

Telefónica

Telefónica Latinoamérica

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Chairman and CEO of Telefónica Latinoamérica

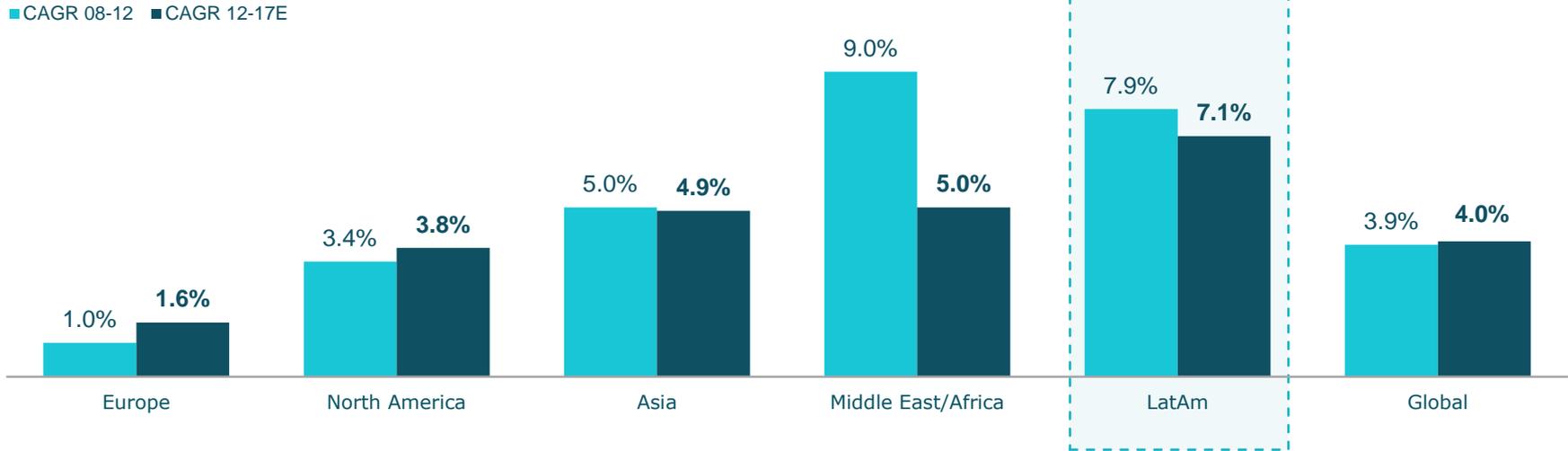
Big opportunity ahead of us

T. Latinoamérica: Best starting position for Digital Revolution

1. Best Assets
2. Best Diversification and Scale
3. Best Innovation
4. Best Customers

Big opportunity ahead of us: LatAm is leading ICT growth

ICT Sector Revenue Growth ⁽¹⁾



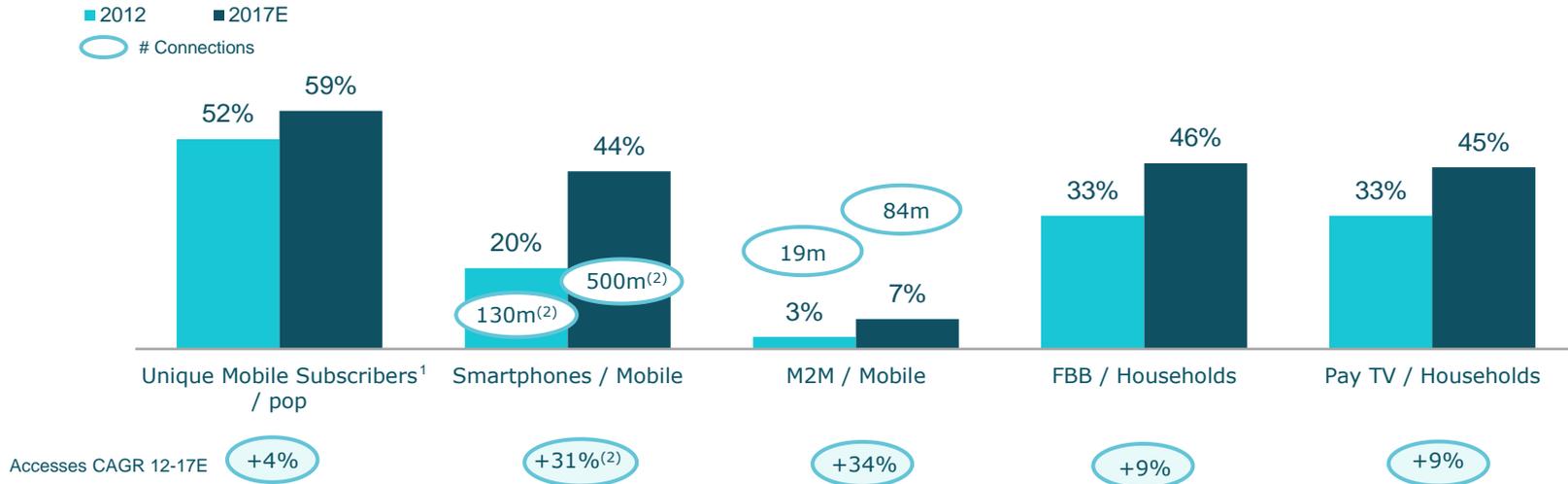
LatAm is leading ICT growth

- Brazil becoming the 4th largest Telecom Market in the world in subscribers
- Mobile and Fixed Service Revenues growing

