TELEFONICA S A
Form 20-F
March 21, 2014

As filed with the Securities and Exchange Commission on March 21, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

o	REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
	OR
x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2013
	OR
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____
	OR
o	SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-09531

TELEFÓNICA, S.A.
(Exact name of Registrant as specified in its charter)

KINGDOM OF SPAIN
(Jurisdiction of incorporation or organization)

Distrito Telefónica, Ronda de la Comunicación, s/n
28050 Madrid, Spain
(Address of principal executive offices)

Consuelo Barbé Capdevila, Securities Market and Corporate Governance Legal Department
Distrito Telefónica, Ronda de la Comunicación, s/n, 28050 Madrid, Spain
Tel. +34 91 482 3733, Fax. +34 91 482 3817, e-mail: amv@telefonica.com

Pablo Eguiron Vidarte Ponce, Head of Investor Relations,
Distrito Telefónica, Ronda de la Comunicación, s/n, 28050 Madrid, Spain
Tel. +34 91 482 8700, Fax. +34 91 482 8600, e-mail: ir@telefonica.es
(Name, Telephone, E-Mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares, nominal value 1.00 euro per share*	New York Stock Exchange
American Depositary Shares, each representing one Ordinary Share	New York Stock Exchange

Guarantees** by Telefónica, S.A. of the $1,250,000,000 Fixed Rate Notes Due 2015; $900,000,000 Fixed Rate Guaranteed Senior Notes Due 2015; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; $700,000,000 Fixed Rate Guaranteed Senior Notes Due 2017; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2018; $1,000,000,000 Fixed Rate Notes Due 2019; $1,400,000,000 Fixed Rate Guaranteed Senior Notes Due 2020; $1,500,000,000 Fixed Rate Guaranteed Senior Notes Due 2021; $750,000,000 Fixed Rate Guaranteed Senior Notes Due 2023; $2,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2036; each of Telefónica Emisiones, S.A.U.; and of the $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2030 of Telefónica Europe, B.V.	New York Stock Exchange

*Not for trading, but only in connection with the listing of American Depositary Shares, pursuant to the requirements of the New York Stock Exchange.

**Not for trading, but only in connection with the listing of the $1,250,000,000 Fixed Rate Notes Due 2015; $900,000,000 Fixed Rate Guaranteed Senior Notes Due 2015; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2016; $700,000,000 Fixed Rate Guaranteed Senior Notes Due 2017; $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2018; $1,000,000,000 Fixed Rate Notes Due 2019; $1,400,000,000 Fixed Rate Guaranteed Senior Notes Due 2020; $1,500,000,000 Fixed Rate Guaranteed Senior Notes Due 2021; $750,000,000 Fixed Rate Guaranteed Senior Notes Due 2023; $2,000,000,000 Fixed Rate Guaranteed Senior Notes Due 2036; each of Telefónica Emisiones, S.A.U. and $1,250,000,000 Fixed Rate Guaranteed Senior Notes Due 2030 of Telefónica Europe, B.V. (wholly-owned subsidiaries of Telefónica, S.A.)

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The number of outstanding shares of each class of capital stock of Telefónica, S.A. at December 31, 2013 was:

Ordinary Shares, nominal value 1.00 euro per share: 4,551,024,586

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes xNo o

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes oNo x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes xNo o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes oNo o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Securities Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o International Financial Reporting Standards as Issued by the international Accounting Standards Board x Other o

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 oItem 18 o

If this is an annual report indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act).

Yes o No x

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, and the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The forward-looking statements in this Annual Report can be identified, in some instances, by the use of words such as "will," "expect," "aim," "hope," "anticipate," "intend," "believe" and similar language or the negative thereof or by the forward-looking nature of discussions of strategy, plans or intentions. These statements appear in a number of places in this Annual Report including, without limitation, certain statements made in "Item 3. Key Information—Risk Factors," "Item 4. Information on the Company," "Item 5. Operating and Financial Review and Prospects" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk" and include statements regarding our intent, belief or current expectations with respect to, among other things:

- the effect on our results of operations of competition in telecommunications markets;
- trends affecting our business financial condition, results of operations or cash flows;
- acquisitions or investments which we may make in the future;
- our capital expenditures plan;
- our estimated availability of funds;
- our ability to repay debt with estimated future cash flows;
- our shareholder remuneration policies;
- supervision and regulation of the telecommunications sectors where we have significant operations;
- our strategic partnerships; and
- the potential for growth and competition in current and anticipated areas of our business.

Such forward-looking statements are not guarantees of future performance and involve numerous risks and uncertainties, and actual results may differ materially from those anticipated in the forward-looking statements as a result of various factors. The risks and uncertainties involved in our business that could affect the matters referred to in such forward-looking statements include but are not limited to:

- changes in general economic, business or political conditions in the domestic or international markets in which we operate or have material investments that may affect demand for our services;
- exposure to currency exchange rates, interest rates or credit risk related to our treasury investments or in some of our financial transactions;
- existing or worsening conditions in the international financial markets;
- the impact of current, pending or future legislation and regulation in countries where we operate, as well as any failure to renew or obtain the necessary licenses, authorizations and concessions to carry out our operations and the impact of limitations in spectrum capacity;

- customers’ perceptions of services offered by us;
- the actions of existing and potential competitors in each of our markets as well as the potential effects of technological changes;
- failure of suppliers to provide necessary equipment and services on a timely basis;
- the impact of unanticipated network interruptions including due to cyber-security actions;

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- the effect of reports suggesting that electromagnetic fields may cause health problems;
- the impact of impairment charges on our goodwill and assets as a result of changes in the regulatory, business or political environment;
- potential liability resulting from our internet access and hosting services arising from illegal or illicit use of the internet, including the inappropriate dissemination or modification of consumer data; and
- the outcome of pending or future litigation or other legal proceedings.

Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date of this Annual Report including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

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CERTAIN TERMS AND CONVENTIONS

Our ordinary shares, nominal value 1.00 euro per share, are currently listed on each of the Madrid, Barcelona, Bilbao and Valencia stock exchanges and are quoted through the Automated Quotation System under the symbol "TEF." They are also listed on various foreign stock exchanges such as the London and Buenos Aires stock exchanges. American Depositary Shares ("ADSs"), each representing the right to receive one ordinary share, are listed on the New York Stock Exchange and on the Lima Stock Exchange. ADSs are evidenced by American Depositary Receipts ("ADRs") issued under a Deposit Agreement with Citibank, N.A., as Depositary.

As used herein, "Telefónica," "Telefónica Group," "Group", the "Company" and terms such as "we," "us" and "our' Telefónica, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

As used herein, "Atento" means Atento Holding, Inversiones y Teleservicios, S.A. and its consolidated subsidiaries, unless the context requires otherwise.

Below are definitions of certain technical terms used in this Annual Report:

- "Access" refers to a connection to any of the telecommunications services offered by us. Because a single fixed customer may contract for multiple services, we count the number of accesses, or services a customer has contracted for. For example, a customer that has fixed line telephony service and broadband service represents two accesses rather than one. The following are the main categories of accesses:

  - Fixed telephony accesses: includes public switched telephone network, or PSTN, lines (including public use telephony), and integrated services digital network, or ISDN, lines and circuits. For purposes of calculating our number of fixed line accesses, we multiply our lines in service as follows: PSTN (x1); basic ISDN (x1); primary ISDN (x30, x20 or x10); 2/6 digital accesses (x30).

  - Internet and data accesses: includes retail broadband accesses (retail asymmetrical digital subscriber line "ADSL," very high bit-rate digital subscriber line "VDSL", satellite, fiber optic and circuits over 2 Mbps), narrowband accesses (internet service through the PSTN lines) and other accesses, including the remaining non-broadband final client circuits. "Naked ADSL" allows customers to subscribe for a broadband connection without a monthly fixed line fee.

    - Pay TV: includes cable TV, direct to home satellite TV, or DTH, and Internet Protocol TV, or IPTV.

  - Mobile accesses: we count each active SIM as an access regardless of the number of services contracted through the SIM. Mobile accesses include accesses to mobile network for voice and/or data services (including connectivity). Mobile accesses are categorized into contract and prepay accesses.

  - Mobile broadband includes Mobile Internet (internet access from devices also used to make voice calls e.g. smartphones-), and Mobile Connectivity (internet access from devices that complement fixed broadband, such as PC Cards/dongles, which enable large amounts of data to be downloaded on the move).

  - Unbundled/shared local loop, or ULL: includes accesses to both ends of the copper local loop leased to other operators to provide voice and DSL services (fully unbundled loop, fully UL) or only DSL service (shared unbundled loop, "shared UL").

- "ARPU" is the average revenues per user per month. ARPU is calculated by dividing total gross service revenues (excluding inbound roaming in revenues) from sales to customers for the preceding 12 months by the weighted average number of accesses for the same period, and then divided by 12.

