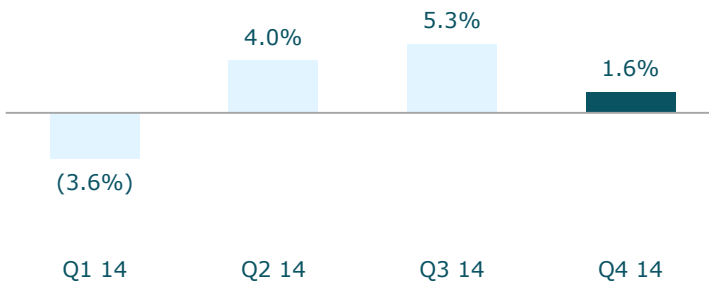
## Revenue (organic y-o-y)

Fixed Mobile Total  
Ex €58m one-off in Q4 13



## OIBDA (organic y-o-y)

Ex €58m one-off in Q4 13 and ex-restructuring costs in Q4 14 and Q4 13



## Consistent organic revenue y-o-y growth trends

- **Outperforming the market:** 68% of incremental MSR market share captured in the last 12 months
- **MSR accelerating to 5.7% y-o-y in Q4** excluding one-offs (ICMS tax reversal in Q4 13)
  - ▶ Data revenues: 34% of MSR in FY 14
  - ▶ Steady non-SMS mobile data revenue performance (+35.5% in Q4: +38.5% y-o-y in FY)
- **Fixed revenue improved its trend in 2014** (-4.2% y-o-y vs. -6.8% FY 13)
- **Negative impact of regulation** (-3.2 p.p. in Q4 and -3.4 p.p. in FY)

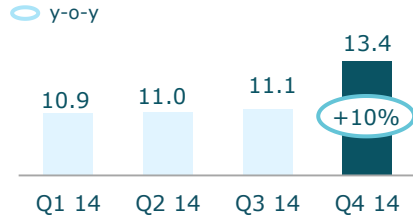
## Increased profitability on better OpEx evolution

- **Strong efficiency efforts** (i.e. restructuring costs in Q4: €68m) despite intense commercial activity, network costs and inflationary pressure
- **Strong CapEx effort** (FY: +15.0% y-o-y; 26% CapEx/Revenues) to enlarge quality gap vs peers

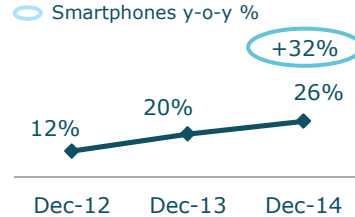
# Hispam: Increased FY profitability amid strong trading

26% of Group revenue

## Mobile gross adds (m)

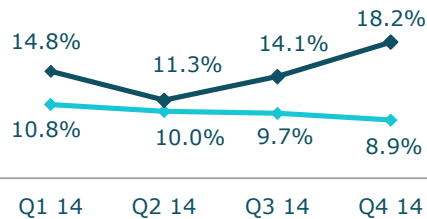


## Smartphone penetration



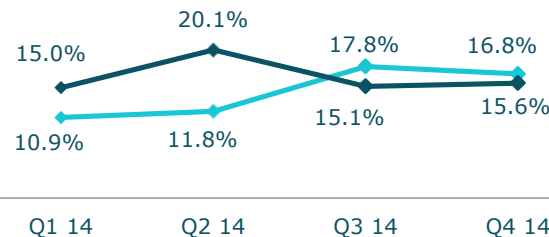
## Revenue (organic y-o-y)

◆ Hispam ◆ Hispam ex-Venezuela



## OIBDA (organic y-o-y)

◆ Hispam ◆ Hispam ex-Venezuela



OIBDA margin (organic y-o-y)

Quarter	Q1 14	Q2 14	Q3 14	Q4 14
Hispam	+0.1 p.p.	+2.4 p.p.	+0.3 p.p.	(0.8 p.p.)