(1) Constant currency. Source: IDC - Worldwide Black Book (Aug13)
Additional sources: GSMA Intelligence and Analysys Mason

Big opportunity ahead of us: Increased penetration across services

Services penetration



Growth on booming population & services adoption

- **Ample room to increase mobile penetration:** +1 p.p. of unique mobile subscribers penetration => **+9 million** new subscribers
- **New revenue sources booming:** In next 5 years, Smartphones and M2M => ~4x
- **Limited FBB and Pay TV penetration** => -32 p.p. and -27 p.p. respectively vs Europe in 2012

Source GSMA Intelligence and Analysys Mason

¹ Unique subscribers, excluding the estimated impact of multiple SIMs per user

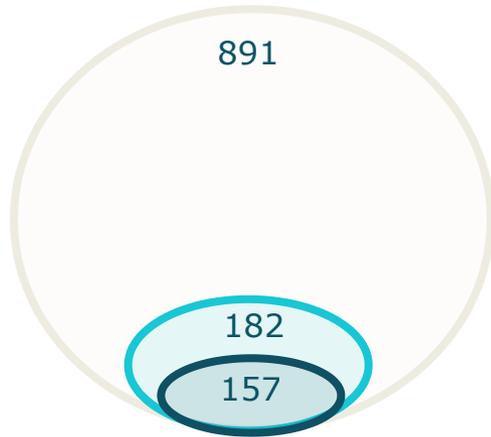
² Total Mobile Broadband connections

Big opportunity ahead of us: Intensifying usage to grab further growth

MOU

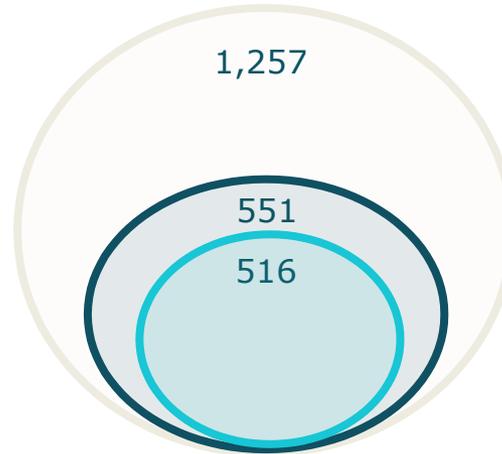
Q3 13 (Average number of minutes)

USA Europe LatAm



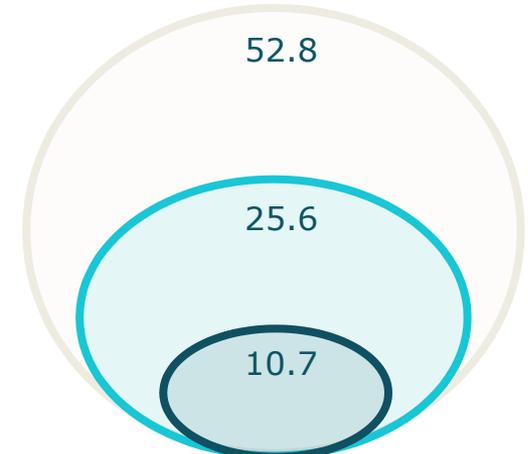
MB of data traffic per connection

Q3 13



ARPU

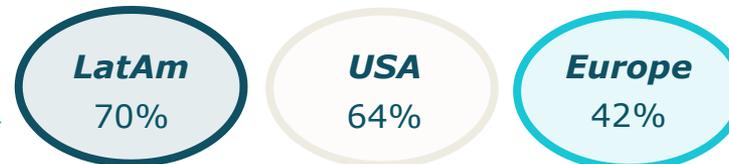
Q3 13 USD\$



Growth across services

- Voice positively contributing to revenue growth with **MOU in LatAm growing in y-o-y terms**
- Data opportunity on **booming data traffic: CAGR 12-17E => +67%**
- **Similar competitive market structure to the US provides a better platform for the introduction of new technologies:**

