



STRATEGY

A major leap forward in our transformation into a Digital Telco

A Digital Telco combines traditional and digital assets to help people access and enjoy the best that technology can offer

Telefónica pioneered focus on the digital world in 2011, and now is speeding up its transformation with a new operating model

Telefónica has taken another step in its march towards becoming a Digital Telco, namely, a company that combines traditional telco assets with digital assets to help people to access and enjoy the best that technology can offer. A Digital Telco that is a point of reference in the sector for growth and efficiency that will let it capture digital opportunities.

The Company pioneered focus on the digital world in 2011. Telefónica is now speeding up its transformation with a new operating model. To that end, Telefónica has defined four strategic pillars, positioning its digital offering at the core of its commercial activity.

First of all, the company will generate more revenues, focusing on monetising data traffic and digital services. Secondly, the Company is going to become a more technologically minded Company, furthering networks and systems modernisation.

Thirdly, Telefónica is going to become more efficient thanks to simplification and increased leverage on its scale, within a context of strict financial discipline.

Finally, the Company is going to strengthen its leadership in the digital ecosystem, pursuing a new public positioning from which to regain the balance in the hypersector value chain, focusing particularly on privacy and security as key elements in the digital world's new rules. So, Telefónica wants to be sure that its customers have access to all the innovation and options that the new digital world offers them.

Specifically, to monetize the digital opportunities, the figure of Chief Commercial Digital Officer has been created, with overall responsibility for the revenues of the Group in all market segments. From this department, Telefónica is going to leverage greater and better awareness of customers and more sophisticated commercial activity, offering proposals of greater value and taking a great leap forward in the personalization and experience of the client.



A new operating model to capture the digital opportunity and be "Best in class" most efficient Digital Telco



Accelerate sustainable growth and maximize value

On the other hand, the figure of the Chief Global Resources Officer has been enhanced, so as to have overall responsibility for technology management. To advance in network modernisation while continuing to improve efficiency, simplification will be a key lever.

In parallel, a global synergy plan has been designed to generate savings worth 1.5 billion euros in the next years. With this plan, significant savings on networks, IT and the support and commercial departments will be achieved.

In addition to operating more efficiently, the Company is going to increase its investment to position itself as a Digital Telco leader. More specifically, Telefónica has announced a significant increase in its capital expenditure volumes in 2014, which will raise its capex-to-sales ratio to 15.5-16%. Transformation and growth will account for 75% of the total, with sharp rises in investments in fibre and LTE.

Telefónica has designed a clear plan to advance in its transformation into a Digital Telco, and a new

organisational structure totally oriented towards the client and boosting revenues. An organisation that will let it be more agile in taking decisions and faster to implement strategy, as well as more flexible in responding to the needs of clients and more efficient in the use of resources.

With this change, Telefónica aspires to grow, accelerate, innovate and reinvent itself. This is our vision: we are convinced that technology should be open to people, companies and governments so they can all BE MORE_. In this way, we will all be able to do more, live better, BE MORE_.

Telefónica is focused on customer and revenue growth through simplification and innovation