Ex-Venezuela

Ex-Venezuela	Flat	+0.5 p.p.	+2.2 p.p.	+2.3 p.p.
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## Commercial traction underpinning double-digit revenue growth

- **Accesses growing by 3% y-o-y:**
  - ▶ Mobile contract (+4%); FBB (+6%); Pay TV (+14%)
- **Higher traffic volumes driving mobile ARPU y-o-y growth (+10.6% FY; +14.3% Q4)**
  - ▶ Voice traffic up +16% y-o-y in FY
  - ▶ Data traffic +65% y-o-y in FY 14 on increased smartphone penetration & average usage (+44% y-o-y in Q4)
- **Data revenues main growth driver; 32% MSR (+2 p.p. y-o-y)**
  - ▶ Non-SMS data growing by 43.4% y-o-y in FY (+41.1% in Q4)

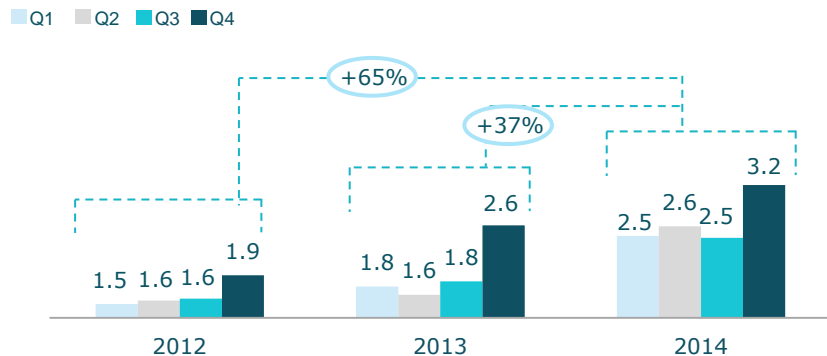
## Improved profitability in most markets

- **FY organic margin (+0.5 p.p. y-o-y) returning to 2012 levels despite stronger commercial activity**
  - ▶ Increased profitability in all countries but Venezuela and Uruguay in FY (y-o-y organic)
  - ▶ Main contributors to margin y-o-y: Mexico (FY: +4.3 p.p.; Q4: +11.7 p.p.); Colombia (+2.7 p.p.; +4.4 p.p.) and Chile (+1.5 p.p.; +2.5 p.p.)
  - ▶ Restructuring costs (€99m in Hispam in Q4) negatively impacting reported margin in Q4 by 4.4 p.p.

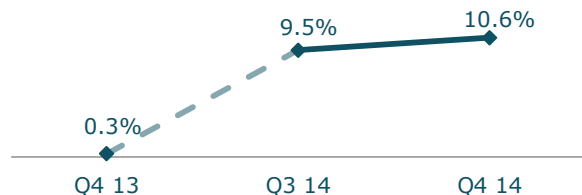
# Mexico: Increasing momentum; accelerating growth

3% of Group revenue

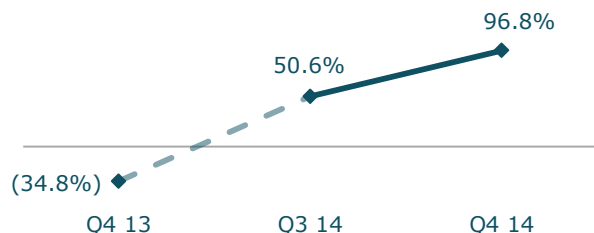
## Mobile gross adds



## Revenue (organic y-o-y)



## OIBDA (organic y-o-y)



## Commercial repositioning driving business turnaround

- **Mobile accesses up 7% y-o-y; Smartphones +82% y-o-y**
- **Record-high gross adds in Q4 14**
  - ▶ Commercial offers adapting to new competitive environment
  - ▶ New LTE offer launched (Oct-14)
- **New Federal Telecommunications Law continued advancing**