2 main mobile players regional market share



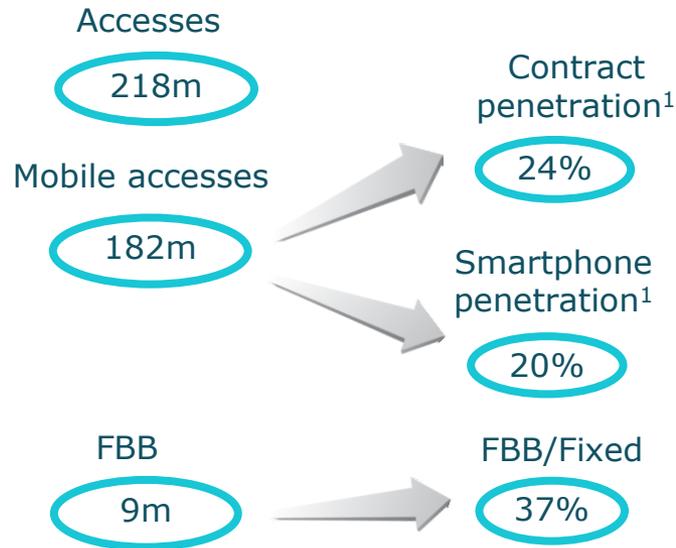
Source: GSMA Intelligence, Mobidia (data traffic for Europe and LatAm as an average of the 3 most representative markets) and Global Wireless Matrix (Q3 13; BofAML)

Big opportunity ahead of us

T. Latinoamérica: Best starting position for Digital Revolution

1. Best Assets
2. Best Diversification and Scale
3. Best Innovation
4. Best Customers

1. Best Assets (I): Telefónica, benchmark in Latin America



Revenue Market Share
Brazil: #1
Argentina: #1
Peru: #1
Mexico: #3
Colombia: #2
Chile: #1
Venezuela: #2
Ecuador: #2
Central America: #1
Uruguay: #2

Focused strategy

- A. **Maintaining the outperformance in the markets where we are leaders** with further potential on innovative services and differential network positioning
 - **Record high in mobile contract net adds in Brazil**, capturing 58% of the market in 2013² to reach 40% of contract market share
- B. **Catching up market leaders** in lagging markets on an eased regulatory framework; strengthening our market positioning on mobile data-centric disruptive proposals and wholesale agreements signed to an efficient use of our resources
 - New agreements signed in Mexico (Nextel, Iusacell and 3 MVNOs) and Colombia (Virgin) to strengthen our wholesale positioning and to become the network option to compete against the dominant player

Information updated as of Sep-2013

¹ Penetration over mobile accesses

² Updated as of Nov'13

1. Best Assets (II): Addressing different realities

A. Maintaining the outperformance in the markets where we are leaders

BRAZIL

- **Superior quality**
 - ✓ Leading CSI; expanding the gap
- **Superior network**
 - ✓ More than 3.1k municipalities covered with 3G; 2x our closest competitor
- **Superior brand**
 - ✓ Top of mind leader in last 5yrs

Contract Mobile Net Adds (million)



Contract and smartphone penetration

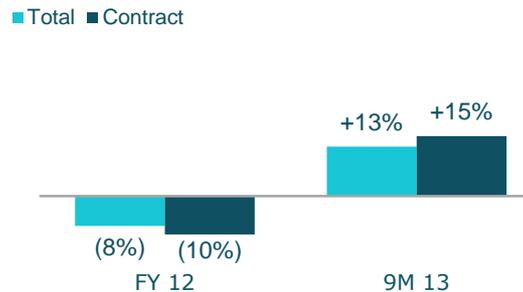


B. Catching up market leaders in lagging markets

MEXICO

- **Reshaped commercial strategy and distribution channel**
- **Efficient use of our resources;** becoming the strongest wholesale provider
 - ✓ Several agreements signed with both MNOs and MVNOs

Gross additions (y-o-y)



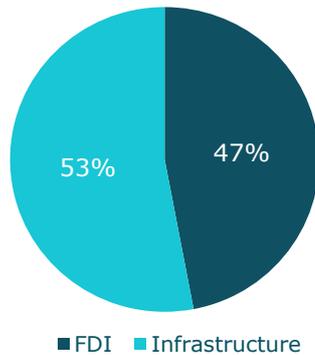
New regulatory framework

- **Imminent new regulatory framework** to further advance in the transformation journey
 - ✓ Creation of CFCE and IFT
 - ✓ Determination of dominant players
 - ✓ MTRs asymmetric regulation under review
 - ✓ Infrastructure sharing and ULL rules for dominant players

1. Best Assets (III): Best infrastructure based on strong investments

T. LatAm: The main foreign investor

(As of Sep'13)



T. LatAm: The best telecom platform



>34,000
3G base stations

~80%
3G coverage (pop)



>2,300
4G base stations

4G commercial launch



~74% sites
with UBB Backhaul⁽¹⁾

~x3 UBB accesses
y-o-y ⁽²⁾

Strong investments drive the best network

- **Best positioning in spectrum capacity to boost future growth:** higher spectrum share than our closest competitor; gap amplified on lower bands (<1 GHz) and on most recent spectrum auctions (Colombia and Peru)
- **Optimizing and speeding up LTE roll-outs:** spectrum for 4G services awarded in most of the countries; commercial launch already in 5 countries
- **Focused UBB deployment:** 1.5m households passed with fiber in Brazil
- **Pragmatic approach on efficient network deployment** (shared backbone/sites deployment)

