Results

January-December / 2012

Telefónica

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2012 Highlights

A YEAR OF OPERATIONAL TRANSFORMATION AND CONTINUING TO BUILD POSITIONS OF POWER IN DIGITAL SERVICES

LATAM: QUALITY GROWTH AMID ENHANCED PROFITABILITY

- **Brazil:** Expanding leadership, outperforming expectations

EUROPE: A YEAR OF STRATEGIC CHANGE

- **Spain:**
  - Fusion: a commercial success – with margin break-even in December net adds
  - Strong growth of margin & OpcF in Q4

FURTHER SEQUENTIAL COST CONTAINMENT AND MARGIN EXPANSION GROUP WIDE

CONTINUED EXPANSION OF UNDERLYING EPS & FCFS WHICH ARE TWICE THE ANNOUNCED DPS

FINANCIAL FLEXIBILITY REGAINED

- **Substantial deleverage, to continue in 2013**
- **Extensive liquidity (well into 2015)**

2012 operational transformation for a sustainable model

Group OpCF +6.2% organic y-o-y in Q4

Regained Financial Flexibility

- **Net Debt/OIBDA 2.36x in FY 12**
- Strong FCF generation (€7bn in FY 12)
- Actively managing portfolio
- No refinancing risk; maturities covered well into 2015

Towards Sustainable Revenue growth

- **LatAm >50% of revenues in Q4 growing at 7.5% y-o-y organic**
- Quality offer based on differential infrastructure
- Mobile data 34% of MSR in FY 12
- Pioneering Digital solutions development

Transforming Commercial Model

- **Quad play to increase share of wallet & customer satisfaction**
- Subsidies removed or reduced
- Reducing customer rotation
- Promoting a new Open Operating System
- Promoting device financing

Simplification across the board

- **Eliminating legacy** (7,000 P&S eliminated in Latam)
- Maximising scale benefits
- Efficiency gains, a non-stop process

CapEx Optimisation

- **Spain OpCF +7.7% y-o-y organic in Q4**
- Network sharing & co-investment
- Leveraging on a differential integrated footprint
- CapEx efficiencies from lower churn: doing more with less

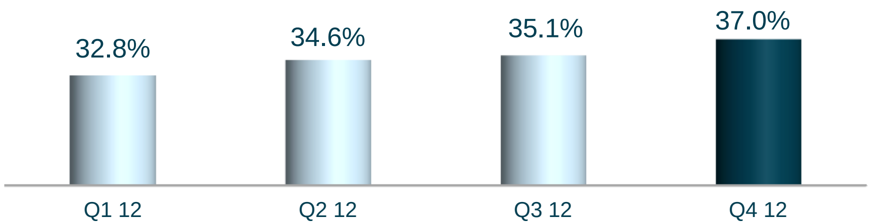
Transformation is already delivering results (I)

Further advancing towards revenue growth

2012 Organic revenue growth (y-o-y)

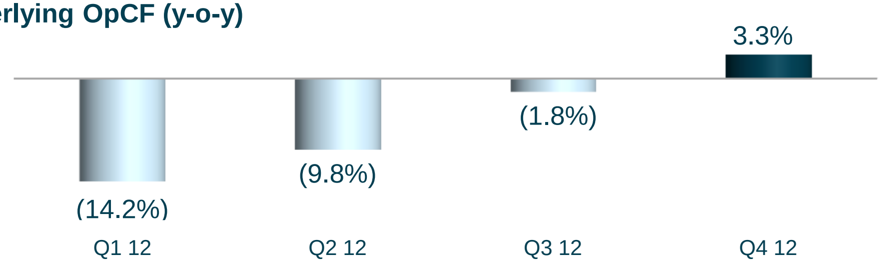
OIBDA margin progression

2012 Underlying OIBDA margin



Sustained CapEx efforts and improving OpCF

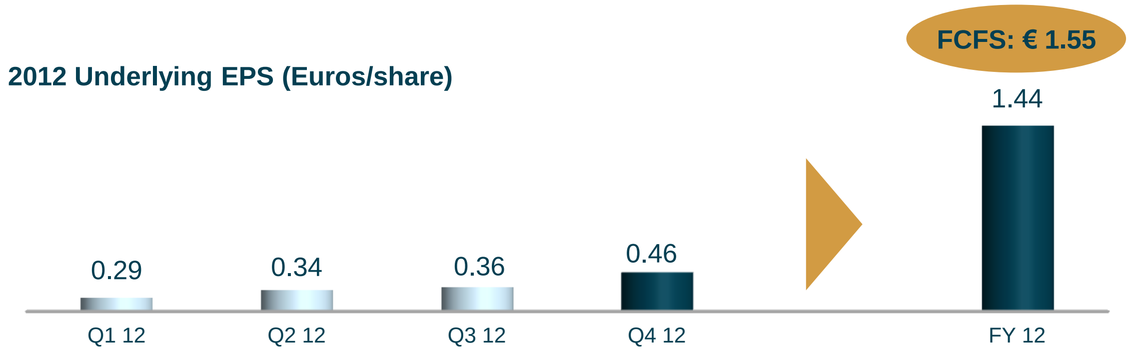
2012 Underlying OpCF (y-o-y)



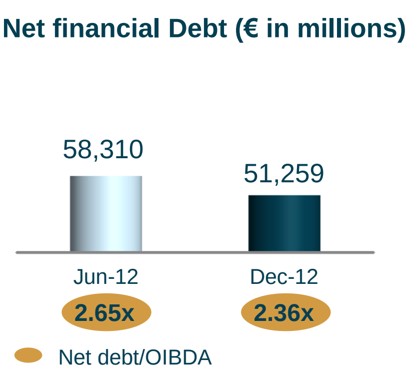
FY 12 Underlying OpCF: € 12.9 bn

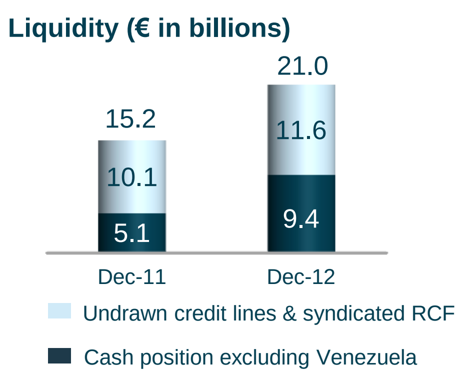
Transformation is already delivering results (II)

Outstanding improvement in EPS along the year



Financial flexibility regained





Continued sequential OIBDA growth and margin expansion

2012 Underlying OIBDA and OIBDA Margin

- OIBDA (€ in millions)
- OIBDA Margin
- OIBDA margin y-o-y

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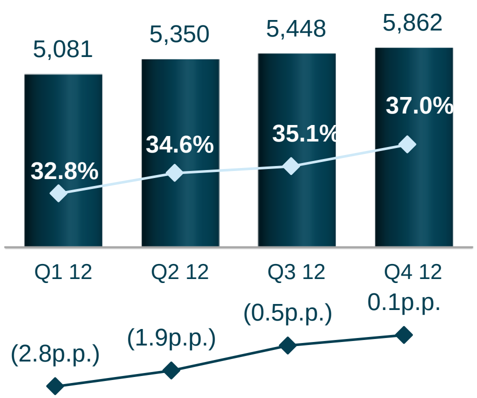
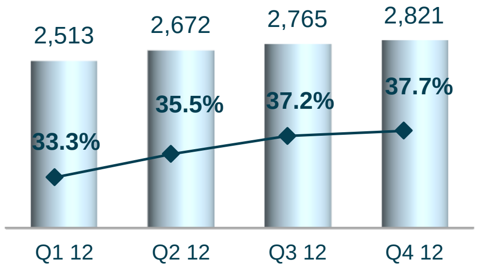
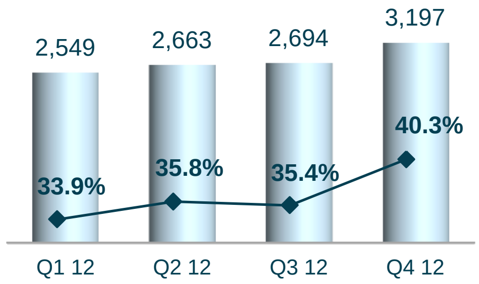