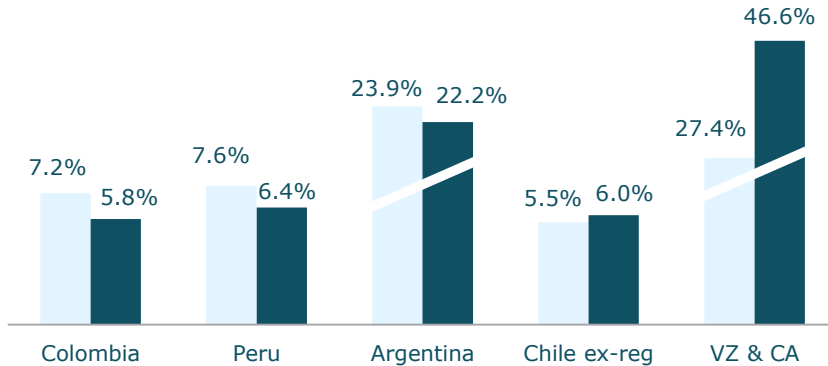
## Q4 OIBDA doubling y-o-y

- **Steady top-line growth acceleration**
  - ▶ Highest MSR y-o-y growth in 5 years (+12.9% in Q4)
  - ▶ 3<sup>rd</sup> consecutive quarter of ARPU increase (+3.5% y-o-y) on voice & data traffic booming (+42% and 91% respectively y-o-y)
- **Increased y-o-y profitability (FY: +4.3 p.p.; Q4: +11.7 p.p.)**
  - ▶ Full effect of MTRs asymmetry in Q4 (effective from mid-August)
  - ▶ Top quality assets on strong CapEx efforts
  - ▶ Economies of scale starting to flow

# Rest of Hispam: Solid top line growth boosting OIBDA

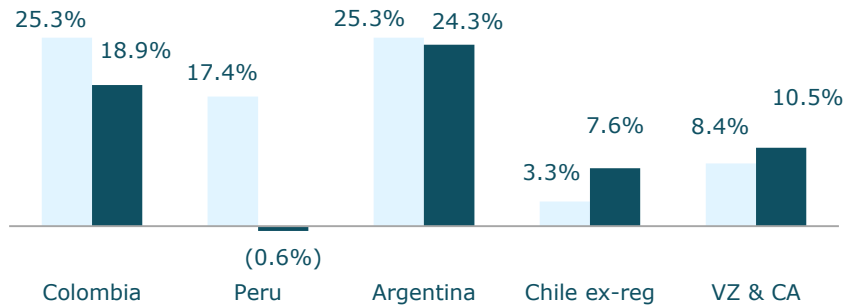
## Revenue (organic y-o-y)