Network information updated as of Sep'13

¹ Total sites connected with fiber and IP/hybrid microwaves

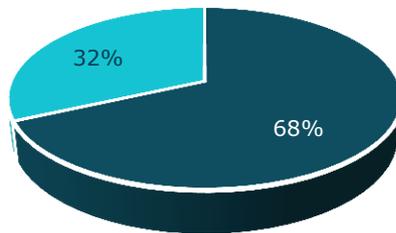
² Accesses with > 8MB

2. Best Diversification: Strong diversification across regions

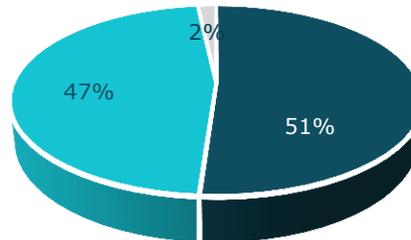
T. LatAm is Telefónica's growth engine

Accesses

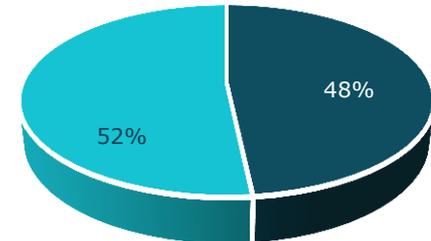
■ LatAm ■ Europe ■ Others



Revenue



OIBDA

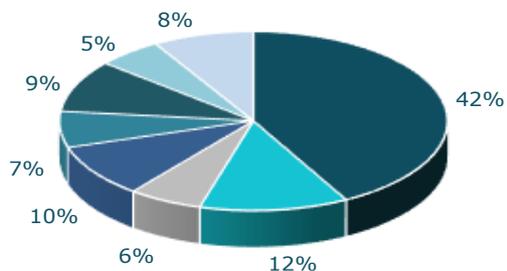


- **CapEx (exc. spectrum) / sales (2009-12) => 13.7% Group**
- **2.2bn€ (2009-12) invested in spectrum to capture booming data opportunity**

↔ 16.2% LatAm
↔ 11.2% Europe

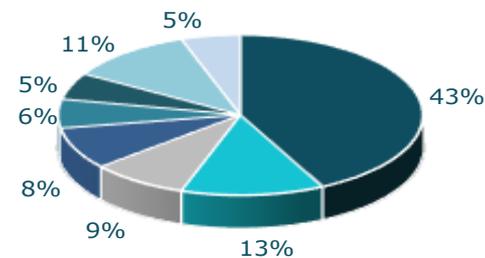
Balanced portfolio within the region

Accesses



■ Brazil ■ Argentina ■ Chile ■ Peru ■ Colombia ■ Mexico ■ Venezuela ■ Others

Revenue



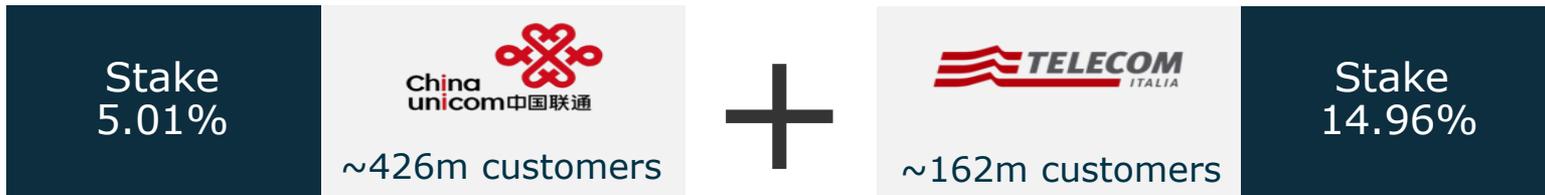
- Strong diversification with **limited market risk** onwards:
 - Market share of **26%** (F+M) in our main market (Brazil) suggests upside capacity
- vs.
- Our main competitor has **73%** (F+M) market share in its major market (Mexico)
- **Mobile revenues accounting for 71%** out of total revenues (fixed 29%)

2. Best Scale (I): Big scale allows us to benefit from multiple processes

T. Global Resources is the unit to extract value from our scale

- Telefónica is the **6th largest operator** in terms of accesses ⁽¹⁾ and market capitalization ⁽²⁾
- Partnership program further strengthening our scale.
- Strong differentiation through our scale: just 4 players above 10 bn\$ mark (revenues) in LatAm.