- “CDMA” means Code Division Multiple Access, which is a type of radio communication technology.

- “Cloud computing” is the delivery of computing as a service rather than a product, whereby shared resources, software, and information are provided to computers and other devices as a utility over a network (typically the Internet).

- “Commercial activity” includes the addition of new lines, replacement of handsets and migrations.

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- "Churn" is the percentage of average customers disconnected over a period of time.

- "Data ARPU" is the average data revenues per user per month. ARPU is calculated by dividing total data revenues (SMS, MMS and other data revenues like mobile connectivity and mobile internet, etc.) from sales to customers for the preceding 12 months by the weighted average number of accesses for the same period, and then divided by 12.

- "Data traffic" includes all the traffic related to internet access service, messaging service (SMS, MMS) and to connectivity service that is transported by the company's networks and that generates data revenue.

- "Data revenues" includes revenues from SMS, MMS and other data services like mobile connectivity and mobile internet, etc. consumed by the customer.

- "Digital Dividend" refers to the amount of spectrum that will be freed up in the switchover from analogue to digital terrestrial TV.

- "Final client accesses" means accesses provided to residential and corporate clients.

- "FTTx" is a generic term for any broadband network architecture that uses optical fiber to replace all or part of the metal local loop typically used for the last mile of telecommunications wiring.

- "Gross adds" means the gross increase in the customer base measured in terms of accesses in a period.

- "HSPA"/"HSDPA" means High Speed Downlink Packet Accesses, which is a 3G mobile telephony communications protocol in the High-Speed Packet Access (HSPA) family, which allows networks based on UMTS to have higher data transfers speeds and capacity.

- "HDTV" or high definition TV has at least double resolution than standard definition TV ("SDTV"), being able to show higher level of details compared to an analogic TV or to a common DVD.

- "Interconnection revenues" means revenues received from other operators which use our networks to connect to our customers.

- "ISP" means Internet service provider.

- "IT", or information technology, is the acquisition, processing, storage and dissemination of vocal, pictorial, textual and numerical information by a microelectronics-based combination of computing and telecommunications.

- "Local loop" means the physical circuit connecting the network termination point at the subscriber's premises to the main distribution frame or equivalent facility in the fixed public telephone network.

- "LTE" means Long Term Evolution, a 4G mobile access technology.

- "Market share" is the percentage of final accesses or revenues of one operator compared to the total market in its operating area.

- "M2M", or machine to machine, refers to technologies that allow both mobile and wired systems to communicate with other devices of the same ability.

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“MTR” means mobile termination rate, which is the charge per minute or SMS paid by a telecommunications network operator when a customer makes a call to another network operator.

- “MVNO” means mobile virtual network operator, which is a mobile operator that is not entitled to use spectrum for the provision of mobile services. Consequently, an MVNO must subscribe to an access agreement with a mobile network operator in order to provide mobile access to their customers. An MVNO pays such mobile network operator for using the infrastructure to facilitate coverage to their customers.

- “Net adds” means the difference between the customer base measured in terms of accesses at the end of the period and the beginning of the period.

- “Non SMS data revenues” means data revenues excluding SMS revenues.

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- "OTT services" or "over the top services" means services provided through the Internet (such as television).
- "P2P SMS" means person to person short messaging service (usually sent by mobile customers).
- "Revenues" means net sales and revenues from rendering of services.
- "Service revenues" means revenues less revenues from handset sales. Service revenues are related mainly with telecommunication services, especially voice and data services consumed by our customers.
- "SIM" means subscriber identity module, a removable intelligent card used in mobile handsets, USB modems, etc. to identify the user in the network.
- "Voice Traffic" means voice minutes used by our customers over a given period, both outbound and inbound.
- "UMTS" means Universal Mobile Telecommunications System.
- "VoIP" means voice over Internet protocol.
- "Wholesale accesses" means accesses we provide to our competitors, who then sell services over such accesses to their residential and corporate clients.

In this Annual Report we make certain comparisons in local currency or on a "constant euro basis" or "excluding foreign exchange rate effects" in order to present an analysis of the development of our results of operations from year-to-year without the effects of currency fluctuations. To make comparisons on a local currency basis, we compare financial items in the relevant local currency for the periods indicated as recorded in the relevant local currency for such periods. To make comparisons on a "constant euro basis" or "excluding foreign exchange rate effects," we convert the relevant financial item into euro using the prior year's average euro to relevant local currency exchange rate. In addition, we present certain financial information excluding the effects of Venezuela being considered a hyperinflationary economy in 2011, 2012 and 2013 by eliminating all adjustments made as a result of such consideration.

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PRESENTATION OF CERTAIN FINANCIAL INFORMATION

In this Annual Report, references to "U.S. dollars," "dollars" or "$," are to United States dollars, references to "pounds sterling," "sterling" or "£" are to British pounds sterling, references to "reais" refer to Brazilian reais and references to "euro "euros" or "€" are to the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union pursuant to the treaty establishing the European Community, as amended from time to time.

Our consolidated financial statements as of December 31, 2012 and 2013, and for the years ended December 31, 2011, 2012 and 2013 included elsewhere in this Annual Report including the notes thereto (the "Consolidated Financial Statements"), are prepared in conformity with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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PART I

Item 1. Identity of Directors, Senior Management and Advisors

A. Directors and Senior Management

Not applicable.

B. Advisers

Not applicable.

C. Auditors

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

The following table presents certain selected consolidated financial data. It is to be read in conjunction with "Item 5. Operating and Financial Review and Prospects" and the Consolidated Financial Statements. The consolidated income statement and cash flow data for the years ended December 31, 2011, 2012 and 2013 and the consolidated statement of financial position data as of December 31, 2012 and 2013 set forth below are derived from, and are qualified in their entirety by reference to the Consolidated Financial Statements. The consolidated income statement and cash flow data for the years ended December 31, 2009 and 2010 and the consolidated statement of financial position data as of December 31, 2009, 2010 and 2011 set forth below are derived from Telefónica, S.A.'s consolidated financial statements for such years, which are not included herein.

Our Consolidated Financial Statements have been prepared in accordance with IFRS as issued by the IASB.

The basis of presentation is described in detail in Note 2 to our Consolidated Financial Statements.

Millions of euros	2009	2010	2011	2012	2013
Revenues	56,731	60,737	62,837	62,356	57,061
Other income	1,645	5,869	2,107	2,323	1,693
Supplies	(16,717)	(17,606)	(18,256)	(18,074)	(17,041)
Personnel expenses	(6,775)	(8,409)	(11,080)	(8,569)	(7,208)
Other expenses	(12,281)	(14,814)	(15,398)	(16,805)	(15,428)
Depreciation and amortization	(8,956)	(9,303)	(10,146)	(10,433)	(9,627)
OPERATING INCOME	13,647	16,474	10,064	10,798	9,450
Share of (loss) profit of associates	47	76	(635)	(1,275)	(304)
Net finance expense	(2,767)	(2,537)	(2,782)	(3,062)	(2,696)
Net exchange differences	(540)	(112)	(159)	(597)	(170)
Net financial expense	(3,307)	(2,649)	(2,941)	(3,659)	(2,866)
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	10,387	13,901	6,488	5,864	6,280
Corporate income tax	(2,450)	(3,829)	(301)	(1,461)	(1,311)
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS	7,937	10,072	6,187	4,403	4,969
Profit after taxes from discontinued operations	–	–	–	–	–
PROFIT FOR THE YEAR	7,937	10,072	6,187	4,403	4,969
Non-controlling interests	(161)	95	(784)	(475)	(376)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	7,776	10,167	5,403	3,928	4,593
Weighted average number of shares (thousands)	4,626,134	4,595,215	4,583,974	4,495,914	4,519,717
Basic and diluted earnings per share from continuing operations attributable to equity holders of the parent (euro)(1)	1.68	2.21	1.18	0.87	1.01
Basic and diluted earnings per share attributable to equity holders of the parent (euro)(1)	1.68	2.21	1.18	0.87	1.01
Earnings per ADS (euro)(1)(2)	1.68	2.21	1.18	0.87	1.01
Weighted average number of ADS (thousands)(2)	4,626,134	4,595,215	4,583,974	4,495,914	4,519,717
Cash dividends per ordinary share (euro)	1.00	1.30	1.52	0.82	0.35
Consolidated Statement of Financial Position Data					
Cash and cash equivalents	9,113	4,220	4,135	9,847	9,977
Property, plant and equipment	32,004	35,802	35,469	35,021	31,040
Total assets	108,141	129,775	129,623	129,773	118,862
Non-current liabilities	56,931	64,599	69,662	70,601	62,236
Equity (net)	24,274	31,684	27,383	27,661	27,482
Capital stock	4,564	4,564	4,564	4,551	4,551
Consolidated Cash Flow Data					
Net cash from operating activities	16,148	16,672	17,483	15,213	14,344
Net cash used in investing activities	(9,300)	(15,861)	(12,497)	(7,877)	(9,900)
Net cash used in financing activities	(2,281)	(5,248)	(4,912)	(1,243)	(2,685)

(1) The per share and per ADS computations for all periods presented have been presented using the weighted average number of shares and ADSs, respectively, outstanding for each period, and have been adjusted to reflect the stock dividends which occurred during the periods presented, as if these had occurred at the beginning of the earliest period presented. In accordance with IAS 33 ("Earnings per share"), the weighted average number of ordinary shares

and ADSs outstanding for each of the periods covered has been restated to reflect the issuance of shares pursuant to Telefónica's scrip dividend in June 2012. As a consequence, basic and diluted earnings per share have also been restated from 2009 to 2011.