- **Consistent improvement in y-o-y trends**
- **OIBDA margin posting the first positive y-o-y variation since Q1 09** despite lower contribution from tower sales in Q4 y-o-y (€ 354 m in Q4 12 vs. € 467 m in Q4 11)

T.EUROPE



T.LATAM



Transformation for a brighter future

New Commercial Model in Spain

Capturing best clients & increasing their loyalty are compatible **with a more rational commercial approach**

More sustainable model

1. New tariffs Q2/Q3 11
- ARPU ↓
- Churn ↓

2. Subsidies removal in acquisition
- OpEx ↓

3. Simplification & quality
- OpEx ↓
- Customer Loyalty ↑

4. Movistar Fusion
- Share ↑
- ARPU ↓
- OpEx ↓
- Churn ↓

Transformation started in Spain 15-18 months ago, **results are starting to be visible now**

Selective Quality Growth in LatAm

Transforming the business is more expensive short term but **voice only growth models will not be sustainable** over the medium term

Best quality customer base
- 22% contract

Upgrade to contract & smartphone
- ARPU ↑
- Churn ↓
- OpEx ↑

Leading sector transformation
- Increasing quality gap
- Leveraging on integrated infrastructure

Leading contract in the region

Leading smartphones in the region

Telefónica Digital to accelerate growth

Global deals / Fleet Management / Insurance telematics

Operator billing

Protecting the core through comms innovation

Developing new revenue streams in the digital space

Maximise our customer base value

eWallets / Wanda

Instant servers

Telefónica Dynamic Insights

Mobile Security

RPM

IPTV / OTT

Build our own platforms

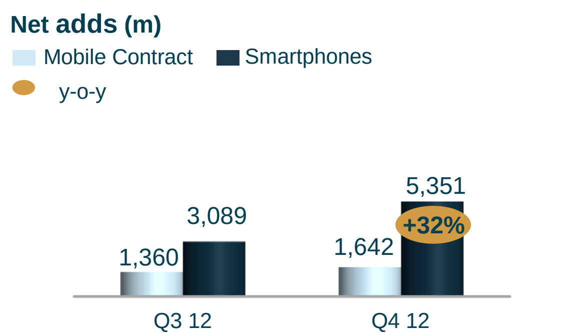
M2M Platform

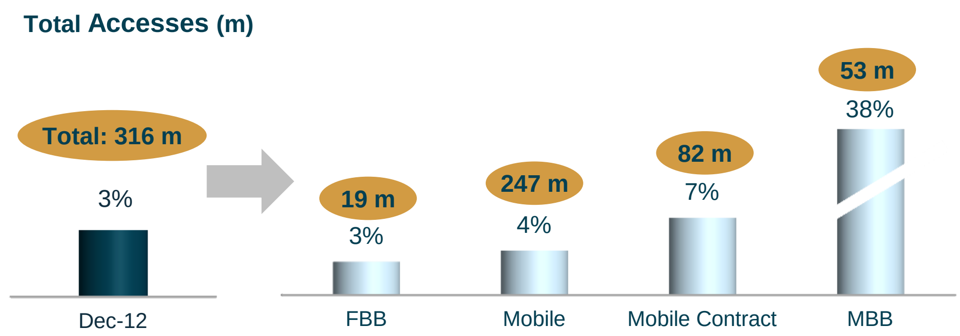
Partnerships / deals with third parties

M2M Alliance

Capture innovation

MBB & FBB driving growth across the footprint





Fast smartphone adoption

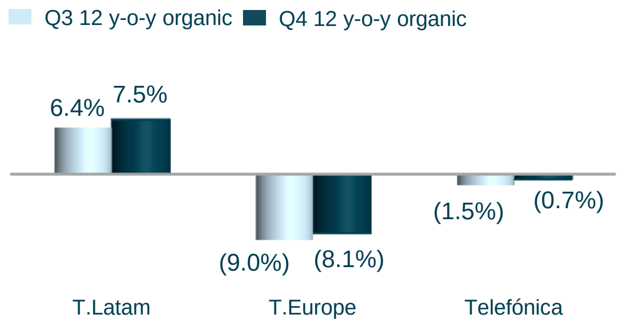
- **Record quarterly smartphones net adds in 2012:**
  - Q4 net adds: 1.7x Q3 boosted by T. Europe
  - Net adds in Latam grew 51% y-o-y in Q4
- **Smartphones** represents **80% of handsets sales** in T. Europe
- Increasing weight of **Mobile Contract over Mobile Base to 33%**

Strong growth in FBB

- **Positive Q4 FBB net adds in Europe**, reversing trends
- **High single digit growth of FBB base in T. Latam**
- **Selective UBB deployment in key markets**
- **Fixed line stabilization** (-0.3% y-o-y in Dec-12), with Q4 positive net adds

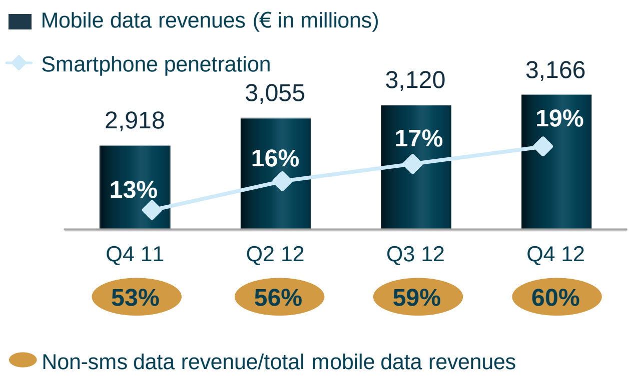
Solid revenue growth of Latam and mobile data

By regions, T.Latam boosted sales increase



- **Improved y-o-y organic trends in Q4,** across the board
- **Top line growth of 0.7% y-o-y up to December ex-regulation**

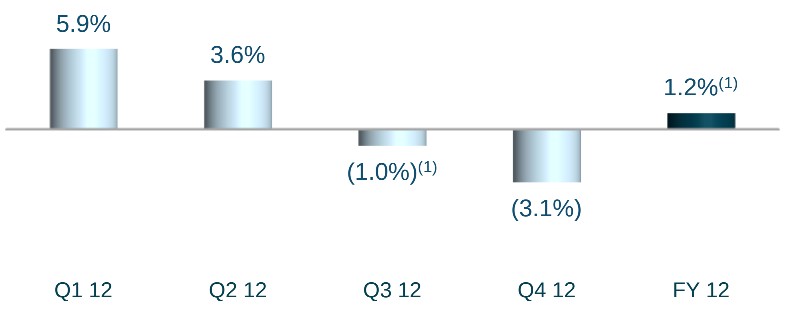
By services, data is improving revenue profile



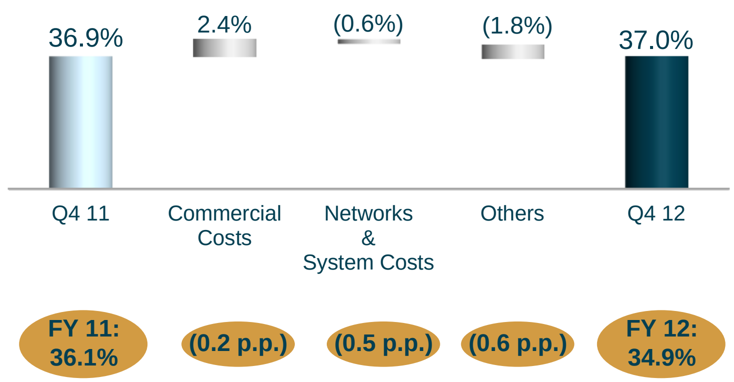
- **Accelerating non-SMS data organic sales** (+22.3% y-o-y in Q4)
- **Right strategic approach to consumer pricing and bundling**
- **Monetising the data opportunity** (smartphone ARPU uplift >1.5x and margin ~1.3x)
- **Adoption of multiples devices**

Further efficiencies on continued execution

OpEx (y-o-y)



Underlying OIBDA Margin evolution



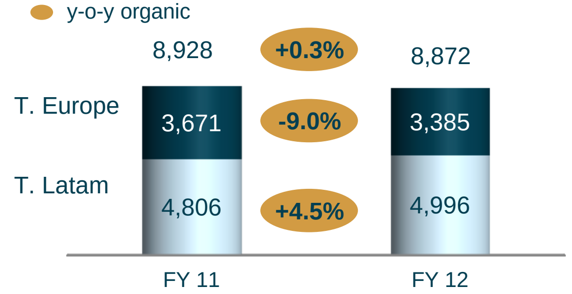
- **Very sound cost containment in Q4 despite record smartphone sales:**
  - Significant decline of commercial costs (-11.9% y-o-y) mainly driven by new commercial policy in Spain
- **Higher efficiencies and scale benefiting OIBDA margin erosion y-o-y** (commercial costs, increased efficiency in call center costs, overheads, outsourcing…)
- **Good progress in TGR delivering efficiency goals** (procurement, devices, new data centers, simplification of processes, efficiency projects …)

(1) Excluding Workforce Reduction Plan provision in T.España in Q3 11 (€ -2,671 m).