Telefonica



PARTNERS PROGRAM



>1,000m
Combined Customers

Savings of **>1bn€**
in 2012

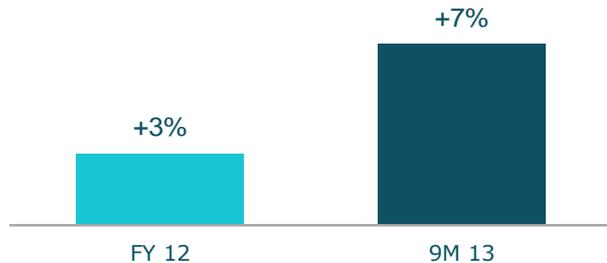
¹ As of September 2013

² As of January 10, 2014

2. Best Scale (II): Embracing Corporate & SME growth opportunity

T. LatAm Corporate & SME Revenues

Organic y-o-y growth



T. LatAm Corporate & SME Accesses

Organic y-o-y growth



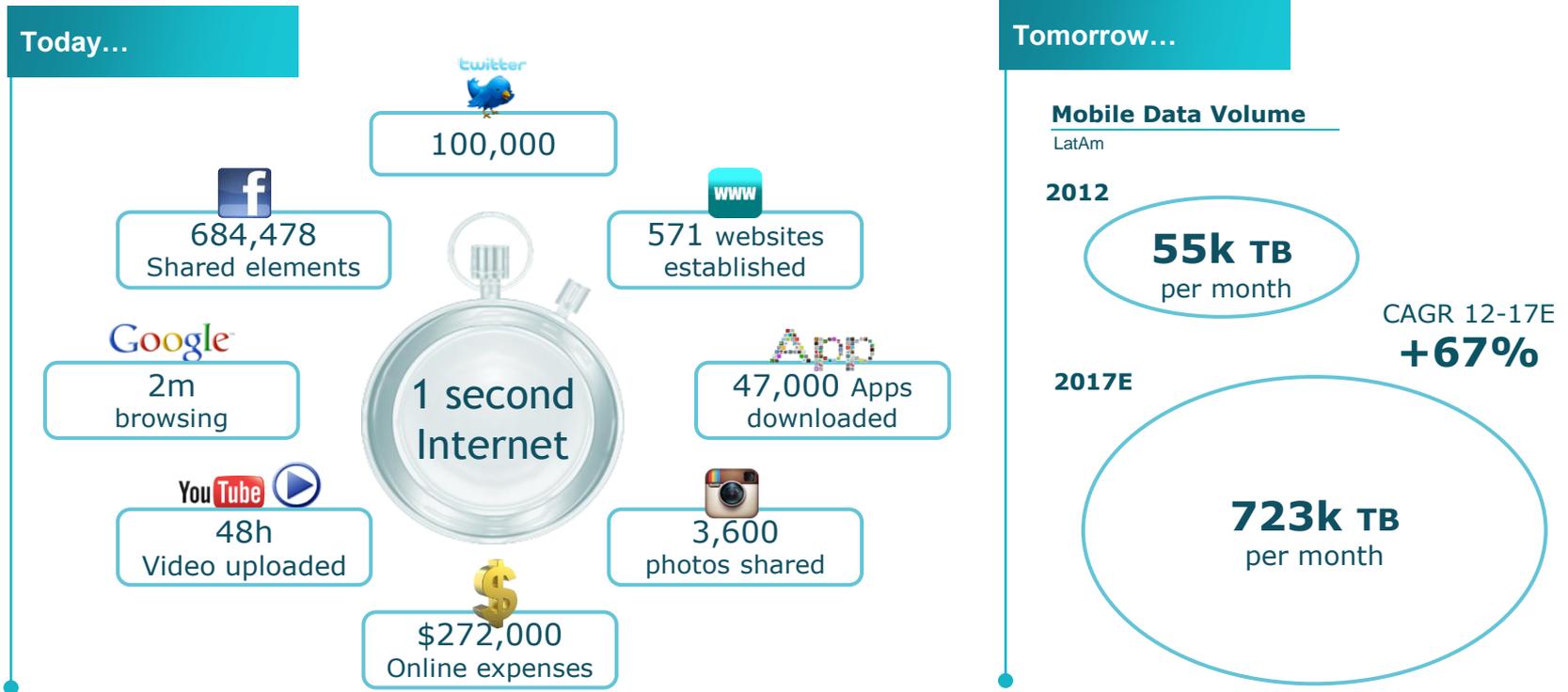
Regional scale and disruptive B2B proposals leveraging growth

- **Best scale and limited regional market share** in Corporate & SME **provides a big opportunity** to embrace growth and outperform market peers
 - 16% T. Latam's market share (2011*); Corporate & SME revenue growth of 6% (CAGR 11-17E*)
 - Regional approach delivering regional agreements
- **Unique Processes and Systems:** Integrated Model for CRM and BI
- **Compelling digital solutions** with a paradigm shift from "enterprise focus" to "employee focus"



* Source: Frost&Sullivan (Jan'13)

3. Best Innovation (I): New revenue streams strengthening growth profile



Upgrading customers to higher-speed networks allows us increasing data growth

- Connections via 2G networks still accounting for almost 80% of total connections
- 3G is now booming on rising income levels and sharp declines in handset prices (US\$ 100 smartphone is now a reality)
- Video accounting for 60% of total data traffic

Sources: GSMA Intelligence

3. Best Innovation (II): Innovating across the whole value chain...

Creating an environment for innovation

 **Campus Party™** Largest technological festival in the world
+10 countries **304,468** "campuseros"

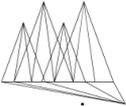
An idea is born

talentum
Schools Scholarship program to assist "techies"
Universities **50** Accelerators **5** countries
Startups

