

Broadband Expansion in Latin America

May 2014



Our Vision_

A young child with light brown hair, wearing a white shirt and a dark blue vest, is leaning over a white surface and looking intently at a tablet computer. The background is a blurred indoor setting with a green apple visible on the right.

Technology
should be open
to everyone
so that we can all **BE**
MORE_

We are constantly transforming_

	1989	2000	2013	1989 - 2013
 Customers (Mn)	12	68	323	x27
 Countries *	1	16	24	+23
 Team ('000)	71	149	130	x2
 Revenues (Mn €)	4,273	28,482	57,061	x13

* Includes Ireland, Czech Republic and Slovakia. At the end of 2013, the sale of operations in these countries were pending regulatory approval.

In 25 years Telefonica built a solid position...

Accesses

December 2013 (Mn)

Brazil: 92.7

Argentina: 26.7

Mexico: 21.9

Peru: 20.9

Colombia: 14.8

Chile: 13.6

Central America: 11.8

Venezuela: 11.7

Ecuador: 5.2

Uruguay: 1.8

Total Accesses
222 Mn

Leading Contract
penetration*: 25%

Leading Smartphones
penetration*: 22%

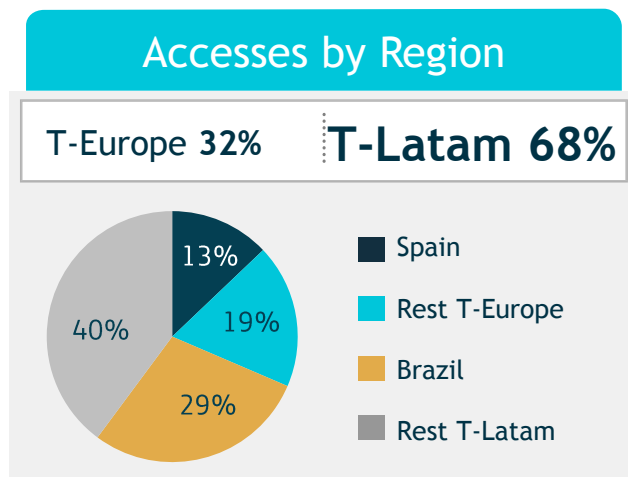
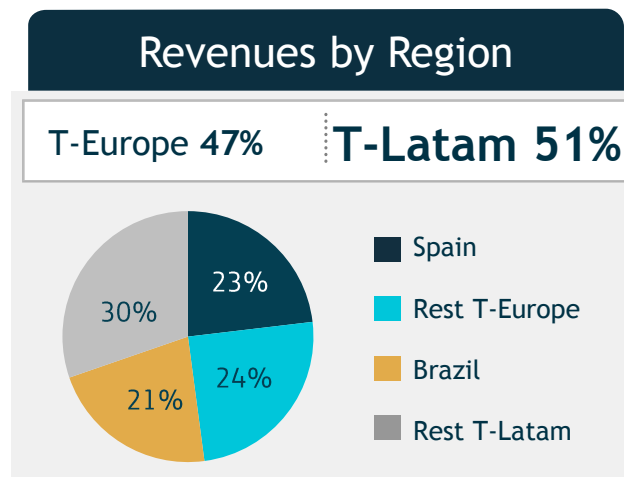
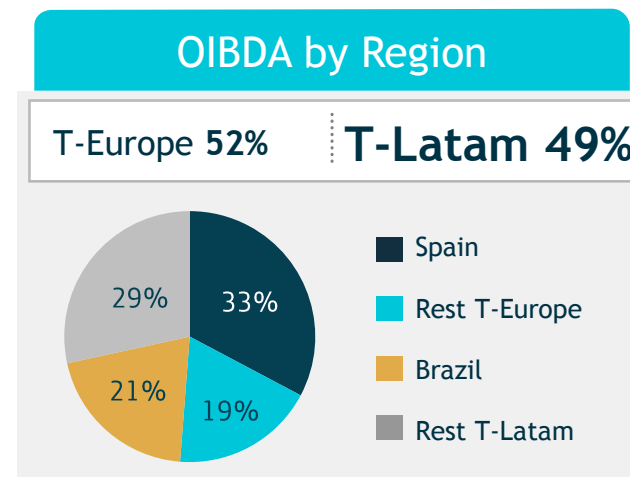


Notes: Central America includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica. Total accesses figure includes Narrowband Internet accesses of Terra Brazil and Terra Colombia, and Broadband Internet accesses of Terra Brazil, Telefónica de Argentina, Terra Guatemala and Terra Mexico.