(2) Until January 20, 2011, each ADS represented the right to receive three ordinary shares. Since January 21, 2011, each ADS represents the right to receive one ordinary share. The above figures have been restated accordingly. Figures do not include any charges of the ADS Depositary.

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Exchange Rate Information

As used in this Annual Report, the term "Noon Buying Rate" refers to the rate of exchange for euro, expressed in U.S. dollars per euro, in the City of New York for cable transfers payable in foreign currencies as certified by the Federal Reserve Bank of New York for customs purposes. The Noon Buying Rate certified by the New York Federal Reserve Bank for the euro on March 14, 2014 was $1.3924= 1.00 euro. The following tables describe, for the periods and dates indicated, information concerning the Noon Buying Rate for the euro. Amounts are expressed in U.S. dollars per 1.00 euro.

Noon Buying Rate

Year ended December 31,	Period end	Average (1)	High	Low
2009	1.4332	1.3955	1.5100	1.2547
2010	1.3269	1.3218	1.4536	1.1959
2011	1.2973	1.4002	1.4875	1.2926
2012	1.3186	1.2909	1.3463	1.2062
2013	1.3779	1.3303	1.3816	1.2774
2014 (through March 14, 2014)	1.3924	1.3743	1.3927	1.3500

Source: Federal Reserve Bank of New York.

(1) The average of the Noon Buying Rates for the euro on the last day reported of each month during the relevant period.

Noon Buying Rate

Month ended	High	Low
September 30, 2013	1.3537	1.3120
October 31, 2013	1.3810	1.3490
November 30, 2013	1.3606	1.3357
December 31, 2013	1.3816	1.3552
January 31, 2014	1.3682	1.3500
February 28, 2014	1.3806	1.3507
March 31, 2014 (through March 14, 2014)	1.3927	1.3731

Source: Federal Reserve Bank of New York.

Monetary policy within the member states of the euro zone is set by the European Central Bank. The European Central Bank has set the objective of containing inflation and will adjust interest rates in line with this policy without taking account of other economic variables such as the rate of unemployment. It has further declared that it will not set a target exchange rate for the euro.

Our ordinary shares are quoted on the Spanish stock exchanges in euro. Currency fluctuations may affect the dollar equivalent of the euro price of our shares listed on the Spanish stock exchanges and, as a result, the market price of our ADSs, which are listed on the New York Stock Exchange. Currency fluctuations may also affect the dollar amounts received by holders of ADSs on conversion by the depositary of any cash dividends paid in euro on the underlying shares.

Our consolidated results are affected by fluctuations between the euro and the currencies in which the revenues and expenses of some of our consolidated subsidiaries are denominated and recorded (principally the Brazilian real, the pound sterling, the bolivar fuerte, the Argentine peso, the Peruvian nuevo sol, the Chilean peso, the Czech koruna (crown), the Colombian peso and the Mexican peso). See Note 3 (b) to our Consolidated Financial Statements for the exchange rates we used in preparing our consolidated financial information.

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

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D. Risk Factors

The Telefónica Group's business is conditioned by a series of intrinsic risk factors that affect exclusively the Group, as well as a series of external factors that are common to businesses of the same sector. The main risks and uncertainties facing the Company which could affect its business, financial position, reputation, corporate image and brand and its results, must be considered jointly with the information in the Consolidated Financial Statements, and are as follows:

Group-related risks

Worsening of the economic and political environment could negatively affect business.

Telefónica's international presence enables the diversification of its activities across countries and regions, but entails the need of considering various legislations, as well as the political and economic environments of the countries in which it operates. Any adverse developments or even just uncertainties in this regard, or possible exchange-rate or sovereign-risk fluctuations may adversely affect the business, financial position, cash flows and/or the performance of some of the Group's economic and financial indicators.

With respect to the economic environment, the Telefónica Group's business is impacted by overall economic conditions in each of the countries in which it operates. Economic conditions may adversely affect the level of demand of existing and prospective customers, as they may no longer deem critical the services offered by the Group. The main macroeconomic factors that could have an adverse impact on consumption and, accordingly, on the level of demand for our services and finally, on the Telefónica Group's results, are: the shortage of credit in an environment of adjustment of banks' balance sheets; the evolution of the labor market; the worsening of consumer confidence, with an increase in savings rates as an immediate consequence; or the needs for greater fiscal adjustment, which would negatively impact on the household income levels and corporate investments, expenses and revenues.

This economic risk might be significant in some European countries which are on the road to recovery but are rebounding more slowly due to financial imbalances that must continue to be corrected. According to the European Economic and Financial Affairs Council, the European economy is expected to have shrunk by 0.4% in 2013 and will only grow 1.1% in 2014, assuming, therefore, that private consumption growth may be weak in certain cases. In this region, the Telefónica Group generated 47% of the Group's total revenues in 2013 (including 22.7% in Spain, 11.7% in the UK and 8.6% in Germany).

Also, the impact of the sovereign debt crisis and the rating downgrades in certain Euro Area countries should be taken into account. Any additional deterioration in the sovereign debt markets, doubts about developments in European projects (e.g. implementation of the banking union project, the results of the European elections or progress towards fiscal integration), as well as further credit restrictions by the banking sector could have an adverse effect on Telefónica's ability to access funding and/or liquidity which could have a significant adverse effect on the Group's businesses, financial position, results of operations and cash flows. In addition, the Group's business may be affected by other possible effects from the economic crisis, including a possible insolvency of key customers and suppliers.

In Latin America, the most important challenge is the exchange-rate risk in Venezuela and Argentina (with a sustained accelerated depreciation of the peso against the U.S. dollar), given the negative impact that a higher than expected depreciation in their currencies could have on cash flows from both countries. The economic outlook for the entire region suggests that growth rates will remain stable at around 3%, supported by solid domestic demand fundamentals. The international scenario, despite being not so favorable as in the past periods, will remain to have a relatively benign impact on the region, except for, among others, potential periods of volatility linked to the evolution of the developed financial markets (especially long-term interest rates in the United States affected by the U.S. Federal Reserve's intervention that are not discounted in the market), a greater than envisaged economic slowdown in Asia (a key region for Latin America), and the slow progress being made with structural reforms projects in the majority of these countries which limits potentially higher growth rates. The most significant internal macroeconomic risk factors in the region would be the very high inflation rates in Venezuela and Argentina that could lead to economic stagnation in these countries, the delicate situation of Venezuela's public finance, and the deterioration in the external accounts of countries such as Argentina, Brazil, Chile and Peru; though with very different funding outlooks for the latter three (favorable) than the first.

In relation to the political environment, the Group's investments and operations in Latin America could be affected by a series of risks related to economic, political and social factors in these countries, collectively denominated "country risk". On this point, approximately 15% of our revenues in the telephony business are

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generated in countries that do not have investment grade status (in order of importance Venezuela, Argentina, Ecuador, Guatemala, Nicaragua, El Salvador and Costa Rica), and other countries are only one notch away from losing this threshold. Also note that despite clear improvements in Brazil, recent announcements by the ratings agencies considering a possible downgrading of its credit rating could, depending on the extent of the downgrading, result in strong exchange-rate volatility due to an outflow of investments, especially strong in fixed-income.

Among the factors included in the concept of "country risk", we highlight:

- government regulation or administrative polices may change unexpectedly, including changes that modify the terms and conditions of licenses and concessions and their renewal (or delay their approvals) which could negatively affect the Group's interests in such countries;

- abrupt exchange-rate fluctuations mainly due to situations of high levels of inflation and "twin deficits" (in public finance and external sector) with the resulting exchange-rate overvaluation. This movement could lead to a strong exchange-rate depreciation in the context of a floating exchange rate regime, to a significant devaluation off the back of abandoning fixed exchange rates regimes, or to the introduction of varying degrees of restrictions on capital movement. For example, in Venezuela, the official U.S. dollar to bolivar fuerte exchange rate is established by the Central Bank of Venezuela and the Minister of Finance, with an alternative market for attracting foreign currency through SICAD's fortnightly auctions. Additionally, the acquisition of foreign currencies by Venezuelan or Argentinian companies (in some cases) to pay foreign debt or dividends is subject to the pre-authorization of the relevant authorities. Also, the Argentinean peso is following a sustained accelerated depreciation against the U.S. dollar;

- governments may expropriate or nationalize assets, or make adverse tax decisions, or increase their participation in the economy and in companies;

- economic-financial downturns, political instability and civil disturbances may negatively affect the Telefónica Group's operations in such countries; and

- maximum profit margins limits may be imposed in order to limit the prices of goods and services through the analysis of cost structures. Thus, in Venezuela, a maximum profit margin has been introduced that will be set annually by the Superintendence for the defense of socio-economic rights.