Turning an idea into a business

 **wayra.** Business accelerator for digital startups
14 Academies **+22,000** projects received

An innovative business starts to grow

 **amerigo** International network of technology venture capital fund
50 Startups **4** countries

Closing the circle

Telefonica
Digital

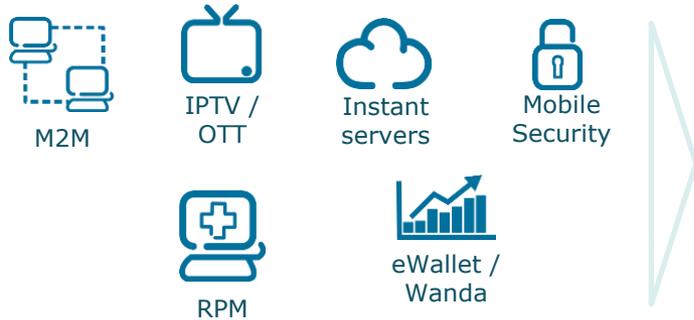
Digital technology arm of the company
4 Regional Hubs
5,000 Employees
9 Main Business Areas



3. Best Innovation (III): ...to provide best innovative services

Telefonica Digital combined with the best NGN is allowing us to capture this opportunity

- **Innovation allows us to address new revenues sources**



- **mAutomotive** (M2M) opportunity from 0.9bn€ (2012) to 15.2 bn€ (2020E)
- **Smart City** (M2M) 4 out of 15 largest urban cities in LatAm. From 2m (2012) to 23m (2020E) connections.
- **E-health**: 1.6bn€ regional opportunity in 2017.
 - Allowing healthcare access to 28.4 million people in Brazil and 15.5 million to the same in Mexico.
- **Financial Services**: 60% of adults in LatAm remain unbanked.

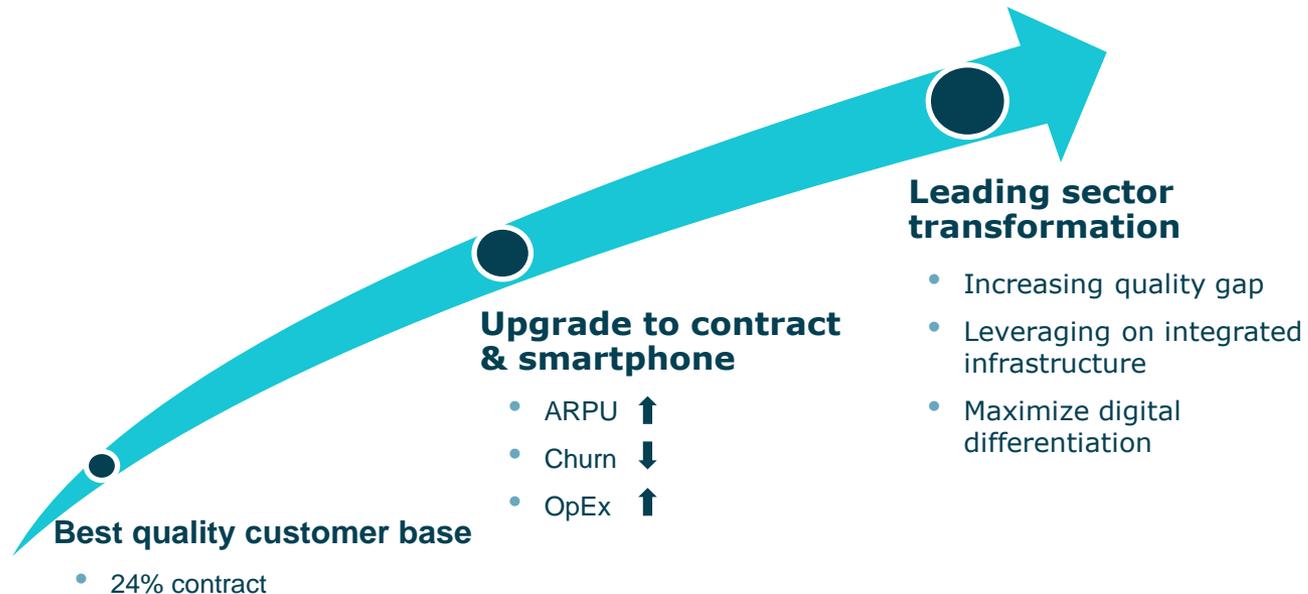
- **Through alliances and agreements with third parties**