* Penetration over mobile accesses.

..and we can say with proud we are Latin American_

	2013 (Mn €)	% Var. Reported vs 2012	% Var. Organic vs 2012 *
Revenues	57,061	-8.5%	+0.7%
OIBDA	19,077	-10.1%	0.0%
OIBDA Margin	33.4%	-0.6 p.p.	-0.2 p.p.
Operating CF **	10,905	-11.8%	-2.7%



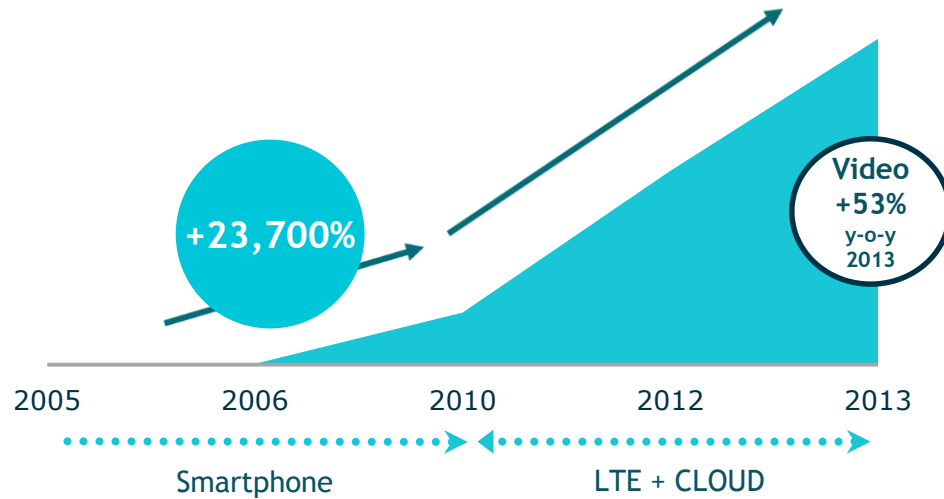
* Organic growth: Assumes constant exchange rates as of 2012 (average Fx in 2012), excludes hyperinflationary accounting in Venezuela and considers constant perimeter of consolidation.

** Operating CF = OIBDA - CapEx (excluding spectrum).

Note: Differences up to and over 100% are due to "Others & Eliminations".

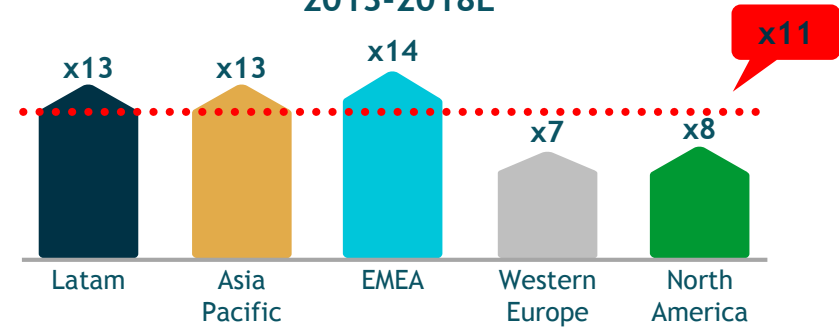
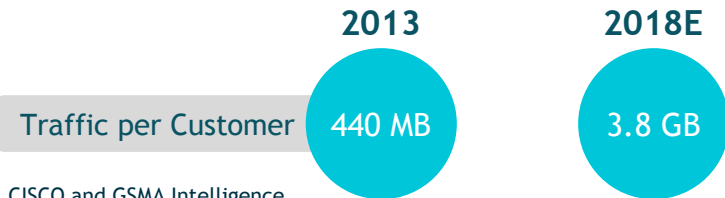
We are more than ever convinced about the huge digital opportunity_

