

BE MORE_FOR THE CUSTOMER

Making the digital offer the core of commercial activity

Shorten the time it takes to better understand our customers and to offer greater added value to improve their experience as consumers

Lines of progress

At Telefónica, we have proposed to better understand our customers, discover their expectations and to be more disruptive and innovative in our interaction with them and increase our service commitment through out all our brands.

Therefore, we have placed the customer at the center of everything that we do during our daily work, with the conviction that only through the satisfaction of our users and by building strong relationships of trust can our growth targets set by the Company be reached.

Achievements 2013

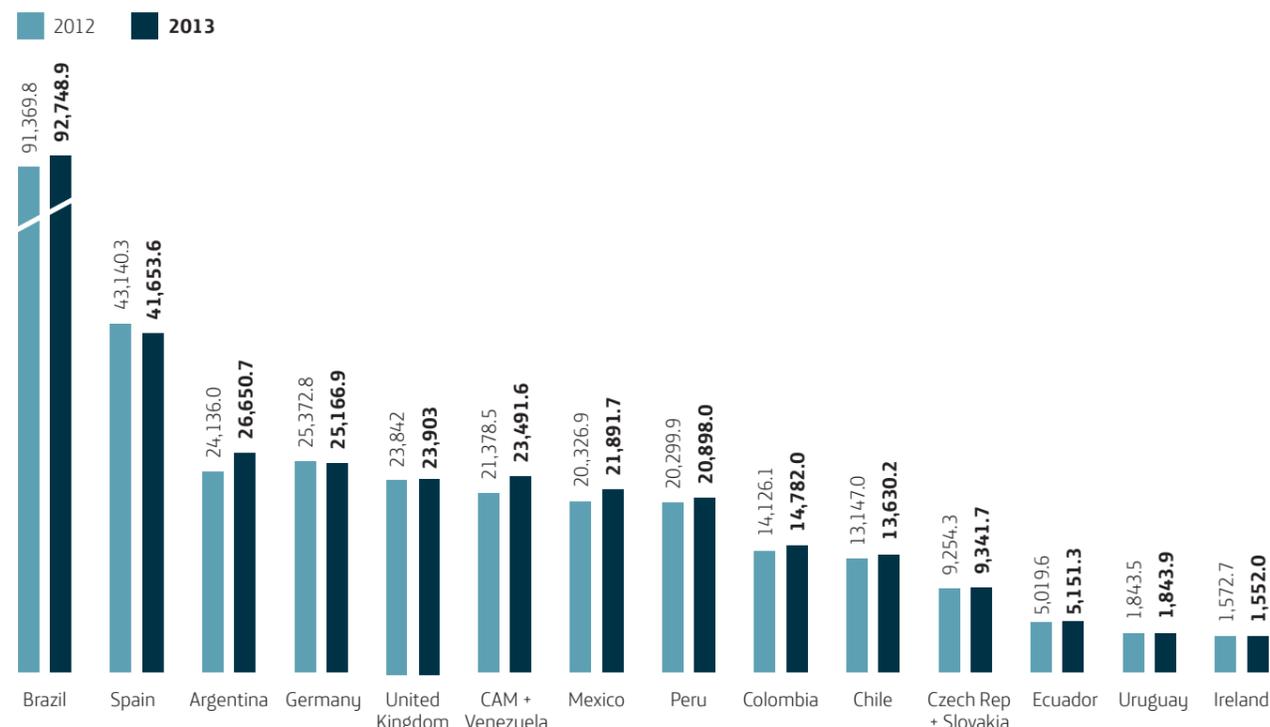
During 2013, Telefónica has improved its business with a renewed offer that has enabled us to accelerate the recovery of differential growth.

In this manner, the total accesses for Telefónica reached 323.1 million at the end of 2013, which represents 2% more than the previous year. This growth has been mainly driven by mobile

contract customers, especially mobile broadband, and pay TV. Specifically, it highlights the evolution of accesses for Telefónica Latin America (68% of the total) stands out. These rose by 4% YoY and their growth accelerated for the fourth consecutive quarter, despite the more restrictive criteria that is being applied on the calculations for prepay clients. This growth is more relevant if we consider that the YoY variation of accesses is impacted by the sale of the assets of residential landline business in the United Kingdom.