- **Maximizing the value delivered to our customer base**



4. Best Customers (I): Selective Quality Growth

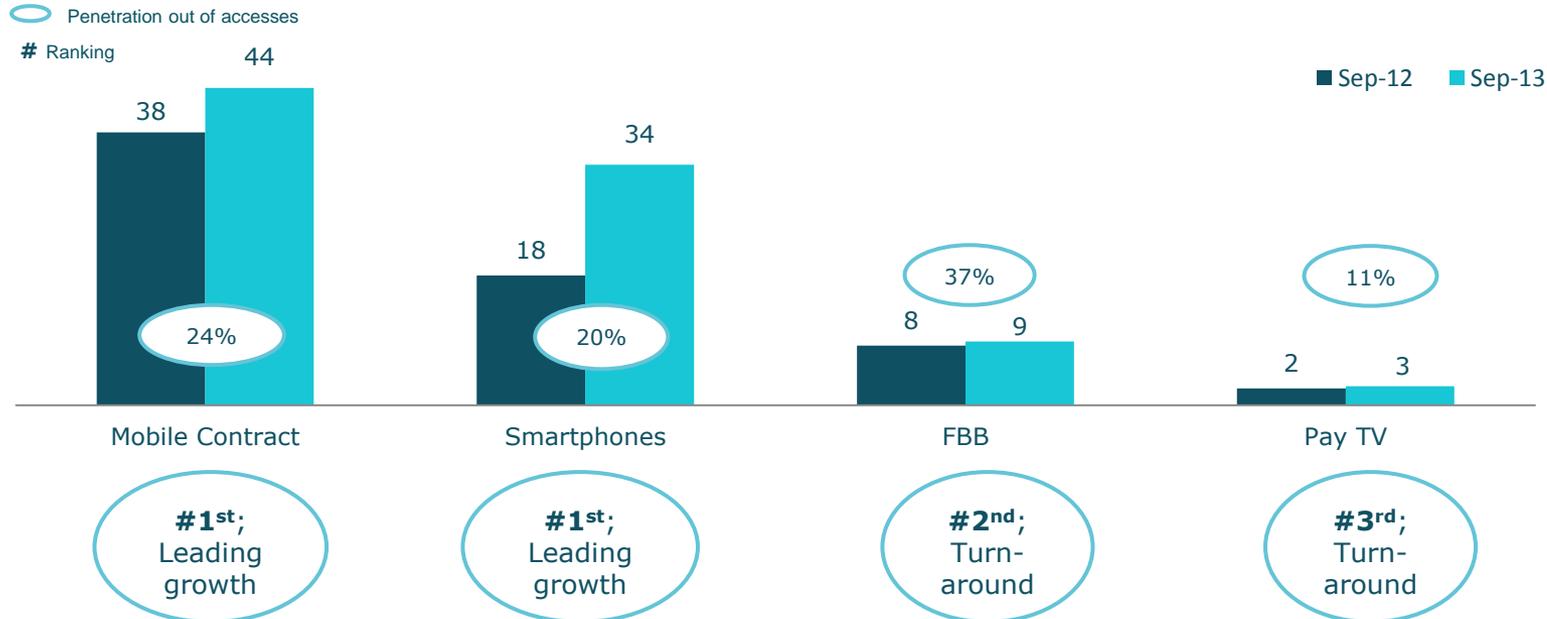


Transformation for a brighter future

- **Leading sector transformation from the best starting point**
 - Largest contract and smartphone customer base to evolve the business towards data
- **Heading to a more sustainable data growth model, based on differential quality and higher customer loyalty**