Mobile Data Traffic



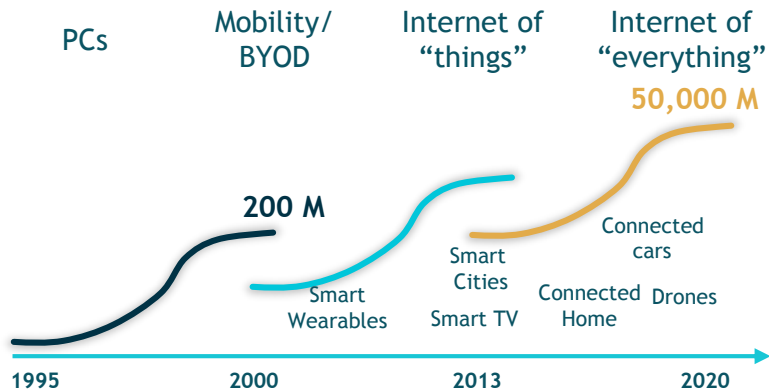
Source: CISCO.

2013-2018E



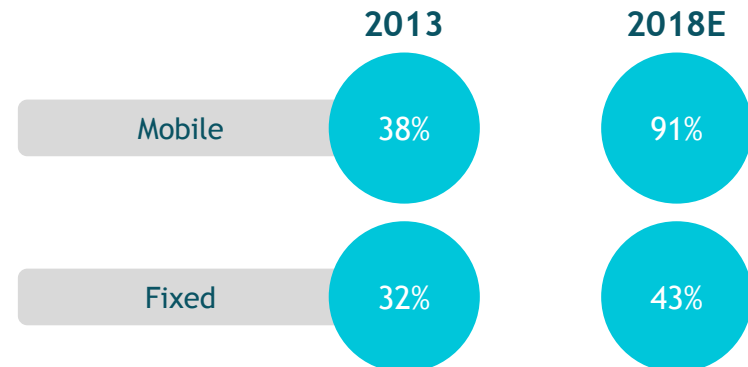
Source: CISCO and GSMA Intelligence.

Connected Objects



Source: CISCO.

Broadband Penetration



Source: Pyramid - Global Custom Forecast Q4 13 (Feb-14).

About new growth opportunities for the industry...



Cloud
Services



M2M



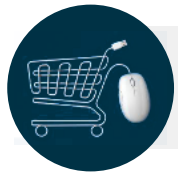
Mobile
Payment



e-Government

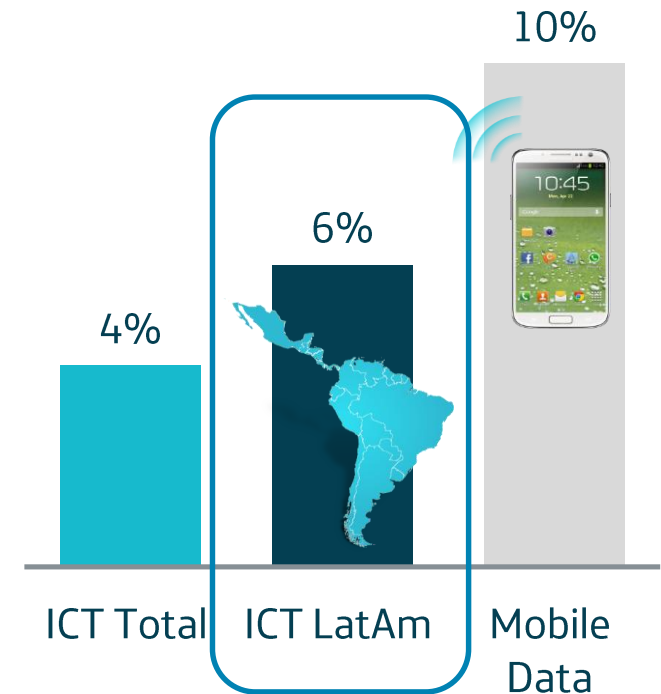


Big Data



e-Commerce

Global Industry Revenues CAGR 13-17



Source: IDC - Worldwide Black Book (Feb14).

...in all regions, but specially in Latam_

ICT Market in 2013 Bn US\$

		CAGR 2008-13	CAGR 2013-17E
North America	1,082	3.7%	3.9%
Europe	923	1.0%	1.3%
Asia-Pacific	916	1.6%	4.6%
Latin America	333	8.4%	6.3%
Middle East & Africa	238	8.1%	3.9%
Worldwide	3,492	3.0%	3.7%

Source: IDC - Worldwide Black Book (Feb14).