Mobile accesses reached 254.7 million by the end of the financial year. It is noteworthy that the growth in numbers had accelerated at the end of the year, being the fourth quarter which saw the greatest YoY increase in the last four quarters (+3%), with a quarterly net profit in Latin America that doubled compared to the same period in 2012, and considering the additions in Europe during the Christmas campaign, these increased by 11% when compared to the fourth quarter of last year. Contract accesses rose by 9% to reach 89.2 million and now make up 35% of the total mobile portfolio (2 p.p. more than a year

Total Accesses by Country (thousands)



ago), bringing out the emphasis on growth among high-value clients. Also for this segment, T. Latin America accelerated its YoY growth during the last quarter (+18% in December compared to +16% in September) and set a record for annual net profit (7 million accesses in 2013, representing 1.6 times more than the previous year).

Mobile broadband accesses totalled 72.8 million at the end of 2013 (+38% YoY) and accounted for 29% of total mobile accesses, 7 p.p. more than in December 2012. This growth is mostly explained by the strong performance of *smartphones*, reaching a penetration of 27% (+8 p.p. YoY), with an annual net profit of 20.7 million (+35% YoY) and 5.7 million during the quarter (+6% YoY), all of which with an associated data plan.

2013 was a pivotal year with the renewal of the commercial offer by Telefónica Europe, with the launch of simple, innovative charges, focusing on capturing growth of data for fixed business (fiber) and mobile business (4G). In this sense, the consolidation of MÓvistar Fusión as leverage

for the recovery in Spain, the commitment by Refresh to enhance supply rationalisation and improve the dynamics of distribution channels in the United Kingdom, and the impetus of the O2 Blue All-in rates in Germany, are highlighted as the basis for growth in mobile data.

The new rates launched by O2 Refresh in April is an innovative cost proposition for the customer, aimed at strengthening our market position, strengthening our non-subsidised data-focused, improving the mix of distribution channels and offering our customers more flexibility "to change phones as often as they change their phones." The O2 Blue All-in charges in Germany are rates that are focused on mobile data.

Retail fixed broadband accesses were 18.4 million in December 2013, which implies an increase of 2% when compared to December 2012, excluding the sale of fixed assets of fixed business in the United Kingdom, due to a growth of 7% of customers in Latin America and the net gain in Europe for the first time since the fourth quarter of 2012.

2013 brought the renewal of the commercial offer of Telefónica Europe and Movistar Fusión underpinned the recovery in Spain

The roll out of 4G services in the United Kingdom and Germany, and for fibre and Pay TV in Spain were essential for 2014

Pay-TV accesses reached 3.6 million, with a YoY growth of 8%, after reaching a total net profit in 2013 of 266,000 accesses, being tenfold of what was obtained the previous year. This growth has been possible due to the acceleration of commercial performance in the second half of the year, mainly in Spain and Brazil.

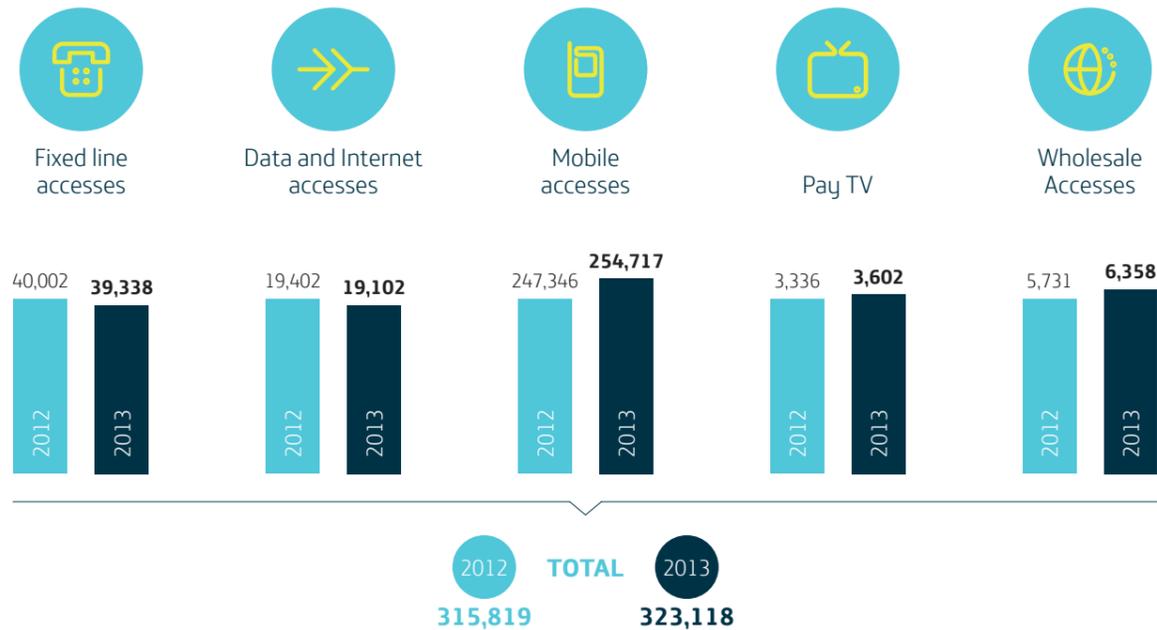
In terms of consumption, it is worth noting an increased traffic of 9% in Latin America, highlighting YoY increase for the year in all countries of the region. ARPU in the region continues its trend of acceleration for YoY growth, reaching 5.7%, despite the reduction in interconnection rates. Thus, outbound ARPU increased during the year by 8.4% YoY, mainly driven by the acceleration of non-SMS data and voice traffic growth.