■ Q3 14 ■ Q4 14



## OIBDA (organic y-o-y)

■ Q3 14 ■ Q4 14



## OIBDA margin (organic y-o-y)



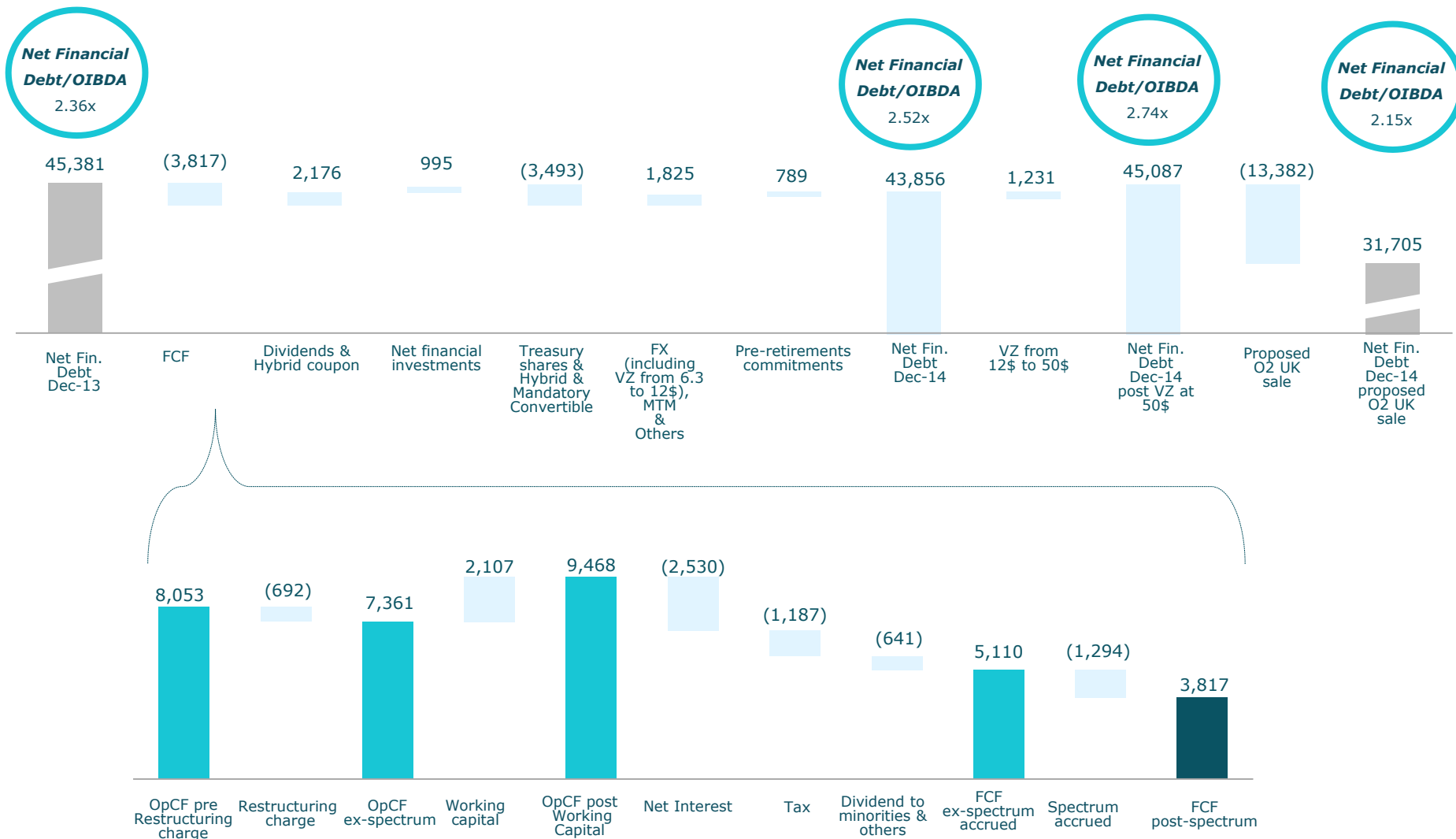
## Increased profitability across the board (except VZ+CA)

- Colombia:**
  - ▶ Mobile data (FY: +15.0% y-o-y), FBB and Pay TV (+9.1% y-o-y) driving revenue increase
  - ▶ Q4 OIBDA: +18.9% organic y-o-y on revenue acceleration and increased efficiency. FY Margin: 36.5% (39.0% in Q4)
- Peru:**
  - ▶ Revenue performance led by high-value accesses growth: mobile contract (+14% y-o-y); Pay TV (+6%) and FBB (+6%)
  - ▶ Strong commercial activity in Q4
- Argentina:**
  - ▶ Commercial trading ramped-up in Q4 (mobile gross adds +16% y-o-y) on successful campaigns
  - ▶ Q4 OIBDA margin stable organic y-o-y despite inflation and FX pressures
- Chile:**
  - ▶ Focus on high-value customers underpinned enhanced revenue & OIBDA performance
  - ▶ Accelerated network deployment: LTE (64% pop coverage) & fiber (288k premises passed)
- Venezuela & Central America:**
  - ▶ Strong traffic growth: voice (FY: +16%) on higher MOU (+8%); data (+58%) on smartphone penetration & higher usage per access
  - ▶ CapEx increase (+64.8% y-o-y organic) to foster network quality differentiation. 60 MHz LTE spectrum acquired in Q4