Telefónica sits on a privileged position to capture this growth potential



Leverage unique assets (networks/IT & BI/distribution)

- Copper, 2G/3G
- Traditional IT
- Physical stores and call centers
- Traditional Business Intelligence
- Fiber, LTE, Cloud-RAN, virtualisation...
- IT as a Digital enabler
- Digital customer experience
- Customer Insight



Capturing growth beyond connectivity

- Communication services
- Digital solutions

We are working to promote changes of the model in our sector...

Offer simplification



Removing/
reducing subsidies



Creating new
digital services



Supporting
alternative ecosystems



Microsoft

Telefonica

NOKIA

Intra-markets
Consolidation



Hutchison Whampoa



Ireland



Czech

We are driving our technological transformation...

2014

75% CapEx
Transformation &
growth

FTTH

+65%

LTE

+27%

3G

+27%

Transportation

+35%

TV

+84%

Coverage (POP)



~40%



~25%

~ 10 Mn

Homes passed

+FTTH

B.S.

>20,000

~x2 vs.
2013

Coverage



50%



50%



>60%

Launched



B.S. with backhaul UBB

>65%

+LTE

+Modern.
IT

Physical
servers

-10%

Servers
Virtualization

+9 p.p.

Data Centers

-11

Applications

~-300



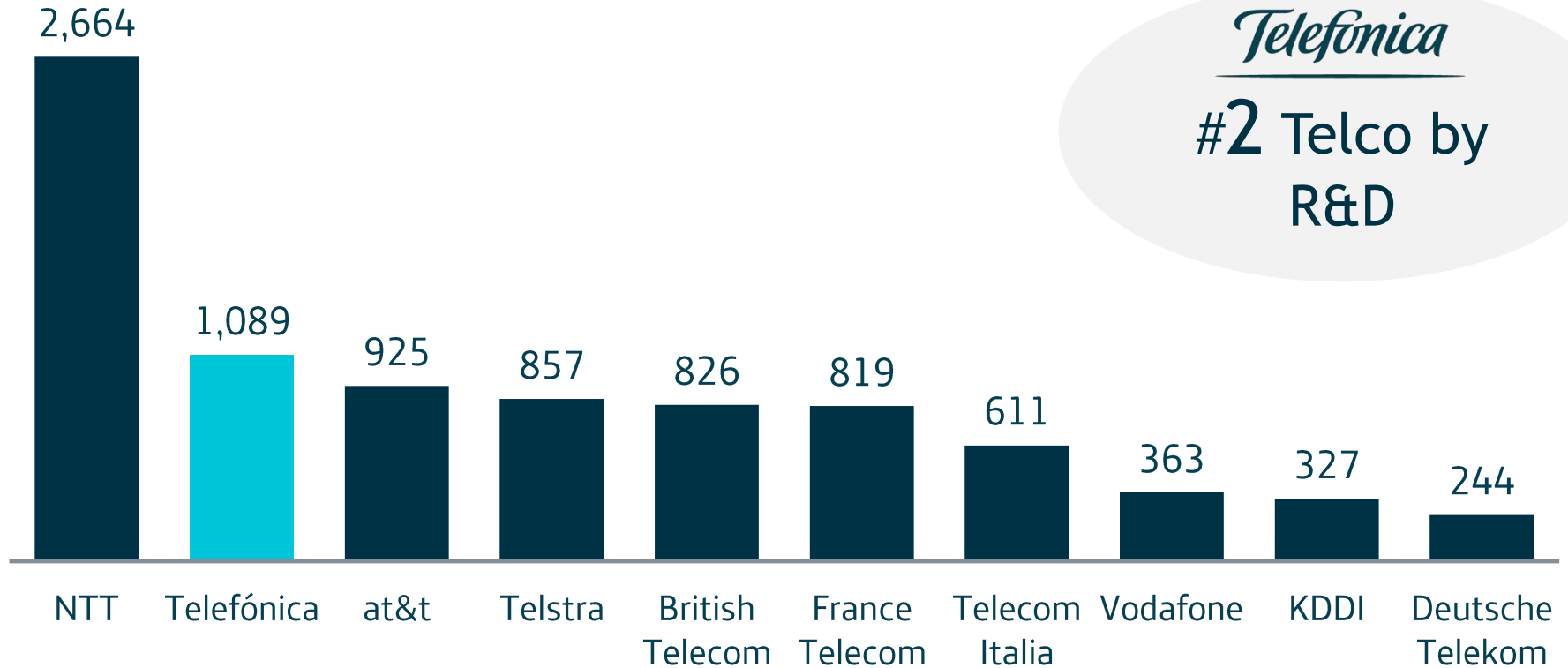
And we are convinced Telefónica's
activity has a clear positive impact in
the societies where it is present

As an engine for economic sustainable
development and innovation...