4. Best Customers (II): Most advanced customer base

T. LatAm accesses (million)

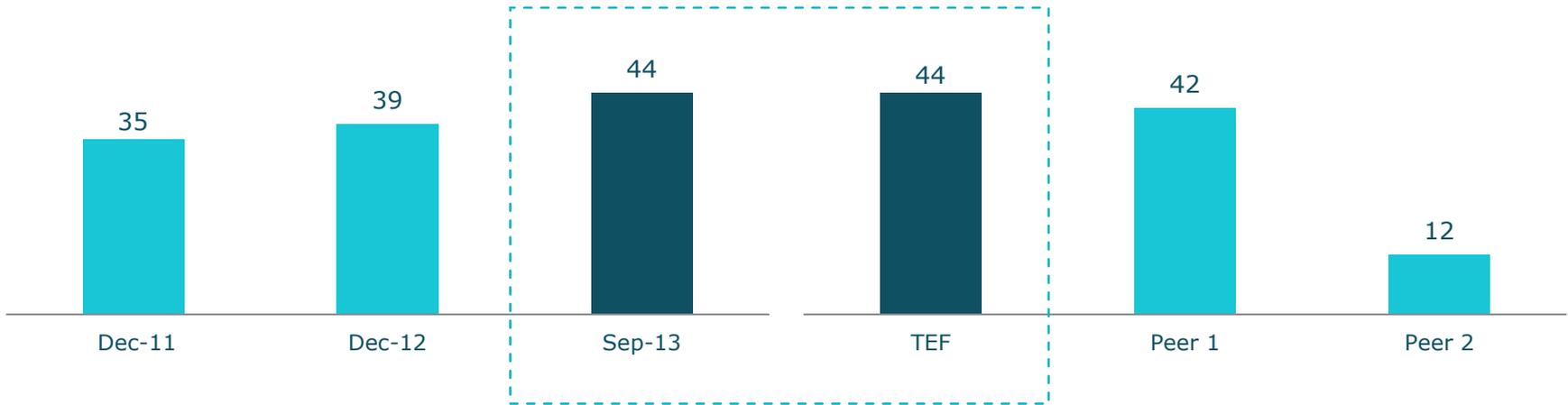


Focus on capturing the most valuable segments

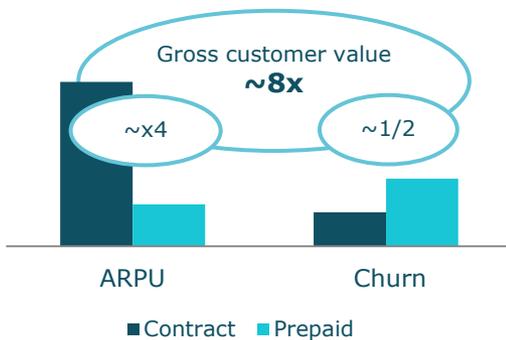
- Benchmark assets fueling **valuable growth**
- **Limited penetration** provides even higher opportunities going forward
- Catching-up regional fixed services leaders on commercial turnaround

4. Best Customers (III): Accelerating mobile contract & data adoption

LatAm mobile contract accesses (million)



Mobile contract value



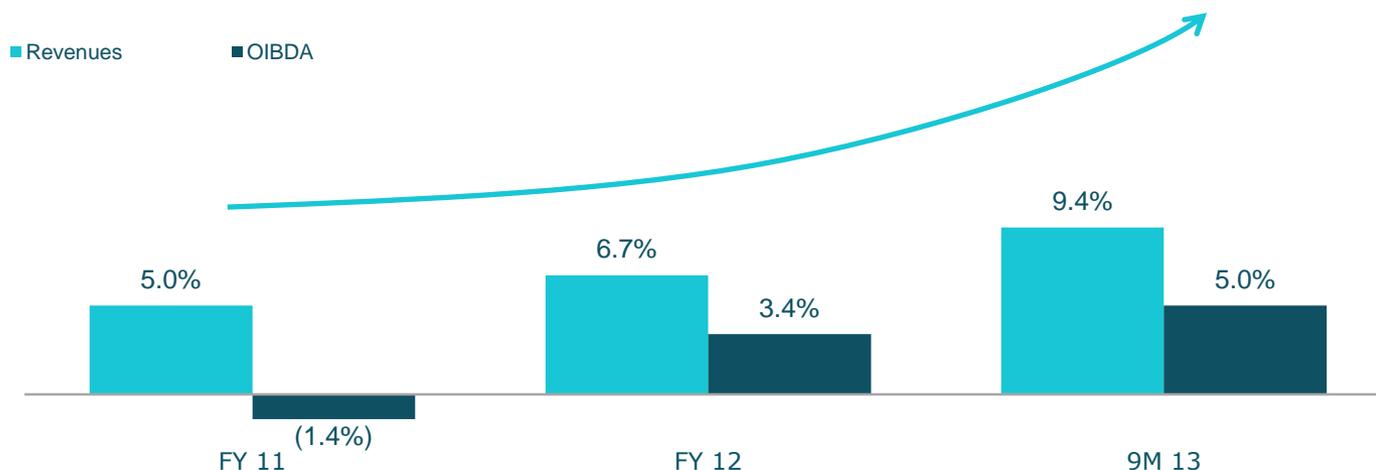
Setting the basis for data growth

- Data adoption fueled by contract customers

Smartphone penetration (Sep 13)
44% (contract)
13% (prepaid)

4. Best Customers (IV): leading to revenue and OIBDA growth acceleration

T. LatAm: Organic* y-o-y growth



Revenue growth gradually accelerating

- **Strong positioning on high value customers fuelling revenue growth. Our 9.4% y-o-y growth implies...**
 - **Leading regional growth** (combined top 4 regional players excl. T. Latam growing by 6.8% y-o-y in 9M 13)
 - **Outpacing accesses growth** (+4% y-o-y in 9M 13)
- **Mobile data growth, the main growth driver** (+22% in 9M 13) steadily transforming Telefónica's revenue mix (already accounting for 32% of mobile service revenues)
- **Margin erosion** (1.3 p.p. in 9M13 organic y-o-y) linked to commercial activity devoted to **sustainable growth based on quality**

* Organic growth reported in each period

Conclusion

- Telco sector in LatAm provides a **big growth opportunity**
- This opportunity is **fuelled by the digital revolution**, still at an early stage
- **Telefónica Latinoamérica is in the best starting position to capture this opportunity:**
 - Strong investments
 - Best diversification and scale
 - Focused commercial strategy on value customers and innovation
- **First results already visible on our financial performance**, with an ongoing growth acceleration

Telefónica Latinoamérica at the forefront of regional growth

The word "Telesonic" is written in a dark blue, elegant script font. A horizontal line of the same color is positioned directly beneath the text, extending across its width.

Telesonic