# Strong FCF and net debt reduced ahead of O2 UK sale

## Net Financial Debt

€ in millions



# Robust liquidity and ample diversified financing

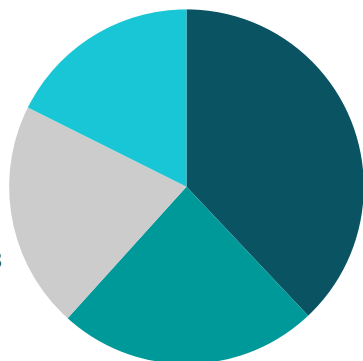
## Long-term financing

€ in billions

€14.7Bn long-term financing FY 14

Hybrids: 2.6

Syndicated facility: 3.0  
LatAm & Other loans: 2.6



Mandatory convertible (TEF): 1.5  
Mandatory Exchangeable (TI): 0.8  
TEF D Rights issue minorities: 0.8

Euro Bond: 2.1  
T. Deutschland bond: 0.5  
Private placements: 0.9

## Liquidity position

€ in billions

19.4

11.5

92% LT

Undrawn credit lines & syndicated RCF

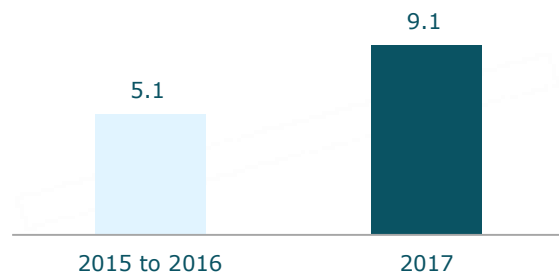
7.9

Cash position excluding Venezuela

Dec-14

## Net debt maturities (Dec-14)

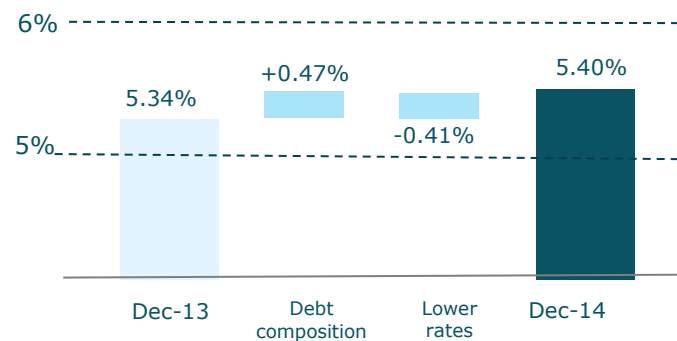
€ in billions



Average debt life of 6.2 years

## Effective interest cost (12 month rolling)

----- Guidance



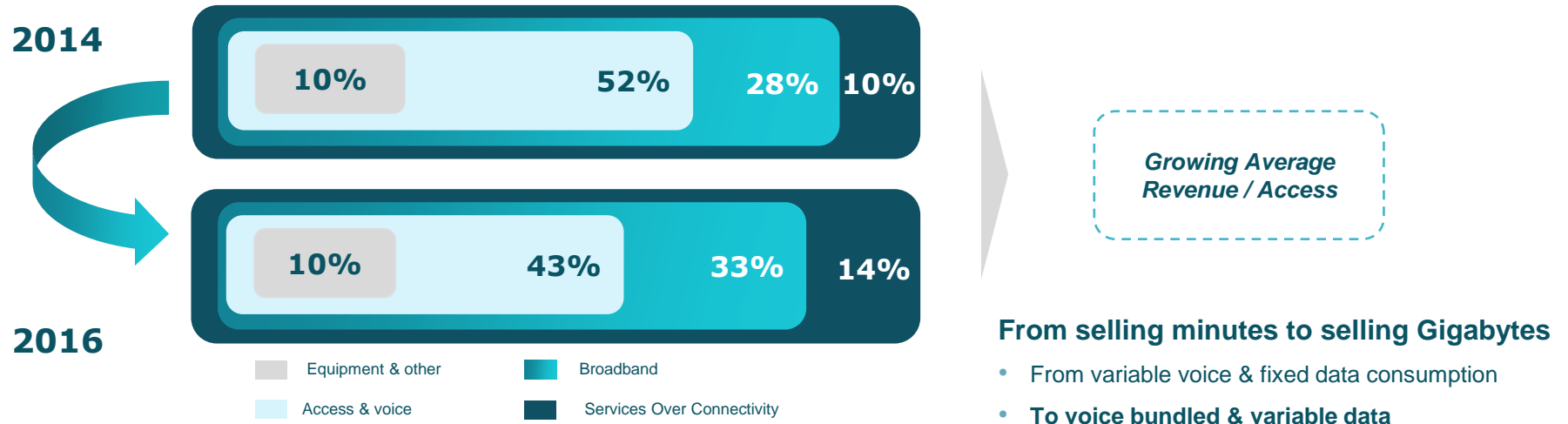
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## 2. 2015-16 Back to profitable growth