...and to help
overcome social divides

We have a strong commitment with R&D_

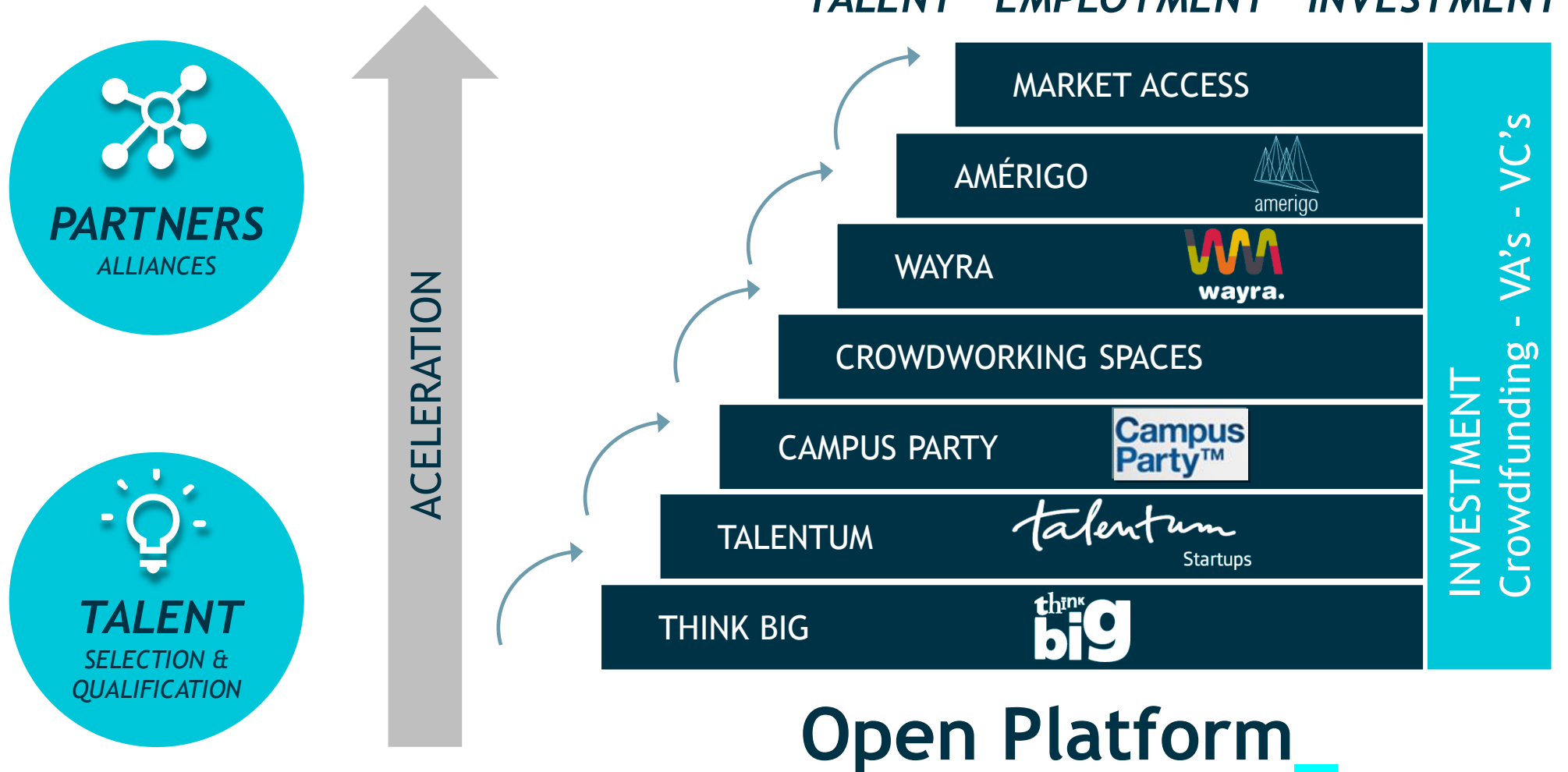
Worldwide Telco sector ranking by R&D
(Million Euros)



Source: The 2012 EU Industrial R&D Scoreboard (Comisión Europea).