Prioritised investments to cope with future growth

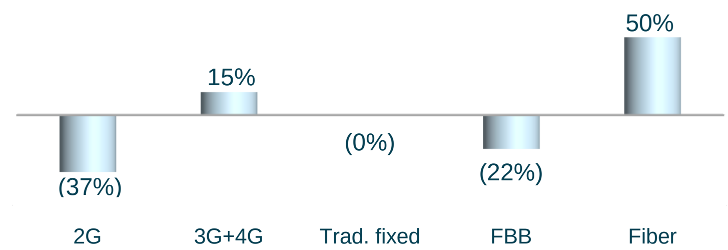
CapEx reallocation into growth operations and services

CapEx ex-spectrum (€ in millions)



CapEx/Sales **14.2%** **14.2%**

CapEx oriented to growth (y-o-y organic)



Completed spectrum needs

- Spectrum acquisition in FY 12: € 586 m mainly Brazil (€ 420 m) and Ireland (€ 127 m)
- LTE already acquired in core countries (Spain, Brazil, Germany, UK)

Executing further investment efficiencies

- Leveraging CapEx efficiencies from lower churn
- TGR improving purchase efficiency

- **Superior mobile network with enlarge coverage/capacity for MBB**
- **Targeted investment in fiber/VDSL to increase coverage and speed in FBB**

Successful investment strategy leads to sustained CapEx, coupled with OpCF growth in Q4 12 (+6.2% organic y-o-y)

T. Global Resources achieving significant results

	Accomplishments
IT	• 15% Application Simplification Delivered • New World Class Data Centres in Brazil, Mexico & Spain • Material IT Savings leading a reduction in IT OpEx+CapEx
Devices	• Leveraging benefits from scale: > 80% of total spend in devices negotiated globally • Global portfolio optimisation to increase savings: 95% value in < 100 references • Focus in strategic reshaping OS map: proactive development of alternative ecosystems
Global Sourcing	• Increased leverage on joint purchases; +4 p.p. in last 12 months to > 40%
Network and operations	• Network sharing and co-investment deals on track (UK, Mexico, Spain) • Efficiency activities and assets optimisation (non-strategic towers: € 643 m in FY 12)
MNCs	• Revenues growing at high single digit • Upgrade portfolio focusing on core telco services for multinationals (Managed Mobility & WAN) • Leverage synergies with wholesale business to improve efficiency and competitiveness

Financial Summary: OpCF growth in Q4

€ in millions	Reported FY 12	Reported Chg y-o-y	Underlying FY 12	Underlying 2012 Chg y-o-y	Underlying Q4 12 Chg y-o-y	Organic 2012 Chg y-o-y	Organic Q4 12 Chg y-o-y
Revenues	62,356	(0.8%)	62,356	(0.7%)	(1.6%)	(0.8%)	(0.7%)
OIBDA	21,231	+5.1%	21,741	(4.1%)	(1.4%)	(3.9%)	(0.1%)
OIBDA Margin	34.0%	+1.9 p.p.	34.9%	(1.3 p.p.)	+0.1 p.p.	(1.1 p.p.)	+0.2 p.p.
OI	10,798	+7.3%	12,270	(10.2%)	(5.4%)	(8.7%)	(1.8%)
Net income	3,928	(27.3%)	6,465	(13.6%)	(4.3%)		
EPS	0.87	(25.9%)	1.44	(11.9%)	(2.3%)		
OpCF (OIBDA-CapEx ex-spectrum)	12,360	+9.6%	12,870	(6.6%)	+3.3%	(6.6%)	+6.2%
CapEx(ex-spectrum)/sales	14.2%	+0.0 p.p.	14.2%	+0.0 p.p.	(0.7 p.p.)	+0.2 p.p.	(0.9 p.p.)

Exceptional items	FY 12	FY 11	Q4 12	Q4 11
Revenues		**+71**		**+71**
OIBDA	**(510)**	**(2,472)**	**(413)**	**+17**
OI	**(1,472)**	**(3,596)**	**(646)**	**(264)**
Net Income	**(2,536)**	**(2,082)**	**(1,578)**	**+527**

- Reduction in the value of TI: €-949m
- Impairment T. Ireland: €-513 m
- VZ devaluation: €-417m

ERE Spain: €-2,671m

- Reduction in the value of TI:€-570m
- Impairment T. Ireland: €-513m
- VZ devaluation: €-417m

Deferred Tax VIVO: € +952m

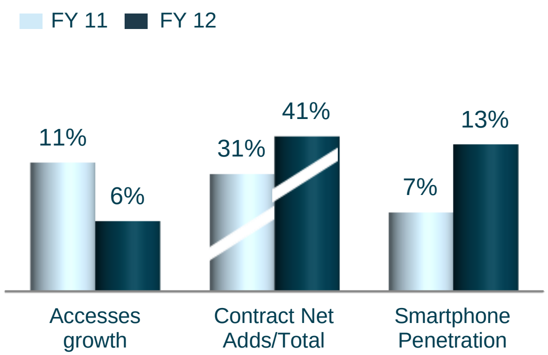
Revenues, OIBDA margin and CapEx/Sales in line with 2012 targets

Underlying growth: Reported figures excluding major exceptional items, spectrum acquisition and changes in consolidation.
Organic growth: Constant exchange rates, excludes changes in the perimeter of consolidation and hyperinflation in VZ. It also excludes spectrum acquisition and exceptional items.

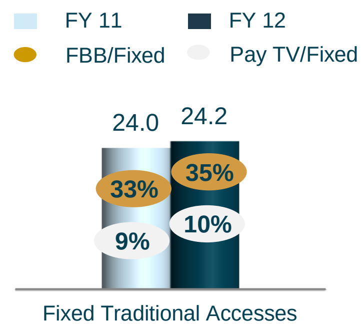
Latam: Quality growth amid enhanced profitability

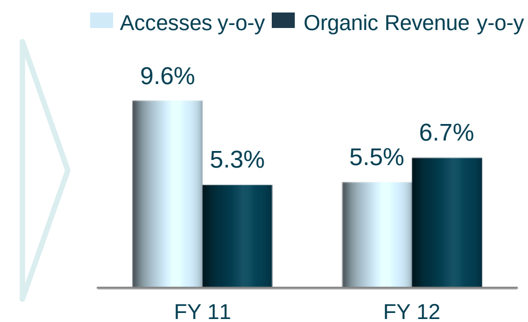
More selective commercial approach

Mobile Business



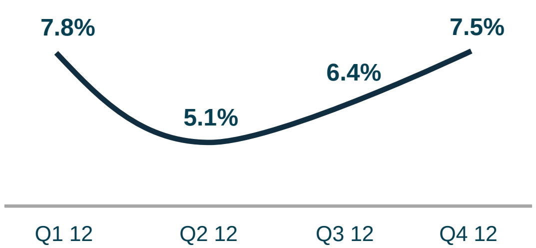
Fixed Business



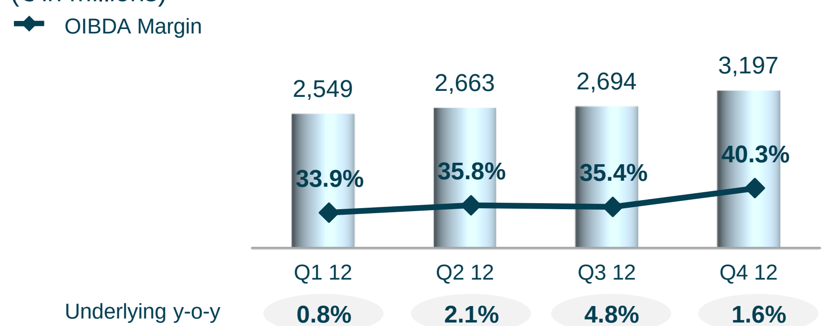


Consistent acceleration in revenue growth

Revenue growth
(organic y-o-y)