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# Continue transforming the business

## Transforming the business mix



## Transforming the portfolio: Diversified growth profile with bigger local scale

*Improving position in Key Markets: Spain, Brazil and Germany*

- FY 14 57% of Revenue
- FY 16E ~2/3 of Revenue

*Maintaining Global Scale & Increasing Focus in Key Markets*

- #6 worldwide by accesses in 2012
- #6 in 2014 but with fewer operations



# Monetising the new mobile data & video wave

1

Higher LTE & Smartphone penetration

- Connecting more devices with faster LTE
- Lower entry price points
- Increase prepaid penetration mainly in Hispam

>14% LTE  
>45% Smartphone  
Penetration 2016E

2

Continued improvement in capturing value beyond the allowance

- **Extra data revenues captured** as customers will continue to exceed allowance and upsell to complementary bundles

3

Leverage higher usage to upsell

- **Integrated tariffs:** Voice+Data, reducing arbitrage risks and improving loyalty
- **Optimise data pricing structures:** Tiered pricing and bundle sizing adapted to each market to increase customer lifetime value
- Larger screen devices; Real time contextual marketing; VAS smart bundling

4

Connecting everything

- **Shared data plans** evolving towards multi-user / multidevice
- Customer care / account management mobile app
- **FTTH & LTE provides better customer experience** and facilitate new services adoption

5

Video at the Core

- **Increased current penetration levels and usage**
  - ▶ Accelerate convergent proposition
  - ▶ Multi-device, new HD technologies, larger device screens
  - ▶ Increased coverage (fiber and LTE deployment & cable digitalisation)

Video traffic  
~+60%  
CAGR 14-16E

**Non-SMS Mobile Data Revenues ~+20% CAGR 2014-16E**  
**Video revenues >+30% CAGR 2014-16E**

# TGR: Differential future-proof network & IT ready by 2016

Major network transformation to be in place by 2016

## UBB Developments

All markets with 4G by 2015  
4G Coverage (%PoP)



LTE sites

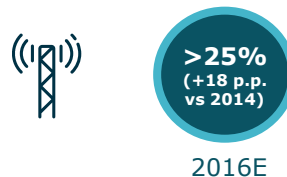


Premises passed with fiber (m)

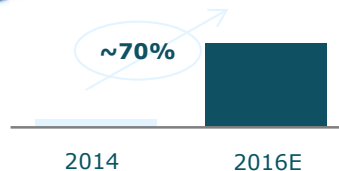


## + Simple and All-IP

4G Data Traffic / Total Mobile (%)

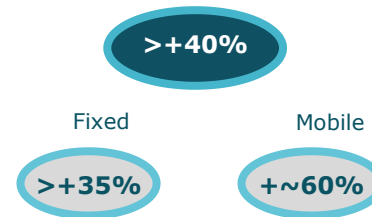


Fixed VoIP Accesses



## Total data traffic

CAGR 14-16E



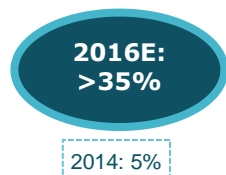
Fiber customers/FBB (%)