With innovation and entrepreneurship_

OPEN FUTURE_



And with social innovation as ways to transform society_

Education and learning
Art and digital culture
Corporate Volunteering

Telefónica
FUNDACIÓN

- **716,641** children at risk of social exclusion have been attended in Latin America to fight against child labor
- **30,332** teachers have been trained
- More than **24,000** volunteers have taken part in solidarity initiatives
- **12,004** young people have been trained to support the development of **3,726** projects



Presence of Fundación
Telefónica in the world

12

COUNTRIES

Countries where Fundación
Telefónica collaborates

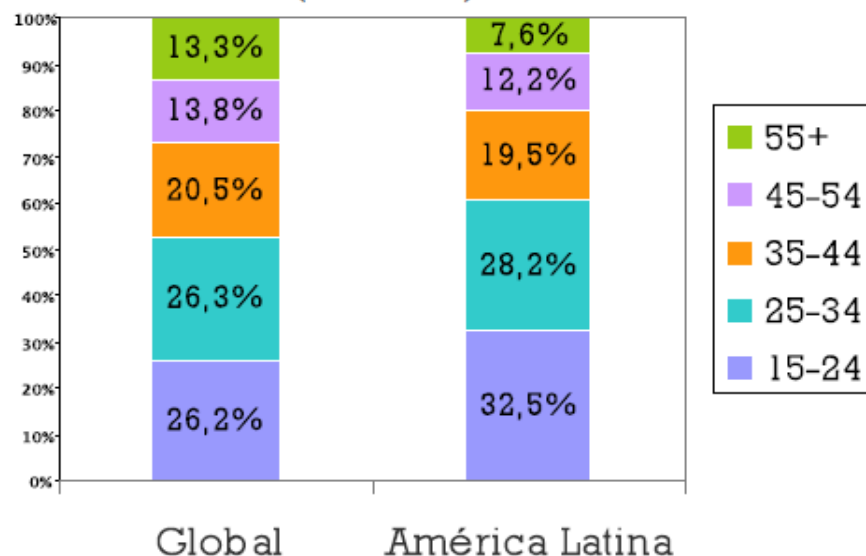
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COUNTRIES

Total beneficiaries of Telefónica Foundation 1,542,898

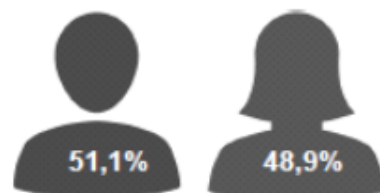
The market is ready: 60% of internet users in Latam are millennials__

Edad Usuarios Internet
(Marzo 2013)



Composición por Edad de Consumo en Minutos de internet
(Marzo 2013)

	15-24	25-34	35-44	45-54	55+
Colombia	50%	24%	14%	8%	4%
Venezuela	48%	25%	15%	8%	4%
México	40%	23%	17%	11%	5%
Chile	40%	25%	16%	12%	8%
Perú	39%	26%	18%	11%	6%
Puerto Rico	36%	24%	18%	11%	12%
Argentina	32%	26%	17%	12%	13%
Brasil	32%	28%	18%	11%	6%



Sexo Usuarios Internet
(Marzo 2013)

Emerging Adults



Entrepreneurs

Urban, optimists, leaders, activists:
They want to transform the world

And that is why we are convinced there are plenty of new opportunities!

Latam...