Challenges

The increased penetration of 4G services in the United Kingdom and Germany, and acceleration in the rolling out of fibre and development of pay television in Spain were the pillars of growth for 2014.

In Spain, the Company strategy focused on accelerating the rolling out of fibre as a key impetus for differentiation and of growth in 2014, as reflected in the goal of reaching 7.1 million households after the end of the year. In comparison with ADSL customers, fibre customers represent a higher ARPU, by 1.5 times, and a higher level of satisfaction and therefore a lower *churn* (by 0.5 times).

Access Types (thousands)



Country



Spain

Achievements

- 2.9 million Movistar Fusión clients
- The best network in Spain combining a wide deploy of fibre and LTE
- Significant increase in customer satisfaction, due to the transformation of processes
- We doubled the fibre clients and the home coverage from the previous year

Challenges

- Improve revenues
- Commercial momentum of fibre, TV and convergence products



United Kingdom

- During 2013, Telefónica United Kingdom achieved significant commercial momentum with a strong growth in contracts. Customer base driven by strong launches, including *Refresh*
- Holding a position as operator with the least *churn* in the marketplace
- Telefónica United Kingdom released services in 4G, at 13 major cities and with a coverage of 38% of the population by the end of 2013
- Telefónica United Kingdom continues to receive the least number of complaints in the sector, according to the industry regulator, Ofcom. During Q4, 2013 Telefónica United Kingdom received 0.03 complaints for every 1,000 customers, half of the industry average (0.06)

- Maintain the momentum of the major offers in the marketplace, strengthen customer relationships and best experience on the 3G network



Germany

- Monetization of mobile data, growth by 22% for mobile data revenue.
- Over 40% LTE Coverage
- Telefónica Germany carried out an important number of commercial initiatives, such as the launch of the first *all-in* portfolio *smartphone*
- The trial version for *O2 Wallet* was released. This is a digital card that allows customers to use its payment and credit services.

- Continue increasing market competition and continuing trends for OTT.



Brazil

- Launch of Multi Vivo, a ground-breaking service that allows up to five devices to share an Internet plan
- 73 cities with 4G, which represents 30% of the covered population
- Recovery of the fixed line business, increasing the access base to more than 123M, when compared to 68M from the previous year
- Start-up of the Firefox operating system
- 133.9 km of fibre installed enabling speeds of up to 200Mbps
- Client list and catalogue of exclusive products for fixed and mobile operations

- Match capacity to long-term demand, based on regional segmentation
- Capture and retain the most valuable clients through a differentiated quality network
- Offer faster broad band speed, allowing us to provide more differentiated services