## Executing our brilliant IT strategy

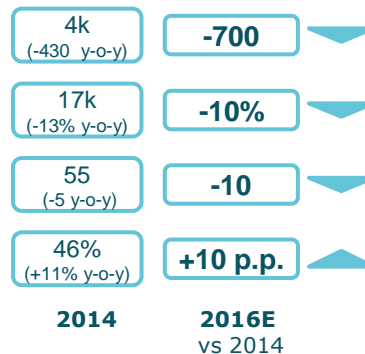
### + Business Transformation through IT

% Customer migrations to Full Stack



### + Simplification

- Applications
- Physical Servers
- Data Centers
- Virtualisation



### + Business capabilities enabled by IT

- Online & Multi-channel
- 360° customer view
- Big Data and Real Time Decision
- Application convergence
- Automated processes

(1) Subject to adequate regulation

# Leaner Co: Simplification program enabling growth & transformation

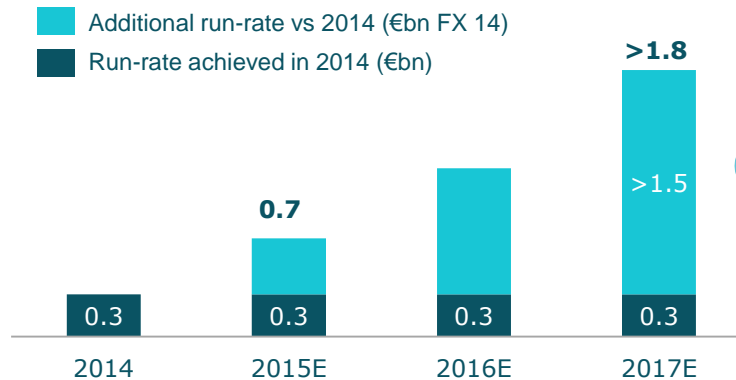
## 2014 gross savings €0.3 bn run rate

- **Structure simplification to adapt to the new operating model** (from regional to global model and lower local layers)
- **SG&A global policies** driving further cost reductions
- **Outsourcing of support functions** (i.e. Brazil: 1k FTEs)
- **Provision for restructuring costs & others (Germany, Brazil, Hispam and Other companies)**
  - ▶ Q4 14 impact (-€644m) on Group OIBDA
  - ▶ Restructuring plan affecting ~ 4.5k FTEs

## Gross savings (OpEx+CapEx) 2015-17E

- Personnel cost savings related to restructuring
- **Offer simplification & channel optimisation**
- **Customer driven simplification initiatives** (i.e.: increase selfcare, e-billing...)
- **Efficiencies through support functions** (full transformation and further outsourcing)
- Demand based **deployment leveraged on Analytics**
- **Network automation and global processes**
- **Germany & Brazil synergies related to fixed costs**

### Simplification Scope: ~55% of OpEx & CapEx (ex-spectrum)



Run-rate savings include part of the synergies from Brazil & Germany: €0.6Bn in 2017E

# Spain: Strengthening differentiation

A more supportive environment to fuel unparalleled CapEx effort (subject to adequate regulation)

Up to €3.5Bn CapEx in 2015-16E<sup>(1)</sup>

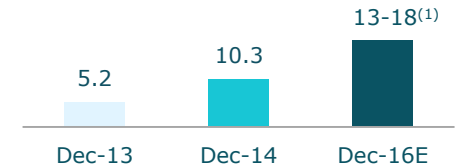
- Up to ~75% homes passed with FTTH by 2016<sup>(1)</sup>
- Spain, a reference in Europe in FTTH coverage
  - ▶ Outpace in premises passed: x4 vs France, x8 vs Germany, x6 vs Sweden
  - ▶ Future-proof FTTH technology to support high-speed demand
- Expanded indoor mobile coverage and quality fiber backhaul
- European Digital Agenda 2020 targets fulfilled 4 years in advance just with Telefónica's networks
  - ▶ 100% population with >30 Mb; 50% connected users >100 Mb