- Grows
- Attracts investment
- Is young
- Is connected

Latam is already experiencing the digital revolution



But, where are the gaps? **Affordability_**

LATIN AMERICA: COMPARATIVE AFFORDABILITY BY INCOME DECILE

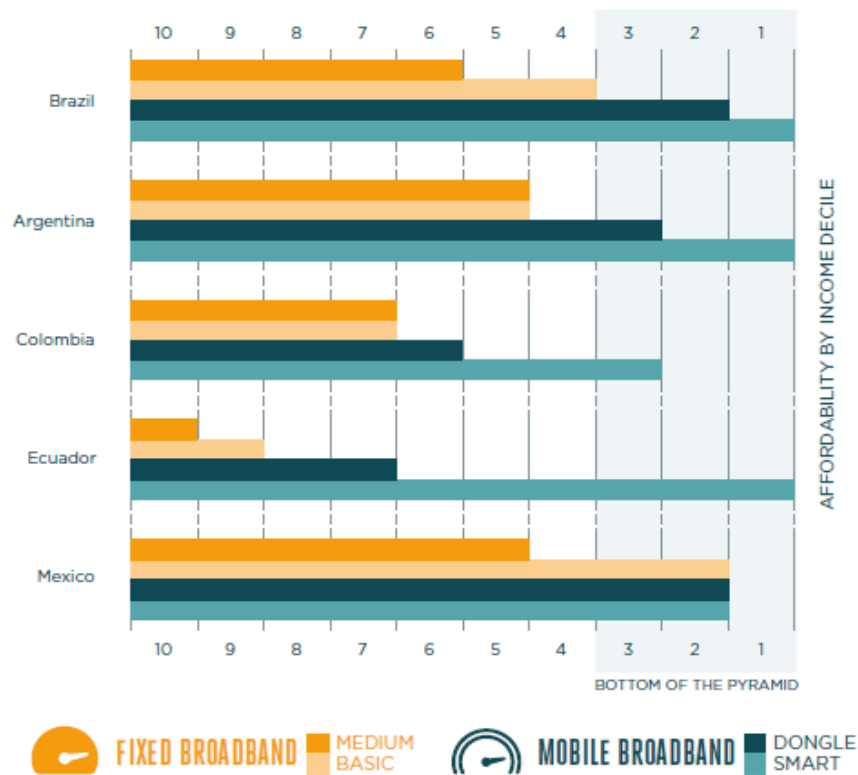


Figure A

According to Katz et al.

1. *Reduce intervention:* free markets to foster competition through innovation and better service
2. *Reduce taxes:* both on service and terminals
3. *Higher affordability of spectrum -* bids should promote expansion. Investment resources should be directed to networks not for governments (beauty contest).