The Group's financial condition and results of operations may be adversely affected if it does not effectively manage its exposure to foreign currency exchange rates, interest rates or financial investment risks.

At December 31, 2013, 71% of the Group's net debt (in nominal terms) had its interest rates fixed over a year, while 23% was denominated in a currency other than the euro.

To illustrate the sensitivity of financial expenses to a change in short-term interest rates at December 31, 2013: (i) a 100 basis points increase in interest rates in all currencies in which Telefónica has a financial position at that date would lead to an increase in financial expenses of 118 million euros, (ii) whereas a 100 basis points decrease in interest rates in all currencies except the euro, dollar and the pound sterling (these to zero rates in order to avoid negative rates), would lead to a reduction in financial expenses of 55 million euros. These calculations were made assuming a constant currency and balance position equivalent to the position at that date and bearing in mind the derivative financial instruments arranged.

According to the Group's calculations, the impact on results and specifically changes in the value of a 10% depreciation of Latin American currencies against the U.S. dollar and a 10% depreciation of the rest of the currencies against the euro would result in exchange losses of 42 million euros, primarily due to the weakening of the bolivar fuerte and, to a lesser extent, the Argentinean peso. These calculations had been made assuming a constant currency position with an impact on profit or loss at December 31, 2013, including derivative instruments in place.

The Telefónica Group uses a variety of strategies to manage this risk, mainly through the use of financial derivatives, which themselves are also exposed to risk, including counterparty risk. Furthermore, the Group's risk management strategies may not achieve the desired effect, which could adversely affect the Group's business, financial condition, results of operations and cash flows.

Existing or worsening conditions in the financial markets may limit the Group's ability to finance, and consequently, the ability to carry out its business plan.

The performance, expansion and improvement of the Telefónica Group's networks, the development and distribution of the Telefónica Group's services and products, the development and implementation of the Company's strategic plan, as well as the development and implementation of new technologies or the renewal of licenses require a substantial amount of financing.

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The performance of financial markets in terms of liquidity, cost of credit, access and volatility, continues to be overshadowed by persisting uncertainty regarding certain factors such as the pace of economic recovery, the health of the international banking system and the concerns regarding the burgeoning deficits of some European countries. The worsening international financial market credit conditions caused by some of these factors could make it more difficult and more expensive to refinance existing financial debt or arrange new debt if necessary, and more difficult and costly to raise funds from our shareholders, and may negatively affect the Group's liquidity. At December 31, 2013, gross financial debt scheduled to mature in 2014 amounted to 9,214 million euros (which includes: (i) the net position of derivative financial instruments, certain current payables and (ii) 582 million euros of notes with an option of early repayment and no contractual obligation to be repaid), and gross financial debt scheduled to mature in 2015 amounted to 6,802 million euros. Despite having covered gross debt maturities of 2014 and 2015 by available cash and lines of credit at December 31, 2013, possible difficulties to maintain the current safety margin, or the risk that this could be significantly and unexpectedly exhausted, could force Telefónica to use resources allocated for other investments or commitments for payment of its financial debt, which could have a negative effect on the Group's businesses, financial position, results of operations or cash flows.

Although the Group maintains liquidity coverage on 24-month maturities, obtaining financing on the international capital markets could also be restricted, in terms of access and cost, if Telefónica's credit ratings are revised downwards, either due to lower solvency or operating performance, or as a result of a downgrade in the rating for Spanish sovereign risk by rating agencies. Any of these situations could have a negative impact on our ability to deal with our debt maturities.

Moreover, market conditions could make it harder to renew existing undrawn credit lines, 10% of which, at December 31, 2013, initially mature prior to December 31, 2014.

Risks related to the Group's industry

The Group operates in a highly regulated industry which requires government concessions for the provision of a large part of its services and the use of spectrum, which is a scarce and costly resource.

The telecommunications sector is subject to laws and regulations in different countries, and additionally, many of the services provided require the granting of a license, concession or official approval, which usually requires certain obligations and investments to be made, such as those relating to spectrum availability. Among the main risks of this nature are the spectrum and licenses/concessions, rates, universal service regulation, fiber networks, privacy, functional separation of businesses and network neutrality.

Thus, as the Group provides most of its services under licenses, authorizations or concessions, it is vulnerable to administrative bodies decisions, such us economic fines for serious breaches in the provision of services and, eventually, revocation or failure to renew these licenses, authorizations or concessions or the granting of new licenses to competitors for the provisions of services in a specific market.

The Telefónica Group pursues its license renewal in the terms referred in their respective contractual conditions, though it cannot guarantee that it will always complete this process successfully or under the most beneficial terms for the Group. In many cases complying with certain obligations is required, including, among others, minimum specified quality standards, service and coverage conditions and capital investment. Failure to comply with these obligations could result in the imposition of fines, revision of the contractual terms, or even the revocation of the license, authorization or concession. Additionally, the Telefónica Group could be affected by regulatory actions carried out by the antitrust authorities. These authorizations could prohibit certain actions, such as new acquisitions or specific practices, create obligations or lead to heavy fines. Any such measures implemented by the competition authorities could results in economic and/or reputational loss for the Group, in addition to a loss of market share and/or in harm to the future growth of certain businesses.

Regulation of spectrum and government concessions:

The “Digital Single Market” packaged of measures is currently being amended by the European Parliament to include important measures affecting, inter alia, spectrum regulation. Although these measures are not yet final, they could have significant implications as they include new provisions on secondary markets, criteria to apply at auctions, renewals and terms of licensees, etc.

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In 2015/2016, in Germany, it is expected that frequencies in the 900/1800 MHz band licenses, expiring at the end of 2016, will be renewed. The German regulator has adopted a proposal decision envisaging an auction of spectrum in the 900 MHz, 1800 MHz, 700 MHz and 1500 MHz bands. Furthermore, it is proposed, for operators holding 900 MHz GSM band licenses, the reservation of 2X5 MHz in this band. The aforementioned reservation entails a 99% population coverage obligation. Moreover, European and National regulators are reviewing the implications of the merger of Telefónica Germany and E-Plus, and any potential remedies or conditions. Remedies could affect the spectrum finally available. In Spain, it is expected that the previously auctioned frequencies in the 800 MHz band from the digital dividend, will be allocated on January 1, 2015. For its part, in the UK a tax rate increase for the use of the spectrum in the 900 and 1800 MHz band is under discussion, which outcome is uncertain.

Main allocation criteria for the 700 MHz band (Digital Dividend II) will be defined in coming years in Europe. This could involve facing new cash outflow ahead of schedule (the most likely scenario is currently seen as to have this spectrum between 2018 and 2021).

In Latin America, spectrum auctions will take place entailing potential outflows to obtain new licenses or to meet the coverage requirements associated with these licenses. Specifically, the following procedures are in progress or expected to take place in 2014:

- Brazil: Auction of the 700 MHz band. Allocation of frequencies in the 700 MHz band for fixed-line and mobile telephone and broadband services has been approved. However, the allocation process requires television channels currently occupying this band to be migrated and ANATEL to complete its analysis regarding spectrum interference between mobile and television services;
- Chile: Auction of the 700 MHz band;
- Ecuador: Negotiations underway to obtain additional frequencies in the 1900 MHz band;
- El Salvador: The auction of one block in the 1900 MHz band and another in the AWS band had been postponed, although this issue might be resolved in the coming months; and
- Venezuela: Auction in the AWS band (1710-2170 MHz frequencies) and in the 2.5 GHz band, has been suspended.

On the other hand, negotiations to renew 850 MHz/1900 MHz licenses in Colombia (where a legal action regarding the reversion of assets at the end of the license terms is in place) and 850/1900 MHz licenses in Panama are under way. In Peru, an application for partial renewal of the concessions for the provision of the fixed-line service for another five years has been made, although assurance has been given that the concession will remain in force until November 2027. Also, a new law has been enacted establishing mobile virtual network operator (MVNOs) and Rural Mobile Infrastructure Operators (RMIOs) in the Peruvian market. In Mexico, it is envisaged, in development of the constitutional reform enacted due to the "Pact for Mexico" political initiative, the creation of a wholesale network publicly owned which will offer wholesale services in the 700 MHz band, the funding and the marketing model of this project have not been determined at present.