2012 OIBDA
(€ in millions)

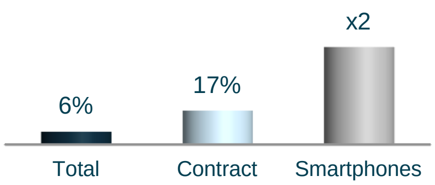


- **OIBDA y-o-y growth** despite lower level of tower sales in Q4 12 (€ 338 m vs. € 467 m in Q4 11)

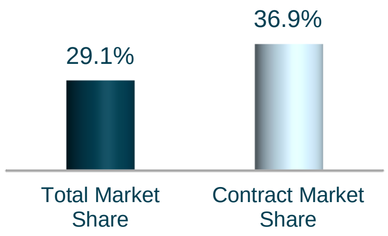
Brazil: Focus on quality delivering results

Strengthening position on value segments

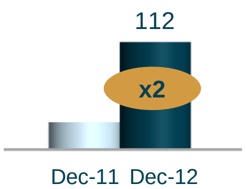
Mobile accesses
(Dec-12 y-o-y)



Market Share
(Dec-12)



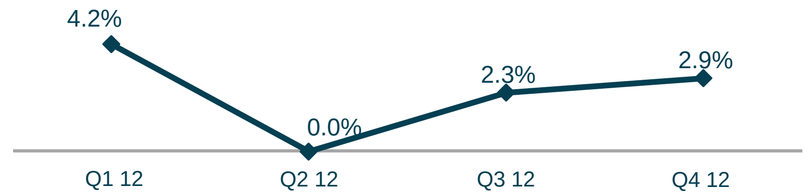
Fiber UBB accesses
('000)



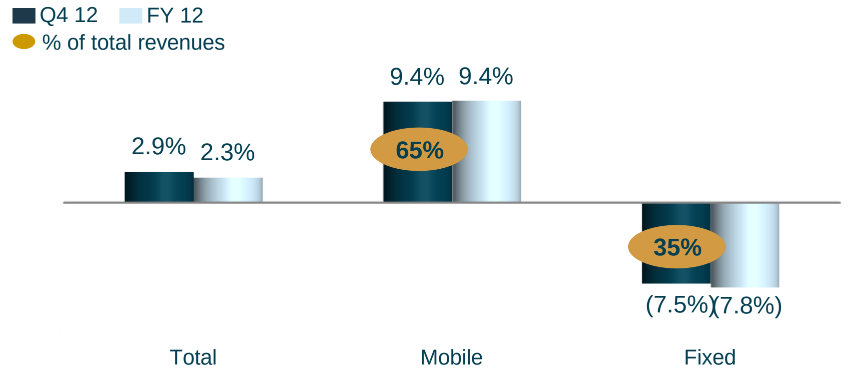
- **Commercial activity in high value customers** remained strong on the back of top service quality
- **Ongoing fixed business transformation** process with new commercial proposals (Fiber 200Mega, IPTV, VIVO Play)
- **Convergent offers** limiting fixed traditional business decline

Accelerating sales growth

Revenue growth
(organic y-o-y)



Revenue growth breakdown
(organic y-o-y)



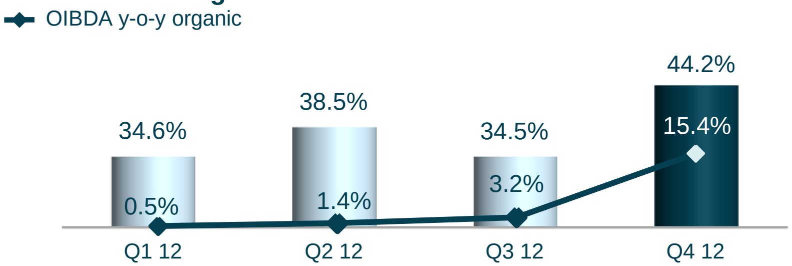
- **Regulation dragging revenue y-o-y growth in 1.9 p.p.**

Organic growth: Local currency and excludes the positive impact of the partial sale of our stake in PT in Q2 11.

Brazil: Increased profitability

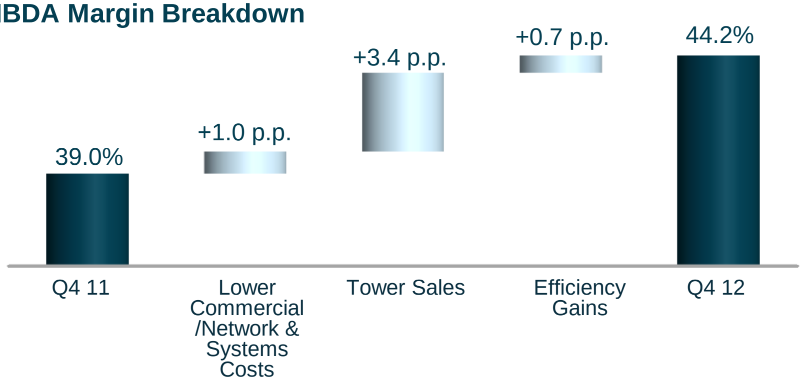
Gradual OIBDA improvement

2012 OIBDA Margin



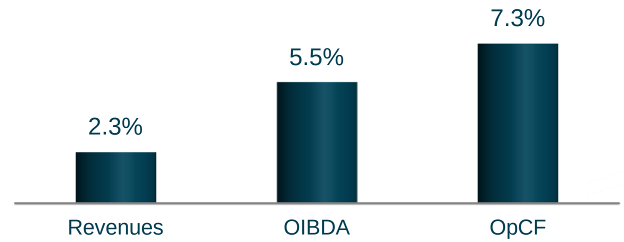
- Higher impact from tower sales in Q4 12 (€ 269 m vs. € 163 m in Q4 11)

OIBDA Margin Breakdown



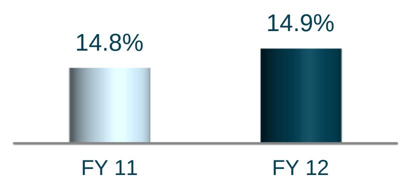
Integration benefits flowing to cash generation

FY 12 (organic y-o-y growth)



- Operational improvement along with integration benefits results in **strong OpCF generation**
- **CapEx increase** (+2.9% y-o-y ex-spectrum)

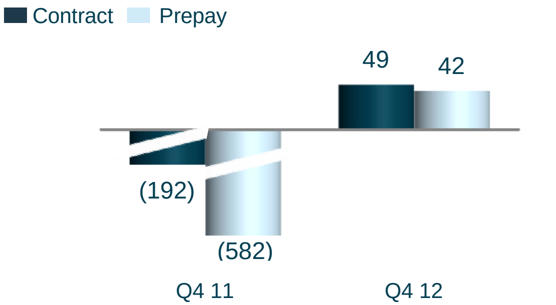
CapEx/Sales (ex-spectrum)



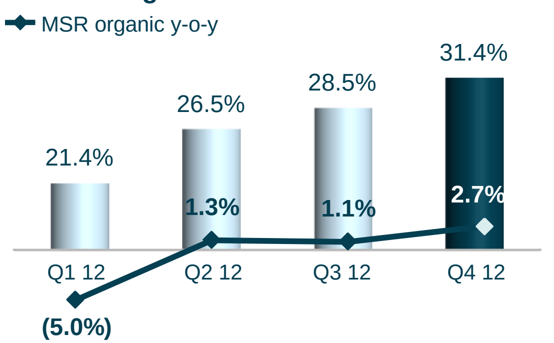
Latam: Key Metrics (I)