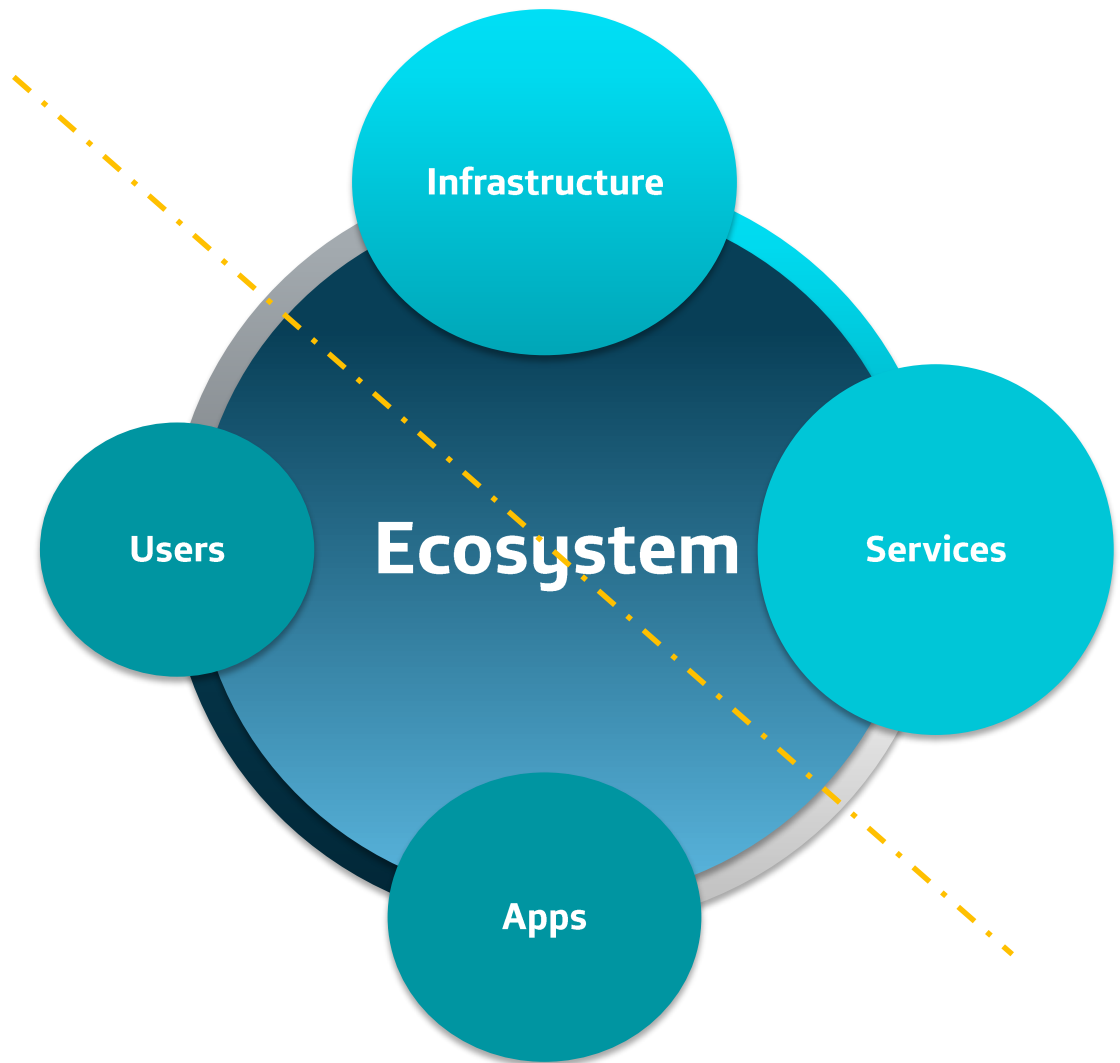
Source: GSMA Mobile Broadband at the Bottom of the Pyramid In Latin America, Raul Katz & Fernando Callorda

...short term priorities vs long term growth models_

Efforts mainly on the supply side but future policies must take into account demand side.

Challenges:

1. Reliable **information** from users to understand gaps and make better decisions.
2. Define future **growth** models
3. Define government **priorities:** Users or fiscal requirements?



And... transformation_

sustainability



Digital Telco

keep it
simple.

Lets work together_

- Work on alliances
- Industry Positioning
- Better Information
- Engagement
- Positive agenda
- Vision 2020



The Digital Manifesto

Telefónica's recommendations for the Digital Economy

The Digital Manifesto highlights the policy issues and challenges to unleash the full potential of the Digital World for consumers, businesses and administrations, while providing 10 policy recommendations to improve the Internet experience of consumers and generate more investment in digital infrastructures

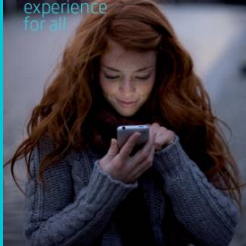


The Digital Manifesto in a nutshell_

A Digital Manifesto_

Telefonica

An open and safe Internet experience for all



1. Build Digital Confidence through a safer Internet experience and by empowering citizens to be in control of their personal data.



2. Create a Portable Digital Life for consumers by allowing them to use their data, information and applications regardless of their devices or platforms.



3. Open up mobile Operating Systems, App Stores and other digital platforms to increase users' freedom, choice and competition.



4. Promote interoperable Internet applications, communication and messaging services to improve consumer experience and foster competition.



5. Improve transparency about the conditions of use for Internet services and the distinction between information and advertisement in online search results.



6. Transform education, learning and teaching by widely adopting digital technologies and services based on Open Resources and Standards.



7. Promote Open Innovation and Open Standards principles and prevent that undue Intellectual Property protection restricts innovation in the Digital Economy.



8. Create fairer policy frameworks by establishing the same rules for the same digital services and smarter regulation by relying more on outcome-based policy making and case-by-case supervision.



9. Make the Internet available to everyone by establishing adequate conditions for private investment in broadband infrastructure.



10. Evolve the policy models of Global Internet Governance by building on its existing foundations and through involvement of all stakeholders in an open manner and on equal footing.

<http://www.digitalmanifesto.telefonica.com>

Telefónica

BE MORE 