On the other hand, Telefónica UK was awarded two 10 MHz blocks of spectrum in the 800 MHz band in 2013 to roll out a national 4G network. In Spain, the following license extensions have been granted: in the 900 MHz band, 4 MHz from July 2025 to December 2030 and 1 MHz from February 2015 to December 2030, likewise, in the 1800 MHz band a 20 MHz license has been extended from 2028 to December 2030. Moreover, in 2013, Telefónica also obtained spectrum licenses in Uruguay (2x5 MHz in the 1900 MHz band), Colombia (30 MHz in the AWS band) and Peru (20+20 MHz in the 1700 MHz band). In 2013 Telefónica Brasil requested the amendment of the Terms of its Authorization for the “L” band in order to relocate the blocks of radiofrequencies. Currently, the “L” band is located in the

3G radiofrequencies (1.9/2.1GHz). The notice of the "L" band provided for such relocation and the request ensured a more efficient use of the spectrum for Telefónica Brasil. CapEx associated with the new spectrum in 2013 amounted to 1,224 million euros.

In 2012, Telefónica Ireland was awarded spectrum in the 800, 900 and 1800 MHz bands. In Brazil, Telefónica was awarded a block of the 2500 MHz "X" band (20+20 MHz), including the 450 MHz band in certain states. In the spectrum auction, Telefónica Brasil had to compensate the former licensees of this bandwidth, used for multichannel multipoint distribution services. The other operators also awarded spectrum shall, in turn, compensate Telefónica Brasil. Part of these compensation requirements is being legally contested. In Venezuela, the concession agreement between Telefónica Venezolana and the Regulator for an additional 20 MHz in the 1900 MHz band was executed. Telefónica Móviles Chile, S.A. was awarded radiofrequencies for 4G technology in the 2.6 GHz band (2x20 MHz), and in Nicaragua Telefónica was granted 36 MHz in the 700 MHz band.

The Company’s failure to obtain sufficient or appropriate spectrum capacity in the jurisdictions discussed above or any others in which it operates or its capacity to assume the related costs, could have an adverse impact its ability to launch and provide new services and on the Company’s ability to maintain the quality of existing services, which may adversely affect the Group’s financial condition, results of operations and cash flows.

Regulation of wholesale and retail charges:

In terms of roaming, the regulated "Eurotariffs" will be reduced in July 2014, as per the Regulation approved in 2012. The structural roaming solutions which could lead to a price decrease in the intra-European roaming services, will also take effect in July 2014. Furthermore, the packet of “Digital Single Market” measures mentioned above also includes a proposal to eliminate European Union roaming charges in July 2016 as well as international charges.

The decreases in wholesale mobile network termination rates in Europe are also noteworthy. In the UK, wholesale mobile network termination rates will be reduced to 0.845 pence/minute from April 1, 2014 (representing a 0.3% reduction compared to the current rates), while the termination rate in Germany was set at 0.0179 euro/minute as from December 31, 2013 (3.24% lower than the previous termination rates). The European Commission has requested that the German regulator withdraw or amend its latest decision on mobile termination rates. There is a risk that the European Commission will initiate infringement proceedings, against Germany, and rates may be further reduced. In Spain, the schedule for reducing mobile network termination rates has reached the target rate (0.0109 euro/minute) in July 2013, representing close to 61% lower than the wholesale prices in force until that date. As from July 2013, the target price reached will remain in force until new target prices are set. The Spanish regulator has yet to make its decision on this matter. Based on a High Court ruling in Ireland, a mobile termination rate of 2.60 euro cents was provisionally imposed (more favorable than the figure initially proposed by the regulator), applicable from July 1, 2013 (representing 29.35% lower the previous termination rates). The Irish regulator is also developing a more adverse cost model based on long-run incremental cost (LRIC) price calculation, which is expected to be announced in July 2014.

Also, in Latin America, there are moves to review mobile termination rates leading to these being reduced. Thus, for example, developments in Mexico are among the most relevant, where the declaration of dominant operators in the telecommunications market is expected to lead to asymmetric regulatory measures that must be set. The Company's competitive position may benefit to a greater or lesser extent depending on the scope of these measures. Telefónica México has filed an administrative appeal against the 2011 resolutions of the Federal Telecommunications Commission of México (Cofetel) regarding mobile network termination rates (representing a 61% reduction compared to the previous rates). As of today, no ruling has been made on this appeal. Once these appeals have been concluded, the rates applied may be further reduced retroactively. As of today, Cofetel has not approved the termination rates for 2012, 2013, or 2014.

In Brazil, in October 2011, the regulator (ANATEL) approved the fixed-mobile rate adjustment regulation, which provides a progressive reduction of these rates until 2014 through a reduction factor, which will be deducted from the inflation, and implying a reduction of approximately 29% in 2012-2014. However, the Plano Geral de Metas de Competiçao (PGMC) of the end of 2012 extended application of the reduction to 2015 and amended the rates for 2014 and 2015 (75% of the 2013 rate in 2014 and 50% of the 2013 rate in 2015). A draft law has been prepared in Brazil to abolish the basic telephony service monthly fee. “Price protection” practices (reimbursement of price differences of a product to customers if this falls within a relative short period of time) may also have a negative effect, both in economic and image terms.

In Chile, a process to set new fixed-line termination charges is ongoing. A Tariff Decree has been passed for mobile networks covering the 2014-2019 five-year period. The new Tariff Decree entered into effect on January 25, 2014, and implies a reduction of 73.4% with respect to the previous rates. In Ecuador the rate-related risks also concern a reduction in rural and urban telephony charges, a reimbursement of top-up balances, as well as rounding to the nearest minute.

The implementation of the Enabling Act (Ley Habilitante) in Venezuela also confers full powers to the President to implement price control measures, and it is therefore expected that it will not be possible to raise Movistar retail rates in line with high Venezuela inflation. In relation to mobile termination rates with the national operator of reference, these have been reduced 6% compared to the previous rates.

In Peru, the previously applicable rate was reduced by 24.24% in October 2013.

In Colombia, a decision was adopted establishing a gradual reduction for termination mobile rates. Regarding the termination model for time, the reduction for 2014 is 19.8% and 24.6% for 2015. For the capacity model the reduction will be 10.9% for 2014 and 12.3% for 2015. In relation with fix networks (for extended local networks) the reduction will be 50% for 2014 and 100% for 2015.

Regulation of universal services:

The European Commission on its formal obligation to review the Universal Service Directive will launch a public consultation whose objective will be to modify the scope of their obligations and include, at a European level, far higher broadband speeds than are currently provided. Depending on the terms set forth in the new regulation, implementation at a local level could lead to higher costs for both the universal service provider and the operators forced to finance the Universal Service.

The regulator in Brazil has modified the universal service targets. This represents a risk on the Company's positive balance resulted from the fulfilment of 2003 universal service targets, whose implementation was less costly than the initially established targets, leaving a positive balance for the Company.

The new requirements that cause this positive balance could apply until 2025, and extend beyond on issues such as, for example, rural telephony services and the expansion of the backhaul network. Rural telephony services are another risk in Brazil given the obligations arising from the switched fixed-line telephone services model and the obligations to provide mobile coverage in certain rural areas of the country.

Regulation of fiber networks:

It is expected that in 2014, Spanish National Competition Authority (Comisión Nacional de los Mercados y la Competencia) will study broadband market regulation in Spain. This could increase Telefónica's regulatory obligations in Spain, especially wholesale market obligations concerning access to fiber networks, and its pricing.

Regulations on privacy:

In Europe, a new Data Protection Regulation is in the pipeline before the end of the current European legislative term (spring 2014). This could lead to certain critical provisions laid down in the current draft of the Regulation (presently under debate) being worded in such a way that stops or hinders Telefónica from launching some services, that focus on the processing of personal data.

Regulation of functional separation:

The new principles established in Europe's common regulatory framework, adopted in 2009 and transposed in the national legislation of each Member State in which Telefónica operated during 2011 and 2012 could result in greater regulatory pressure on the local competitive environment. Specifically, this framework supports the possibility of national regulators, in specific cases and under exceptional conditions, forcing operators with significant market power and vertically-integrated operators to separate their wholesale and retail businesses at a functional level. They would therefore be required to offer equal wholesale terms to third-party operators that acquire these products.

Regulation of network neutrality:

In Europe, application of the current regulatory framework means that it is likely that during 2014, the Body of European Regulators for Electronic Communications (BEREC) and national regulators will strengthen their supervision of operators with regard to blocking of access, discrimination of applications or Internet service quality. The European Parliament and the Council are simultaneously debating the draft of the European Digital Market Regulation proposed by the European Commission, in particular concerning network neutrality, network management or differentiation of Internet access service characteristics. All of them are aspects of great importance that have a direct impact on potential business models that can be developed in the future.

Presently we have countries where net neutrality has already been ruled, such us Chile and Colombia. But it is a live issue and with varying degree of development in the rest of the countries. In Germany, the Economy Minister published a draft law on June 20, 2013, to regulate neutrality, especially with regard to blocking and discrimination of content and Internet services. The text is pending approval by parliament in 2014 after the new government was sworn in during December 2013.