Mexico

Net Adds ('000)



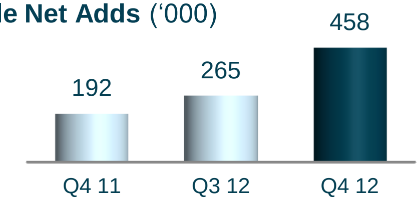
OIBDA Margin



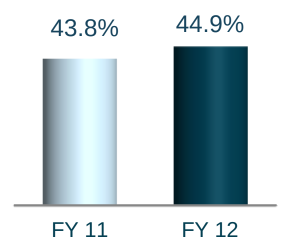
- **Operational turnaround process** in due course
- **Sequential revenue and margin improvement** on the back of higher commercial efficiency, Iusacell agreement (from Q3) and non-strategic tower sales

Venezuela

Mobile Net Adds ('000)

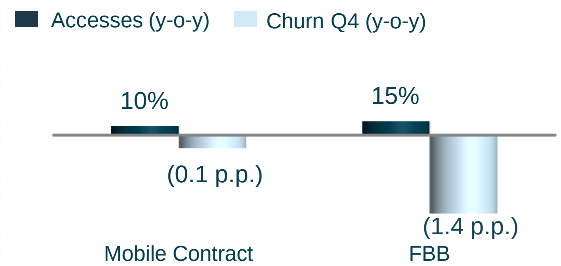


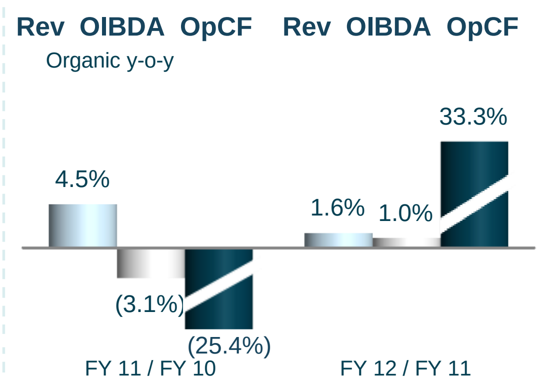
OIBDA Margin



- **Outstanding operating performance**
- Gradual revenue acceleration and **enhanced profitability**

Colombia





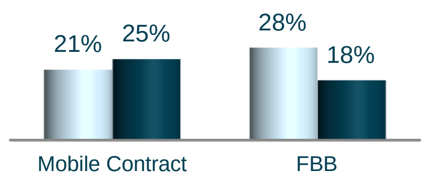
- **Focus on value and quality** of service led to reduced churn
- **Integration process** delivering expected results

Latam: Key Metrics (II)

Peru

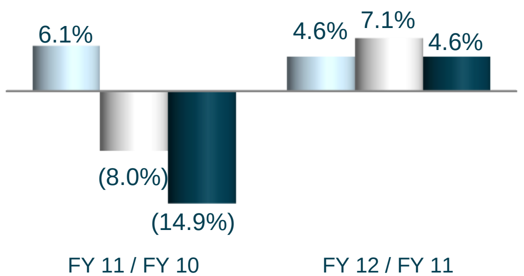
Accesses (y-o-y)

FY 11 FY 12



Rev OIBDA OpCF **Rev OIBDA OpCF**

Organic y-o-y

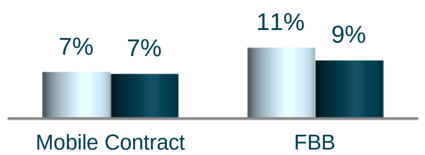


- **Sustained commercial momentum** across services
- **Healthy growth and improved profitability**

Argentina

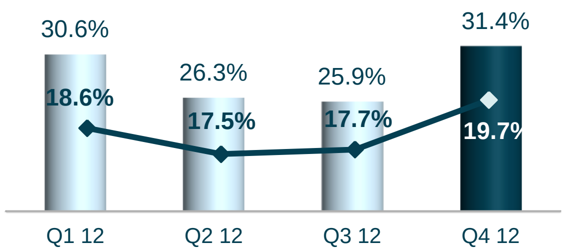
Accesses (y-o-y)

FY 11 FY 12



OIBDA Margin

Revenue (organic y-o-y)

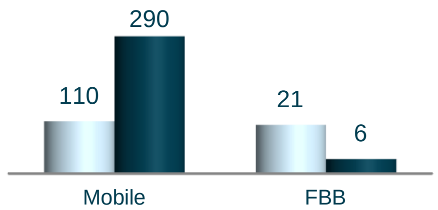


- Solid **commercial momentum remained in 2012**
- **Strong revenue performance** and better margin evolution throughout the year

Chile

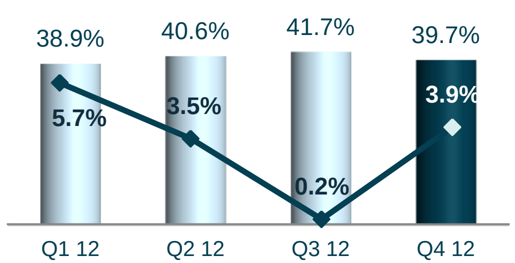
Net Adds ('000)

Q3 12 Q4 12



OIBDA Margin

Revenue (organic y-o-y)



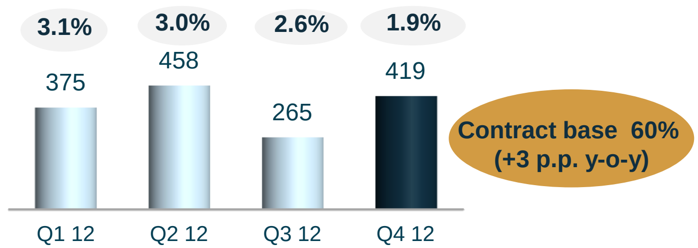
- Sequential **improvement on mobile commercial activity** in a highly competitive environment
- **Acceleration in revenue growth** in Q4 y-o-y

T. Europe: A year of strategic change

Right commercial moves improving traction

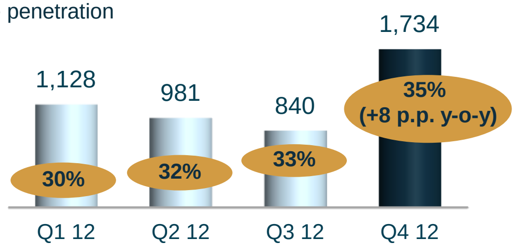
Contract mobile net adds: ('000)

Accesses y-o-y change



Smartphones connections net adds: ('000)

Smartphone penetration

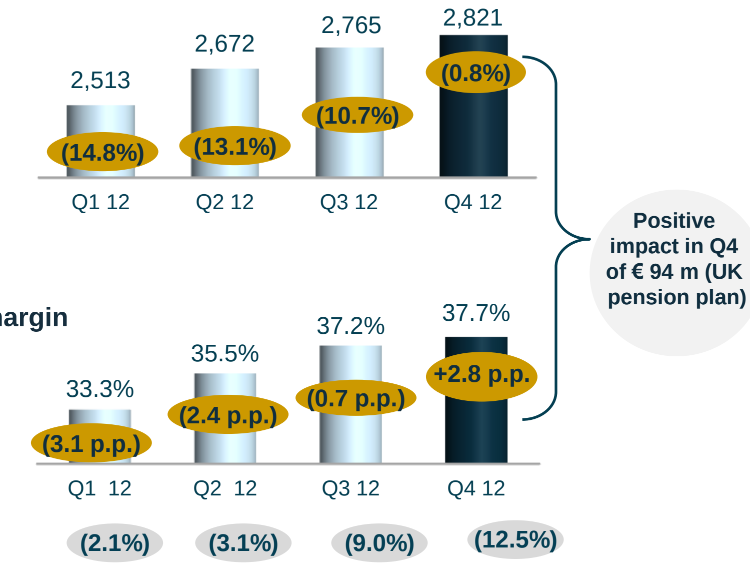


Leaner operating model driving OIBDA acceleration and margin expansion

OIBDA
(y-o-y)