A profitable growing Co. focused on value

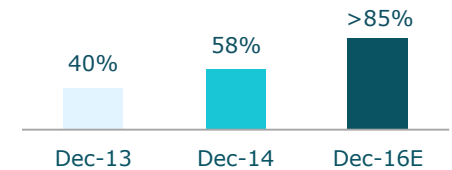
CapEx<sup>(1)</sup> 2017E to return to 2013 level

- "Fusión", key vehicle to evolve differential value proposition
  - ▶ "Fusión TV" will drive ARPU growth and increase loyalty
- Increased TV penetration, closing the gap with Europe
  - ▶ 26% penetration in Spain vs. 53% in Europe
- Recovering revenue growth y-o-y from FY 2015
- Digital Services to enhance "Fusión" and Corporate portfolio
- Mobile data monetisation momentum
- Scope to increase efficiency (distribution & IT simplification)

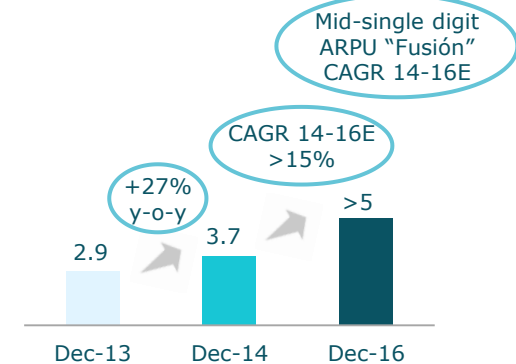
## FTTH premises passed (m)



## LTE Coverage (% pop.)



## "Fusión" customers (m)



(1) Subject to adequate regulation

# Every business unit contributing to accelerate growth

## Digital Services: Capturing Digital growth opportunity

- **Accelerating on digital services capabilities** (Cloud, Security, M2M, eHealth)
- **Strong focus on SMEs** with refreshed portfolio
- **Driving emerging Digital Services**
  - ▶ Financial Services: Consolidate insurance & microcredits and deploy new services
  - ▶ Accelerating advertising revenues

## Germany: keep momentum, integrate quickly and transform the Co.

### Service Revenue drivers

- **Setting market trends**
  - **Leading monetisation on LTE**
    - ▶ Smart upselling path
  - **Leading Digital Telco**
    - ▶ Best high-speed access experience
- Up to 90%**  
LTE coverage  
2016E
- **Confirmed >€5Bn NPV synergies**
    - ▶ Integration completed by 2019:
      - €800m run-rate of OpCF synergies
      - ~30% of run-rate synergies by 2015
      - ~80% of run-rate synergies by 2018

## Brazil: Strengthening market leadership

- **Commercial focus on mobile data boosted by superior network quality** (Smartphone penetration in prepaid >55% at 2016E)
  - **Fiber leadership in Sao Paulo;** nationwide exposure post GVT
- >60%**  
LTE Coverage  
2016E
- ~5.5m**  
FTTH premises passed  
2016E
- **Strong synergies extracted from GVT acquisition: >€4.7Bn with net savings from 2015**
    - ▶ Annual run-rate of operating and revenue synergies of at least €450m; c70% of run-rate synergies by year 2017

## HisAm: Consolidating revenue growth & further efficiency

- **Strong growth potential across prepay & contract mobile**
    - ▶ Optimal market structure leading to large structural opportunities
    - ▶ Further smartphone penetration opportunity
  - **Mobile data main growth opportunity**
  - **Bundling fixed services at the core of our strategy**
  - **Efficiency improvement IT, network and shared services**
  - **LTE available in all markets from 2015**
    - ▶ Differential spectrum holdings
- >55%**  
LTE Coverage  
2016E

# Closing remarks

## REINFORCED INVESTMENT CASE; CHANGING GROWTH PROFILE WITH THE RIGHT FINANCIALS

- 1 **Solid platform built; Ground to support new multi-annual outlook**
- 2 **Exciting digital revolution ahead of us; Transform for Growth**
- 3 **Focused operations following portfolio strengthening**
- 4 **Committed to financial discipline**
- 5 **Focus on improving shareholders' returns**



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