In Brazil, the Civil Rights Framework for Internet Governance is being debated by Congress and is expected to be approved in the first quarter of 2014. It includes policies on the Internet such as network neutrality. Activities regarding net neutrality have been, as of today, focused in supervision of the quality of the services: in October 2011, ANATEL approved the regulations of the Service Quality of Multimedia Communication Service (includes fixed internet) and Personal Mobile Service (including mobile internet). The aforementioned regulations, regulates the measurement made from independent entities on quality delivered and perceived by ISPs to customers.

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If changes to regulation such as those described above, or otherwise, occur in the various jurisdictions where the Telefónica Group operates, it could have a material adverse effect on our business and results of operations.

Customers' perceptions of services offered by the Company may put it at a disadvantage compared to competitors' offerings.

Customers' perceptions of the services and products offered are critical to operating in highly-competitive markets. The ability to predict and respond to the changing needs and demands of customers affects the Company's competitive position relative to other technology sector companies, and its ability to extract the value generated during this process of transformation. Failure to do so appropriately could have an adverse impact on the Group’s financial condition, results of operations and cash flows.

Company may not be able to adequately foresee and respond to technological changes and sector trends.

In a sector characterized by rapid technological change, it is essential to be able to offer the products and services demanded by the market, and consider the impacts of changes in the life cycle of technical assets, finely adjust margins, and select the right investments to make.

The Telefónica Group operates in markets that are highly competitive and subject to constant technological development. Therefore, as a consequence of both characteristics, it is subject to the effects of actions by competitors in these markets and to its ability to anticipate and adapt to constant technological changes taking place in the industry.

To compete effectively in these markets, the Telefónica Group needs to successfully market its products and services and respond to both commercial actions by competitors and other competitive factors affecting these markets, anticipating and adapting promptly to technological changes, changes in consumer preferences and general economic, political and social conditions. Failure to do so appropriately could have an adverse impact on the Group’s financial condition, results of operations and cash flows.

New products and technologies arise constantly, while the development can render obsolete the products and services the Telefónica Group offers and the technology it uses. This means that Telefónica must invest in the development of new products, technology and services so it can continue to compete effectively with current or future competitors, and which may result in the decrease of the Group’s profits and revenue margins. In this respect, margins from traditional voice and data business are shrinking, while new sources of revenues are deriving from mobile internet and connectivity services that are being launched. Research and development costs amounted to 1,046 million euros and 1,071 million euros in 2013 and 2012, respectively, representing 1.8% and 1.7% of the Group’s consolidated revenue, respectively. One technology that telecommunications operators, including Telefónica (in Spain and Latin America), are focused on is the new FTTx-type network, which offers broadband access using optical fiber with superior services, e.g. internet speed of up to 100MB or HD television services. However, substantial investment is required to deploy these networks, which entails fully or partially substituting copper loop access with optic fiber. An increasing demand for the capabilities offered by these new networks to end users exist, however, the high level of the investments requires a continuous analysis of the return on investment.

The explosion of the digital market, and entry of new players in the communications market, such as Mobile Virtual Network Operators (MVNOs), internet companies or device manufacturers, may cause the loss of value of certain assets, and affect its ability to generate income. Therefore, it is necessary to update the business model, encouraging the pursuit of incomes and additional efficiencies to the more traditional. Failure to do so appropriately could have an adverse impact on the Group’s financial condition, results of operations and cash flows.

In addition, the ability of the Telefónica Group's IT systems (operational and backup) to respond the Company's operating requirements is a key factor to be taken into account with respect to the commercial development, customer satisfaction and business efficiency.

The Company depends on the suppliers.

The existence of critical suppliers in the supply chain, especially in areas such as network infrastructure, information systems or handsets, with a high concentration in a small number of suppliers, poses risks that may affect the operation, and may cause contingencies or damages to the Company's image in the event that inappropriate practices were produced by a participant in the supply chain.

As of December 31, 2013, the Telefónica Group depends on 8 handset suppliers and 12 network infrastructure suppliers, which together accounted for 80% of orders. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements.

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If these suppliers fail to deliver products and services to the Telefónica Group on a timely basis, it could jeopardize network deployment and expansion plans, which in some cases could adversely affect the Telefónica Group's ability to satisfy its license terms and requirements or have an adverse impact on the Group's business, financial condition, results of operations and cash flows.

Unanticipated network interruptions can lead to quality loss or the interruption of the service.

Unanticipated network interruptions as a result of system failures, including those due to network, hardware or software or cyber-attacks, which affect the quality of or cause an interruption in the Telefónica Group's service, could lead to customer dissatisfaction, reduced revenues and traffic, costly repairs, penalties or other measures imposed by regulatory authorities and could harm the Telefónica Group's image and reputation.

Telefónica attempts to mitigate these risks through a number of measures, including backup systems and protective systems such as firewalls, virus scanners and other physical and logical security. However, these measures are not always effective. Although the Telefónica Group has insurance policies to cover this type of incidents and risks, these policies may not be sufficient to cover all possible monetary losses, although the claims and loss in revenue caused by service interruptions to date have been covered by these policies.

The telecommunications industry may be affected by the possible effects of electromagnetic fields, emitted by mobile devices and base stations, may have on human health.

In some countries, there is a concern regarding potential effects of electromagnetic fields, emitted by mobile devices and base stations, on human health. This public concern has caused certain governments and administrations to take measures that have hindered the deployment of the infrastructures necessary to ensure quality of service, and affected the deployment criteria of new networks and digital services such as smart meters development.

There is a consensus between various expert groups and public health agencies, including the World Health Organization (WHO), who claim that at the moment there have not been established risks for exposure to low frequency signals in mobile communications. The scientific community is still investigating this issue especially on mobile devices. Exposure limits for radio frequency suggested in the guidelines of the Protection of Non-Ionizing Radiation Protection Committee (ICNIRP) have been internationally recognized. The mobile industry has adopted these exposure limits and works to request authorities' worldwide to adopt these standards.

Society's worries about radiofrequency emissions may discourage the use of mobile devices and new digital services, which could cause the public authorities to implement measures restricting where transmitters and cell sites can be located and how they operate, and the use of our mobile telephones, the massive deployment of smart meters and other products using mobile technology. This could lead to the Company being unable to expand or improve its mobile network.

The adoption of new measures by governments or administrations or other regulatory interventions in this respect, and any future assessment on the adverse impact of electromagnetic fields on health, may negatively affect the business, financial conditions, results and cash flows of the Telefónica Group.

Possible regulatory, business, economic or political changes could lead to asset impairment.

The Telefónica Group reviews on an annual basis, or more frequently when the circumstances require it, the value of assets and cash-generating units, to assess whether their carrying values can be supported by the future expected cash flows, including, in some cases synergies allowed for in acquisition cost. Potential changes in the regulatory, business, economic or political environment may result in the need to introduce changes to estimates made and recognize impairment losses in goodwill, intangible assets or fixed assets. Although the recognition of impairments of property, plant and equipment, intangible assets and financial assets results in a non-cash charge on the income statement, it could adversely affect the results of the Telefónica Group's operations. In this respect, the Telefónica Group has experienced impairment losses on certain of its investments, affecting the results of the year in which they were made. Thus, with respect to the investment in Telco, S.p.A., value adjustments were made in fiscal years 2012 and 2013 for 1,277 million euros and 267 million euros, respectively. Also in 2012, the revision of the value of Telefónica operations in Ireland resulted in a negative impact of 527 million euros.

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Our networks carry and store huge volumes of confidential, personal and corporate data, and our Internet access and hosting services may lead to claims for illegal or illicit use of the Internet.

Our networks carry and store huge volumes of confidential, personal and business data, both voice and data traffic. We store increasing quantities and types of customer data in both business and consumer segments. Despite our best efforts to prevent it, Telefónica may be found liable for the loss, transfer, or inappropriate modification of the customer data or general public data stored on its servers or transmitted through its networks which could involve many people and have an impact on the Company's reputation, or lead to legal claims and liabilities that are difficult to measure in advance.

Our Internet access and hosting servers could lead to claims for illegal or unlawful use of the Internet. Telefónica, like other telecommunications providers, may be held liable for the loss, transfer or inappropriate modification of the customer data stored on its servers or carried by its networks.

In most countries in which Telefónica operates, the provision of its internet access and hosting services (including the operation of websites with shelf-generated content) are regulated under a limited liability regime applicable to the content that it makes available to the public as a technical service provider, particularly content protected by copyright or similar laws. However, regulatory changes have been introduced imposing additional obligations on access providers (such as blocking access to a website) as part of the struggle against some illegal or illicit uses of the internet, notably in Europe.

Telefónica and Telefónica Group companies are party to lawsuits, tax claims, antitrust and other legal proceedings.