OIBDA margin
(y-o-y)

OpEx
(y-o-y)



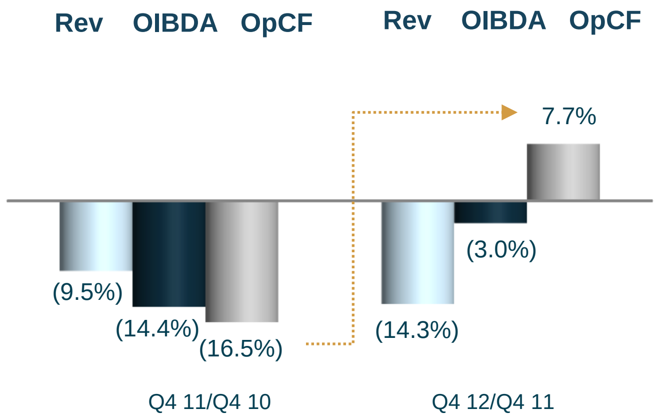
- **Contract mobile AMPU sequential improvement** (right balance between customer growth and profitability)
- **Solid contract churn**
- **Successful new propositions focused on value & MBB**
- **Continued data monetisation**
  - Non-SMS data revenue up 15.7% y-o-y in FY 12
  - Accounting for 58% of mobile data revenue (+6 p.p. y-o-y)

- **OIBDA margin expansion in Q4 y-o-y**
  - Commercial costs -17.6% y-o-y
- **Sustainable efficiency gains**
  - OpEx -6.7% y-o-y in FY 12; -6.5% non-commercial costs
- **Top line pressure continued**
  - -8.1% y-o-y in Q4; -7.8% in FY 12 amid tough macro, competition, regulation and usage optimization
- **2012 CapEx** (-9.0% y-o-y) **focused on growth**

Net adds: excluding disconnections in Spain in Q1 12.
OIBDA and OIBDA margin exclude the impairment in T. Ireland in Q4 12.
Financials year-on-year change are organic.

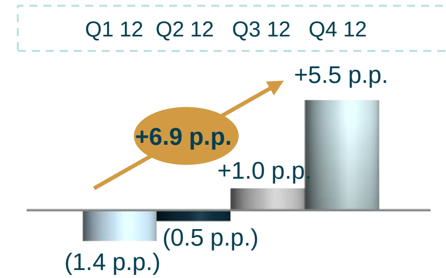
Spain: Financial turnaround is taking place

OpCF y-o-y growth in Q4



Commercial cost (y-o-y) **(6.5%)** **(33.1%)**

2012 OIBDA margin y-o-y:



	Q1 12	Q2 12	Q3 12	Q4 12
OIBDA Margin:	42.8%	45.0%	47.5%	47.2%
OpEx (y-o-y)	**(7.2%)**	**(11.2%)**	**(19.1%)**	**(21.7%)**

Adapting the company to a different environment

- **Progressive OIBDA stabilization** in Q4 y-o-y driven by new commercial model (subsidies, commissions, Movistar Fusion)
- **Revenues adjusting re-pricing effort:**
  - **High penetration of new tariffs as of Dec-12**

    (80% of FBB; 66% of mobile contract)
- **Different phasing in commercial costs** impacting Q4 y-o-y
- **2012 CapEx down 18.3% y-o-y** (vs -16.9% in 9M 12) despite a 32% increase in fiber

Multiple drivers behind strong margin expansion

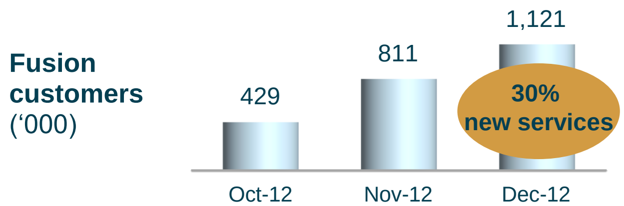
- **Savings in commercial costs** (more than € 500 m in FY 12), mainly from new subsidies policy
- **Large scale organizational restructuring** (€ 257 m savings in 2012)
- **Portfolio and processes simplification** driving IT and service savings
- **Churn efficiencies** along with improved quality (customer claims -56% y-o-y in Q4)

Penetration of new tariffs, including Fusion, in residential.
OIBDA, CapEx and OpCF y-o-y change excluding provision for redundancy program and spectrum.

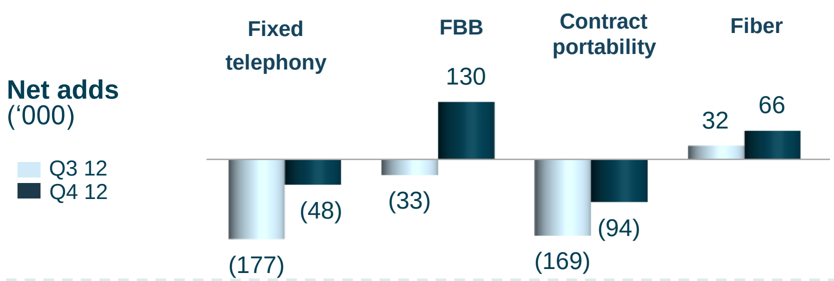
Spain: Movistar Fusion leading the Spanish market

Movistar Fusion a success in the market

3 months from launch



> 1.5 m Fusion customers
Feb-13



Reshaping the marketplace

- Making a **stagnated market to grow again**
- **Matching actual customer needs**
- **All market players following** convergence
- **Putting in value a differential infrastructure**

Net adds turnaround fostering value services

- **Improving the weight of new customers through Q4**
- **Accelerating exponentially fiber & MBB uptake:**
  - 14% total fiber take up in covered areas (Dec-12)
  - Ramp-up of fiber net adds due to Fusion in Q4
  - 532 k MBB net adds in Q4
- **Mobile portability improved** despite tough competition

Movistar Fusion enhancing customer value in a lower price environment

Movistar Fusion

- **Impact on Revenues improving**
  - Increasing new revenue stream (from new customers upselling and add-ons)
  - Introducing 12 months contract commitment

On track for revenue breakeven in Fusion customer base in 2013

- **Sustainable OpEx savings**
  - Lower acquisitions costs
  - No handset subsidies
  - E-billing
  - Higher customer satisfaction
  - Lower churn
- **Positive impact on average margin per customer**

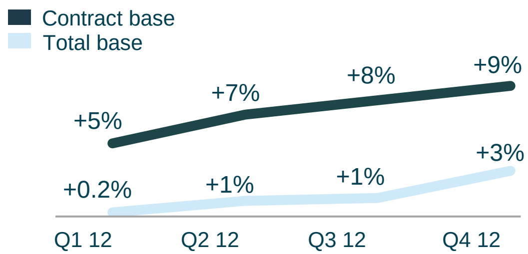
Margin break-even in December Fusion net adds

UK : Commercial traction flowing through to financials

Recovered momentum in an aggressive market

Customer base expansion with mix improvement

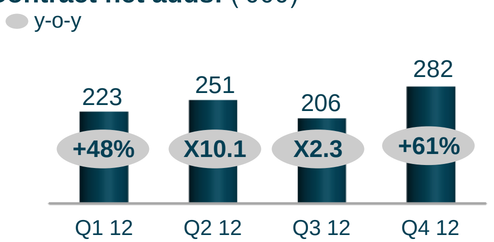
Mobile customer base (y-o-y)



- **Contract mix up 3 p.p. to 52%** at the end of December

Growth focused on high value

Contract net adds: (‘000)



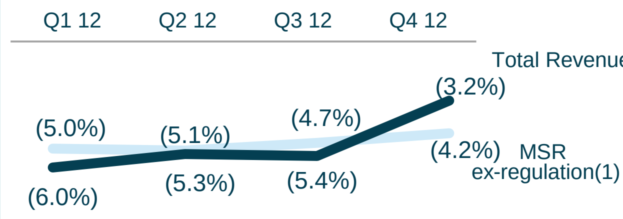
- **Smartphone penetration up 7 p.p. y-o-y to 45%**