Country	Achievements	Challenges
 Peru	<ul style="list-style-type: none"> Renewal of three mobile concessions for 18 years and 10 months First to launch the commercial pre-pay of 4G services that will be in operation from 02 January, 2014 Leaders in telecommunication services: fixed voice 81%, broadband 86%, TV 58% and mobile voice 57% 20,9 million customers Increase of 55% for average speed for fixed broadband, with an offer of up to 60 Mbps 	<ul style="list-style-type: none"> Market leader in mobile data: acceleration of 4G LTE and mass use of prepaid data Great speeds for fixed broadband to maintain competitive advantage Accelerate simplification (products and networks)
 Argentina	<ul style="list-style-type: none"> Improvements to the mobile network quality, driven by the reduction of unavailability (from 0.14% to 0.04%) and increased sites for 2G and 3G (2G: +270 and 3G: +650) Multichannel <i>online</i> with a strong drive towards digital invoicing (Electronic invoicing from 1.8M to 4.4 M). 20.7 million accesses, with a YoY growth of 14.4%. Strong growth in contents (+90%) and Digital Services (+70%) 	<ul style="list-style-type: none"> Reaching higher quality for mobile network focused on data New model for customer service Monetization of mobile data and broadband speeds Implementation of T3.0 for fixed products and mobile contracts
 Uruguay	<ul style="list-style-type: none"> Launching of telephones with Firefox operating system We integrated the first solution for <i>e-health</i> orientated towards images services Growth in customer contract portfolio for voice, by 6% YoY, improving commercial business and reducing <i>churn</i> 32% of customers have a contract line The percentage of the contract portfolio grew 2.3 p.p. We duplicated the penetration of <i>smartphones</i> from our customer base, reaching 17% from within the voice portfolio 	<ul style="list-style-type: none"> Captured and lead growth for mobile data services, launching new services and the LTE network Maintained leadership in customer service, expanding the development of new digital customer service channels and improving our systems Duplicated the penetration of <i>smartphones</i> within the voice portfolio Rebalancing of revenues for SMS towards data
 Ecuador	<ul style="list-style-type: none"> Reaching an CSI of 8.3 Momentum for change from traditional customer service to digital customer service channels The CSI closed the year with a 8.4 in compliance, reaching an achievement Percentage of 101% Growth of 44% for <i>online</i> channel participation in the channel <i>mix</i> for customer service 	<ul style="list-style-type: none"> Reaching an CSI of 9 for the High Value segment Boosting electronic sales to facilitate the arrival of product and services to customers
 Venezuela	<ul style="list-style-type: none"> Simplification of the commercial offer for mobile services Maintained leadership in <i>smartphone</i> segment segment leadership. Continuous momentum in TV business 4.1 million <i>smartphone</i> customers (+28% compared to 2012). This represents 53.6% of market share 41% of our <i>smartphone</i> portfolio with comprehensive plans 135% growth for TV business revenue, when compared to the previous year 	<ul style="list-style-type: none"> Development of <i>smartphone</i> and mobile internet on LTE Growth in TV portfolio and revenues Management of ARPU growth through the monetization of data

Country	Achievements	Challenges
 Chile	<ul style="list-style-type: none"> New <i>call centre</i> customer service model and office, developing a customer experience model that improved customer satisfaction Beginning of the LTE (4G) offer at 2,600 Mhz, reaching 10,000 customers by the end of the year Mobile growth leveraged from prepaid growth of 6.4% and of <i>smartphones</i> Strong growth on the fixed network, boosted by 21% for TV (compared to 8% from the previous year) and 7.8% in BAF 	<ul style="list-style-type: none"> Improvements in satisfaction and transforming the <i>online</i> company
 Colombia	<ul style="list-style-type: none"> First mobile operator to offer 4G in the country, with the service being launched in December 2013 1.45 million basic lines, with YoY growth of 2%, due to fixed-mobile packeting Growth of broadband customer base (21%) and contracts (9%) Broadband service experienced a YoY growth of 21% at the parc and overreached the budget by 102% The broadband service for 2013 grew at 107% of the budget and had a YoY growth of 14% 	<ul style="list-style-type: none"> Capitalizing on data market growth with an emphasis on 4G LTE
 Central America	<ul style="list-style-type: none"> Promotion of electronic invoicing between customers, reaching very positive results for the entire region The Central American Network was deployed using the latest generation of optical fibre infrastructure, which is interconnected overland from Mexico to Panama Net increase of 18.3% of total accesses, reaching a customer base of nearly 12 million 	<ul style="list-style-type: none"> Launch of the 4G Network in Costa Rica, Guatemala and Panama for 2014. To consolidate the 4G Network in Central America, in 2015 it will be launched in El Salvador and Nicaragua
 Mexico	<ul style="list-style-type: none"> Development of virtual operator business, with five new types of Contracts, new pre-pay model and a new model for partner prospecting 5 MOU and contracts, excluding <i>roaming</i> agreements with other mobile operators The highest Customer Satisfaction Index (CSI) in the marketplace (8.8 for TEF compared to 8.0 for Telcel in December de 2013) 	<ul style="list-style-type: none"> Development of wholesale market (Virtual operators and national <i>roaming</i> agreements) Create a competitive advantage through a better experience of data usage (LTE deployment) Monetize data through differential offers Efficient delivery of services through a review of the operating model and shutdown of <i>legacy</i> systems