Telefónica and Telefónica Group companies are party to lawsuits, tax claims and other legal proceedings in the ordinary course of their businesses, the financial outcome of which is unpredictable. An adverse outcome or settlement in these or other proceedings could result in significant costs and may have a material adverse effect on the Group’s business, financial condition, results of operations, reputation and cash flows. In particular, regarding tax and antitrust claims, the Telefónica Group has open judicial procedures in Peru concerning the clearance of previous years' income tax, for which contentious-administrative appeal is currently in process; as well as in Brazil CADE’s (Conselho Administrativo de Defensa Ecônomica) as regards the acquisition of a 50% stake in VIVO and tax open procedures, primarily relating to the CIMS (tax on telecommunication services) (further details on these matters are provided in the Consolidated Financial Statements).

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Item 4. Information on the Company

A. History and Development of the Company

Overview

Telefónica, S.A., is a corporation duly organized and existing under the laws of the Kingdom of Spain, incorporated on April 19, 1924. We are:

- a diversified telecommunications group which provides a comprehensive range of services through one of the world's largest and most modern telecommunications networks;
- focused on providing telecommunications services; and
- present principally in Europe and Latin America.

The following significant events occurred in 2013:

- On February 8, 2013, the bolivar fuerte was devalued from 4.3 bolivares fuertes per U.S. dollar to 6.3 bolivares fuertes per U.S. dollar.

The exchange rate of 6.3 bolivares fuertes per U.S. dollar has been used in the conversion of the financial information of Venezuelan subsidiaries for the whole year in 2013. The principal impacts of the devaluation of the bolivar fuerte have been the following:

- The decrease of the Telefónica Group's net assets in Venezuela as a result of the conversion to euros at the devalued exchange rate with a balancing entry in Group equity of approximately 1,000 million euros, based on the net assets as at December 31, 2012.

- Increase in the net financial debt resulting from the application of the new exchange rate to the net asset value in bolivar fuerte of approximately 873 million euros, as per the balance as at December 31, 2012.

- On February 20, 2013, Telefónica UK Limited won two 10MHz blocks in the 800 band in the spectrum auction. Total investment by Telefónica UK in new frequencies amounted to 719 million euros.

- On March 26, 2013 Telefónica, S.A. placed 90,067,896 treasury shares (representing 1.979% of its share capital) to qualified and professional investors, at 10.80 euros per share. These shares were the total treasury shares position of Telefónica as of that date. The terms and conditions of this sale and the final share price were duly notified by the company to the Spanish National Securities and Exchange Commission (CNMV).

- On April 24, 2013, the Board of Directors of Telefónica, S.A. approved, upon the prior favorable report from its Nominating, Compensation and Corporate Governance Committee, the appointment as member and Chairman of the Audit and Control Committee of its independent director Mr. Carlos Colomer Casellas, to replace (having completed his legal term), as chairman, the independent director Mr. Gonzalo Hinojosa Fernández de Angulo, who remains as member of the aforementioned Committee.

Likewise, the Company's Board of Directors resolved to appoint Mr. Gonzalo Hinojosa Fernández de Angulo as member and Chairman of the Regulation Committee, to replace, as chairman, the independent director Mr. Pablo Isla

Álvarez de Tejera, who remains as member of the aforementioned Committee.

- On April 30, 2013, Telefónica, S.A. reached an agreement with Corporación Multi Inversiones ("CMI"), for the sale of 40% of Telefónica´s stake in its subsidiaries in Guatemala, El Salvador, Nicaragua and Panama. The transaction amounted to 500 million U.S. dollars plus a variable amount of up to 72 million U.S. dollars, according to the future evolution of the transferred assets. Following the fulfilment of the conditions to which the closing of the sale was subject, the closing of the transaction was on August 2, 2013.

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- On May 31, 2013, the Telefónica, S.A.'s Annual General Shareholders' Meeting took place on second call, with the attendance, present or represented, of 54.47% of the share capital. In such meeting, all the resolutions submitted by the Board of Directors for deliberation and vote were approved by majority of votes.

- On May 31, 2013, the Board of Directors of Telefónica, S.A. upon the prior favorable report of the Nominating, Compensation and Corporate Governance Committee, adopted the resolutions listed below:

- To re-elect directors Mr. José María Abril Pérez and Mr. Javier de Paz Mancho, members of the Executive Commission.

- To appoint director Mr. Ignacio Moreno Martínez as a member of the Audit and Control Committee; Service Quality and Customer Service Committee; and Regulation Committee.

- To appoint director Mr. Julio Linares López as a member of the Strategy Committee.

- To accept the resignation of director Mr. Pablo Isla Álvarez de Tejera as member of the Service Quality and Customer Service Committee and to appoint the Director Mr. Javier de Paz Mancho member of the aforesaid Committee.

- To create an Institutional Affairs Committee, which will be composed by the Directors: Mr. Javier de Paz Mancho, Mr. Alfonso Ferrari Herrero, Mr. Gonzalo Hinojosa Fernández de Angulo, Mr. Antonio Masanell Lavilla, Mr. Fernando de Almansa Moreno-Barreda and Mr. Julio Linares López, who will assume its presidency.

- To eliminate the International Affairs Committee and the Human Resources, Corporate Reputation and Responsibility Committee.

Finally, the Board of Directors of the Company, as requested by the Nominating, Compensation and Corporate Governance Committee, resolved to appoint the Director Mr. Alfonso Ferrari Herrero, Coordinating Independent Director ("Lead Director"), in accordance with article 32 of the Corporate Bylaws approved by the Annual General Shareholders' Meeting held such day.

- On June 24, 2013, Telefónica, S.A. reached an agreement with Hutchison Whampoa Group for the total divestment of the Telefónica Group of its shares of Telefónica Ireland, Ltd. The value of the sale totaled 850 million euros, including an initial cash consideration of 780 million euros at closing of the transaction, and an additional deferred payment of 70 million euros based on the completion of agreed financial objectives. The transaction is pending closing and remains subject, among other conditions, to the relevant competition approvals.

- On July 23, 2013, Telefónica, S.A. and its German listed subsidiary Telefónica Deutschland Holding AG entered into an agreement (amended on August 26, 2013) with the Dutch company Koninklijke KPN NV ("KPN") under which Telefónica Deutschland committed itself to acquire the shares of the German subsidiary of KPN, E-Plus Mobilfunk GmbH & Co. KG, receiving KPN, as consideration, 24.9% of Telefónica Deutschland and 3,700 million euros.

Telefónica, S.A. committed to subsequently acquire from KPN, 4.4% of Telefónica Deutschland for a total amount of 1,300 million euros. Consequently, KPN's stake in Telefónica Deutschland will be reduced to 20.5% after the acquisition. Telefónica, S.A. also committed to subscribe for the proportional corresponding share in the capital increase of Telefónica Deutschland to finance the cash consideration of the transaction.

The closing of this transaction is subject to certain conditions of which only the relevant authorization from the Competition Authority remains pending.

- On September 24, 2013, Telefónica, S.A. and the remaining shareholders of the Italian company Telco, S.p.A. (which holds a capital stake of 22.4% of the voting share capital of Telecom Italia S.p.A.) reached an agreement by virtue of which Telefónica subscribed for and paid out a capital increase in Telco, S.p.A. through the contribution of 324 million euros in cash, receiving in return non-voting shares of Telco, S.p.A. As a result of this capital increase, the interest held by Telefónica in the voting share capital of Telco, S.p.A. remained unchanged (i.e. 46.18%), although its interest in the total share capital of Telco, S.p.A. increased to 66%. The current governance structure remained unaffected, including Telefónica's obligation to abstain from participating in or influencing any decisions that could affect the markets in which both Telefónica and Telecom Italia S.p.A. are present. See "Item 4. Information on the Company-Strategic Partnership" and "Item 10 Additional Information-Material Contracts".

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- On September 25, 2013, the Board of Directors of Telefónica, S.A., pursuant to the resolution adopted by the Shareholders' Meeting of Telefónica, S.A., held on May 31, 2013, fixed November 6, 2013, as the date for the dividend distribution charged to unrestricted reserves, of a fixed gross amount of 0.35 euro for each Company share issued, in circulation, and carrying entitlement to this distribution.

- On November 5, 2013, Telefónica, S.A. reached an agreement with PPF Group N.V. to sell 65.9% of Telefónica Czech Republic, a.s. for approximately 306 Czech Crowns per share in cash (approximately 2,467 million euros at the date of the agreement). The transaction was completed on January 28, 2014, after obtaining the relevant regulatory authorization.

- On December 18, 2013, the Board of Directors of Telefónica, S.A. approved, upon the prior favorable report from the Nominating, Compensation and Corporate Governance Committee, the appointment of the Vice-Chairman of the Board of Directors, Mr. Julio Linares López, as a member of the Innovation Board Committee of Telefónica, S.A.