Supported in successful retention activity

- **Market leading contract churn** at 1.0% in 2012 (improved 0.1 p.p. y-o-y)
- **Successful management of prepaid churn** (down 0.4 p.p. y-o-y in FY 12)

Revenue improvement and better profitability trends

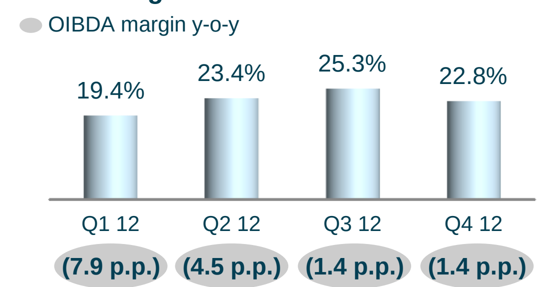
Further progress towards revenue growth



- **Sustained contract base growth** delivering **better revenue trends**

Balancing profitability

OIBDA margin:



- Q4 12 trading impacted by **increased volumes in acquisition and retention** q-o-q (+27% in upgrades)

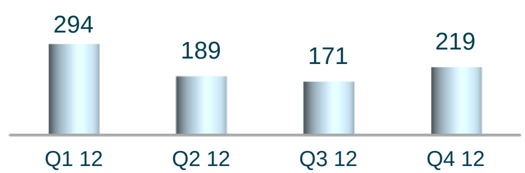
(1) Excluding MTR cuts and new roaming regulation. Y-o-y in local currency

Germany: Market benchmark performance

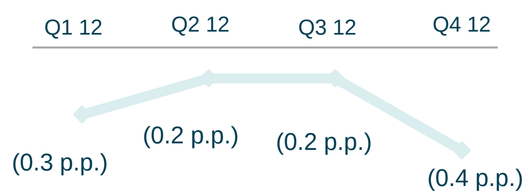
Outperforming competition

Sustained strong momentum in the high value segment

Contract net adds: ('000)

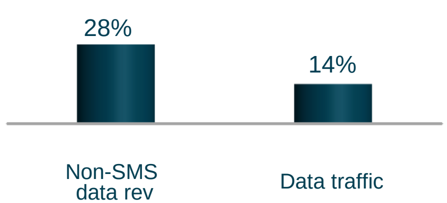


Continuous improvement of contract churn



Driving smartphone penetration and successful data monetisation

Q4 12 (y-o-y growth)

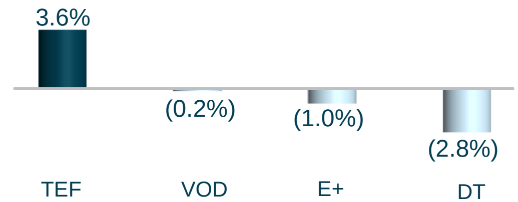


- **Smartphone penetration up 6 p.p. y-o-y to 26%**
- **New O2 Blue rates from March, 1st**: Customers choose according to data volume

Top-line expansion and efficiencies driving margins

Outperforming market in MSR growth

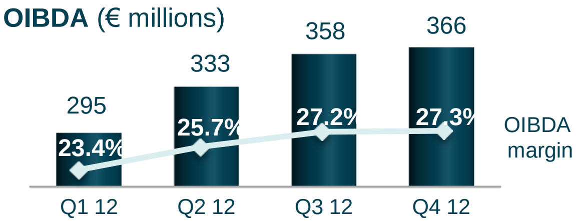
Q4 Mobile service revenues(y-o-y)



- **Consolidation #3 position** in the market

OIBDA margin growth on further efficiencies

OIBDA (€ millions)



- Fourth consecutive quarter of **OIBDA margin expansion** (+1.1 p.p. y-o-y in Q4; +1.7 p.p. in FY 12)
- **OpCF increased 12%** y-o-y to €743 m in FY 12, with **CapEx** up 9% y-o-y, with continued investment in LTE

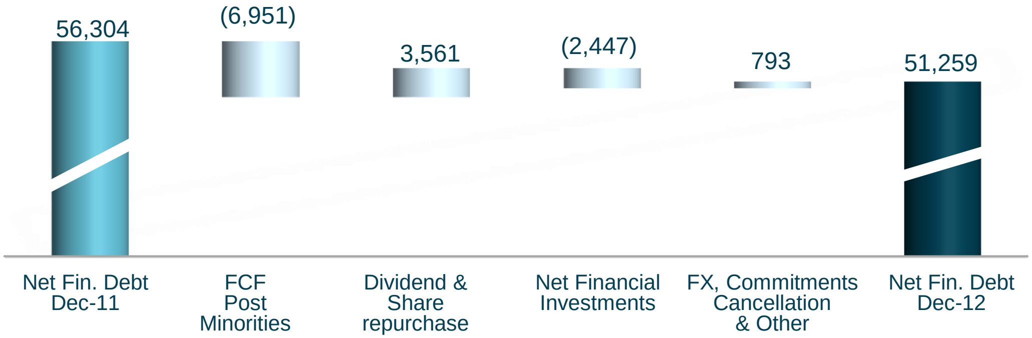
Substantial deleverage on FCF generation and disposal plan execution

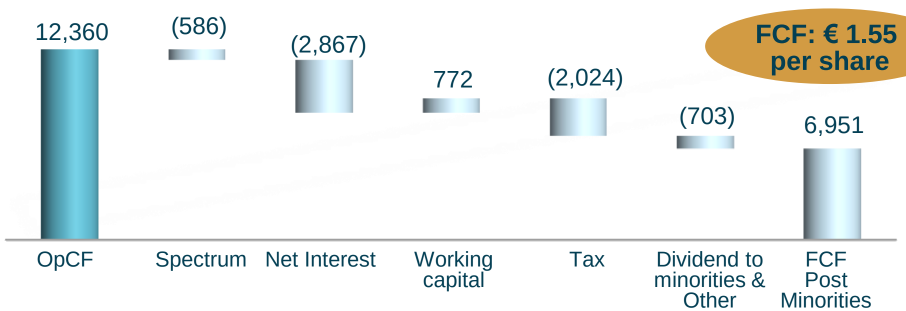
Net Financial Debt evolution

€ in millions

Net Financial Debt/OIBDA[1] 2.46x

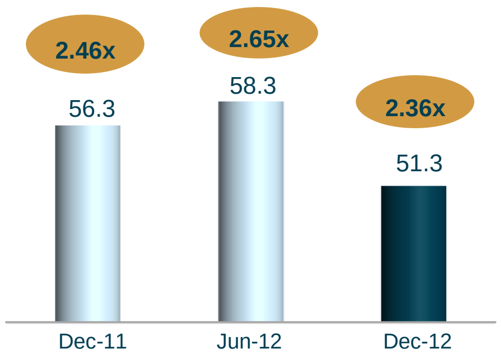
Net Financial Debt/OIBDA 2.36x





FCF: € 1.55 per share

Net Financial Debt (€ in bn)



Deleverage will continue in 2013 to comfortably below 2.35x

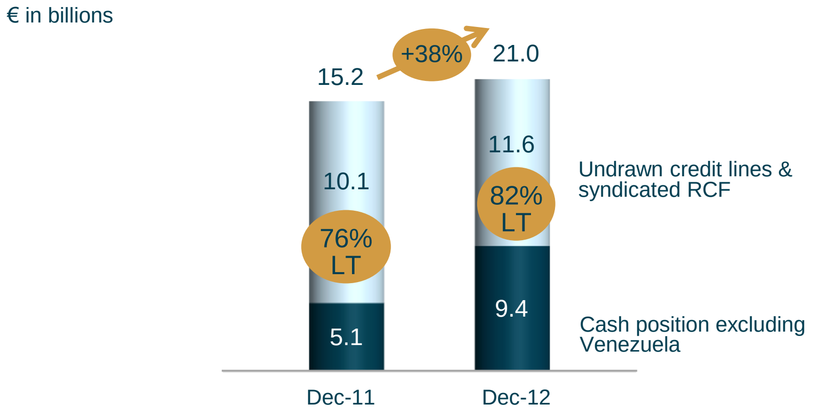
(1) Reported 2011 OIBDA ex-Redundancy Program in Spain.

Strong financing exercise & improved liquidity while contained interest expense

€18.8bn long term diversified financing (2012 & YTD 2013)

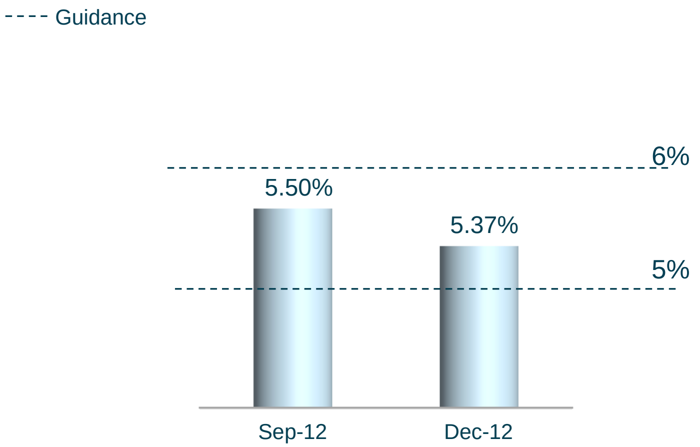
- Record year, absent M&A financing
- Average debt life 6.4 years
- Ample geographic split by bank financing: Europe 34%, Asia 23%, Spain 17%, North America 14% & Latam 12%

€21bn liquidity (+€5.8bn vs Dic-11)



- Liquidity position greater than the sum of 2013, 2014 and over a third of 2015 gross debt maturities

Effective interest cost at bottom of guidance



2013: recovering our growth DNA while reducing leverage

Recovering growth DNA

- **Customer intelligence:** Pricing strategy - maintain tiered pricing at the right price; business intelligence
- **Focus on Digital Services:** Leverage on our core assets
- **Differential channels:** Single multichannel, differentiating and enjoyable experience, emphasize quality
- **Devices:** Rebalancing market shares, changing dynamics of the devices industry
- **Efficiency and quality:** Simplification of processes, platforms
- **IT excellence:** Applications Globalisation, Simplification, Transformation
- **Best network:** Network sharing strategy, network evolution –All IP networks and Software Designed Networks

Further progress on deleverage

- **Leverage ratio comfortably below 2.35x**
- **Proactively refinance:** maturities covered well into 2015
- **Deepen asset portfolio management**
- **Restore Shareholder Remuneration:** 2013 dividend in cash, €0.75/share (2 tranches: Q4 13 and Q2 14)

2013 GUIDANCE

OPERATING GUIDANCE (in organic terms)(1):

- **Revenue growth**
- **Lower margin erosion than in 2012**
- **Similar Capex/revenues than in 2012**

FINANCIAL GUIDANCE:

- **Net Debt < €47bn**

(1) Figures according to guidance criteria.
2012 Bases for guidance purposes: Revenue (€ 61,054 m), OIBDA margin erosion -1.4 p.p. in 2012, CapEx to sales 14.1%.

2013 Operating Businesses Priorities

T. Europe

- In **Spain**, accelerate the transformation process through quality and simplification along with the new commercial model leading to lower OpEx & CapEx
- In **UK**, maintain commercial traction with market leading propositions while delivering cost effective 4G network experience
- In **Germany**, outperform the market in mobile market share by capitalising multi-brand portfolio and maintain a competitive network, delivering LTE to urban areas
- In **Czech Republic** we will continue focus on our efficiency agenda to protect profitability
- In **Ireland** we move towards business stabilisation

T. Latam

- In **Brazil**:
  - Focus on the ongoing fixed business turnaround
  - Maintain mobile business outperformance leveraged on our top quality proposal
- Catch up market leaders in **Mexico**, **Colombia** and **Ecuador**
- At a **regional level**, exploit the benefits of further efficiency gains while grabbing the advantages and opportunities of our scale

+

T. Digital: Fostering digital growth in several markets, leveraging our core assets and building powerful positions through partnerships

TGR: Scale benefits leading to further progress in transformation and OpEx & CapEx savings

Conclusions

- **Reinforcing our growth model, solid execution of transformational initiatives:**
  - Progressive margin recovery driving OIBDA stabilization; improvement of underlying EPS along 2012
  - Benefits from best-in class diversification
  - Outstanding growth in mobile data and T. Latam
  - Improved commercial momentum on focused areas
  - Accelerating cost savings and efficiencies along the year
  - CapEx efficiency and simplification
- **Financial flexibility regained:**
  - Substantial deleverage progress in H2 12 to continue in 2013
  - Normalised access to financial markets
  - Strong liquidity position
- **Delivery on 2012 guidance and realistic outlook for 2013**

Organic growth: In financial terms, it assumes constant average exchange rates as of January-December 2011 and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. The results of the Atento Group are included up to 30 November 2011 and those of Rumbo are included up to 31 October 2011. In OIBDA and OI terms, 2012 excludes the reduction in value made by the Telefónica Group on its investment in Telefónica Ireland (-527 million euros), the capital loss generated by the sale of China Unicom shares (-97 million euros), and the capital gains generated by the sale of the Atento Group (+61 million euros), Rumbo (+27 million euros) and the partial sale of Hispasat (+26 million euros). Excluded from OIBDA and OI in 2011 were the positive impact of the partial sale of Telefónica's economic exposure to Portugal Telecom (+184 million euros), and the provision for the redundancy program in Spain (-2,671 million euros). Telefónica's CapEx excludes spectrum investment and, in 2011, the Real Estate Efficiency Programme at T. España, and the real estate commitments in relation to the new Telefónica headquarters in Barcelona.

Underlying growth: Reported figures, excluding exceptional impacts and spectrum acquisition and excluding the impact from changes in the perimeter of consolidation. The results of the Atento Group are included up to 30 November 2011 and those of Rumbo are included up to 31 October 2011. 2012 figures exclude the reduction in the value of the Telecom Italia investment and the recovery of all the operating synergies considered at the time of this investment (-1,355 million euros; -949 million euros net of taxes), and also PPAs (-1,073 million euros; -689 million euros net of taxes and minority interests), the reduction in value made by the Telefónica Group on its investment in Telefónica Ireland (-527 million euros; -513 million euros net of taxes), the effect of Venezuelan Bolivar devaluation (-438 million euros; -417 million euros net of taxes), the capital loss on the sale of China Unicom shares (-97 million euros; -45 million euros net of taxes), the capital gain on the sale of Atento Group (+61 million euros; +33 million euros net of taxes), the capital gain on the sale of Rumbo (+27 million euros; +24 million euros net of taxes) and the capital gain on the partial sale of Hispasat (+26 million euros; +19 million euros net of taxes). In 2011, results exclude the provision for the redundancy program in Spain (-2,671 million euros; -1,870 million euros net of taxes), the reversal of deferred tax liabilities at Vivo (+1,288 million euros; +952 million euros net of taxes and minority interests), value adjustments in relation to the stake in Telecom Italia and the operating synergies achieved (-662 million euros; -481 million euros net of taxes), the positive impact arising from the partial reduction of Telefónica's economic exposure to Portugal Telecom (+184 million euros), the difference in market value of the BBVA stake (-80 million euros; -56 million euros net of taxes), tax asset reassessment (-30 million euros) and also PPAs (-1,228 million euros before taxes; -790 million euros net of taxes and minority interests).

Guidance criteria 2013: 2012 adjusted figures for guidance exclude results of Atento, Rumbo and small changes in T. Digital perimeter. It also excludes all capital/loss gains (China Unicom, Atento, Hispasat and Rumbo), tower sales, impairment of T. Ireland and change in contractual commercial model for contract handsets in Chile. 2013 guidance assumes constant exchange rates as of 2012 (average FX in 2012), excludes hyperinflationary accounting in Venezuela in both years and considers constant perimeter of consolidation. OIBDA level guidance for 2013 excludes write-offs, capital gains/losses from companies' disposals, towers sales and other significant exceptionals. CapEx excludes spectrum acquisition, changes in the accounting for handsets in Chile and Atento, Rumbo and small changes in T. Digital perimeter.