Business areas

On February 26, 2014, the Board of Directors of Telefónica approved the implementation of a new organizational structure (see Note 23 to our Consolidated Financial Statements and “item 4. Information on the company – Recent developments.”). As this change has taken place after the reporting period for this Annual Report, we present our results of operations throughout this Annual Report using the reporting structure that was in place during the reporting period.

The reporting structure of this Annual Report is as follows:

As of January 1, 2012, the Telefónica Group’s consolidated results have been reported in accordance with the organizational structure approved in September 2011, based on two regional business units, Telefónica Europe and Telefónica Latin America, and two global business units, Telefónica Digital and Telefónica Global Resources.

As a consequence, the digital world and global resources are included within “Other companies and eliminations”.

Additionally, from the beginning of 2013, the perimeter of consolidation of Telefónica Europe includes Tuenti Technologies, S.L. In 2012 and 2011 it was included in “Other companies and eliminations”. As a result, the results of Telefónica Europe and “Other companies and eliminations” have been revised for the fiscal years 2012 and 2011 to reflect the above mentioned organization. As this is an intragroup change, Telefónica’s consolidated results for 2012 and 2011 are not affected.

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The following chart shows the organizational structure of the principal subsidiaries of the Telefónica Group at December 31, 2013, including their jurisdictions of incorporation and our ownership interest. For further detail, see Exhibit 8.1 to this Annual Report.

(1) Ownership in Telefónica Móviles España, S.A.U. is held directly by Telefónica, S.A..
(2) 91.76% representing voting interest.
(3) Ownership in Telefónica International Wholesale Services, S.L. is held 92.51% by Telefónica, S.A. and 7.49% by Telefónica Datacorp, S.A.U..
(4) Companies held indirectly.
(5) Ownership in TIWS II is held directly by Telefónica, S.A..
(6) 72.1% including treasury shares.

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Telefónica, S.A., the parent company of the Telefónica Group, also operates as a holding company with the following objectives:

- coordinate the Group's activities;
- allocate resources efficiently among the Group;
- provide managerial guidelines for the Group;
- manage the Group's portfolio of businesses;
- foster cohesion within the Group; and
- foster synergies among the Group's subsidiaries.

Our principal executive offices are located at Distrito Telefónica, Ronda de la Comunicación, s/n, 28050 Madrid, Spain, and our registered offices are located at Gran Vía, 28, 28013 Madrid, Spain. Our telephone number is +34 900 111 004.

Capital Expenditures and Divestitures

Our principal capital expenditures during the three years ended December 31, 2013, consisted of additions to property, plant and equipment and additions to intangible assets, including spectrum. In 2013, 2012 and 2011, we made capital expenditures of 9,395 million euros, 9,458 million euros and 10,224 million euros, respectively.

Year ended December 31, 2013

Capital expenditures in 2013 were in line with 2012. Capital expenditures in 2013 include the cost of spectrum mainly in United Kingdom, Brazil, Peru, Colombia and Spain, amounting to 1,224 million euros. Investment by Telefónica Europe in 2013 amounted to 3,872 million euros, mainly concentrated on continuing the roll-out of fiber optic across the fixed network in Spain, increasing the number of fiber optic-connected homes and customers. Development of the LTE mobile networks in Germany, the United Kingdom and Spain was ramped up to increase deployment and coverage, while investments continued to be made to boost the capacity of third-generation (3G) mobile networks. Telefónica Latin America's investments in 2013 amounted to 5,252 million euros, mainly in the mobile business and centered primarily on overlay projects and expansion of the coverage, quality and density of 3G networks, as well as the minimum roll-out of LTE (Brazil, Colombia and Chile), the development of platforms to underpin new VASs, and the optimization of infrastructure and systems developments focusing on self-management. In the fixed line business, funds continued to be earmarked for rolling out UBB through speed upgrades in ADSL, fiber (FTTx) and VDSL in Brazil, Argentina and Chile, as well as the installation of fixed-mobile convergence systems (Brazil, Colombia, Chile and Peru).

Year ended December 31, 2012

Capital expenditures in 2012 declined 7.5% compared to 2011. Capital expenditures in 2012 include the cost of spectrum in Brazil, Nicaragua, Chile, Venezuela and Ireland, amounting to 586 million euros. In Telefónica Europe, there were significant investments in further capacity expansion and quality improvement of its mobile 3G networks in Spain, United Kingdom, Germany and Czech Republic, and additionally, into the development of the LTE network in Germany. In the fixed line business, there were significant investments in the fiber optic network roll-out and data services for large corporate customers in Spain, and in improving fixed broadband network in Czech Republic.

Investments in Telefónica Latin America were focused on mobile business (mainly with overlay projects, and coverage expansion and enhancing the quality of its 3G networks), as well as on development of new platforms and evolving the existing ones to support new value-added services. In the fixed line business in Telefónica Latin America, significant investments were made in ultrabroadband and speed upgrades in DSL, FTTx and VDSL in Brazil, Argentina and Chile. Also, it is important to highlight the investments done by Telefónica Digital throughout 2012 in TV business including new HD channels introduction and commercial launches of OTT services and content delivery network in line with Telefónica Digital initiatives.

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Year ended December 31, 2011

Capital expenditures in 2011 declined 5.7% compared with 2010. Capital expenditures in 2011 include the cost of spectrum in Spain, Brazil, Costa Rica and Colombia, amounting to 1,296 million euros. Investment in Europe continued to be focused on improving capacity and coverage of the mobile networks in the United Kingdom and Germany as well as the broadband business, primarily in the Czech Republic and Germany. Investment in the mobile business was principally directed toward improving 3G network capability. However, significant investments were also made in the fixed line business in Europe, principally in Spain, including investments in broadband to continue the localized roll-out of fiber optics, TV and data services for large corporate customers, as well as the maintenance of the traditional business. Investments in Latin America were focused mainly on the mobile business, mostly in the expansion of coverage and on 3G and GSM network capacity. In the fixed line business, network and plant upgrades and investment in broadband accounted for the bulk of the investment.

Financial Investments and Divestitures

There were no significant financial investments in 2013. Our principal divestures in 2013 were the sale of 40.00% of our investment, through Telefónica Centroamérica de Inversiones, S.L., in Guatemala, Salvador, Nicaragua and Panama for 500 million U.S. dollars (equivalent to 377 million euros on the date of execution of the sale) with no impact in the results of the Group given our continued control over the company after the transaction; the agreement to sell 65.9% of our investment in Telefónica Czech Republic, a.s. for 306 Czech crown per share (approximately 2,467 million euros at the date of the agreement), resulting in a capital loss of 176 million euros and the agreement to sell our stake in Telefónica Ireland, Ltd for 850 million euros.

There were no significant financial investments in 2012. Our principal divestures in 2012 were the sale of 4.56 percentage points of our stake in China Unicom for approximately 1,142 million euros, resulting in a loss of 97 million euros; the sale of 23.17% of Telefónica Germany Holding, A.G. for 1,499 million euros, with no impact in the results of the Group given we maintain the control over the company after this transaction, and the sale of Atento for 1,051 million euros, including a vendor loan of 110 million euros as well as certain deferred payments for 110 million euros, resulting in a capital gain of 61 million euros.

Our principal financial investment in 2011 was the extension of our strategic partnership agreement with China Unicom, which extension was executed on January 23, 2011. Telefónica acquired through its subsidiary, Telefónica Internacional, S.A.U., a number of China Unicom shares for consideration totaling 501 million dollars in the aggregate (358 million euros at each acquisition date) from third parties during the nine months following the execution of the extension. Following the completion of the transaction, Telefónica holds, through Telefónica Internacional, S.A.U., approximately 9.57% of China Unicom’s voting share capital.

Public Takeover Offers

Not applicable

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Recent Developments

The principal events that have occurred since December 31, 2013, are set forth below:

- On January 24, 2014, exchange agreement No. 25 came into force, which regulates the sale of foreign currency in the Republic of Venezuela for certain sectors and items. This agreement does not amend the exchange rate of 6.3 bolivares fuertes per U.S. dollar, which has applied since exchange agreement No. 14 was approved on February 8, 2013, except for: (i) cash for travelling abroad and remittances to individuals domiciled abroad; (ii) payment of operations inherent to national civil aviation and the international air transportation public service; (iii) operations inherent to insurance activity; (iv) leasing and service agreements, agreements for the import of intangible assets, payments of rental contracts for networks, and payments corresponding to the telecommunications sector; and (v) foreign investments and payments of royalties, use and exploitation of patents, trademarks and franchises, as well as technology import and technical assistance agreements.

Requests for the liquidation in U.S. dollars of the aforementioned concepts will be settled, at the foreign exchange rate resulting from the allocations conducted through the Complementary System for Administration of Foreign Currency (SICAD). The SICAD allocation as of January 15, 2014, resulted in an exchange rate of 11.36 bolivares fuertes per U.S. dollar. Nonetheless, the aforesaid agreement stipulates that the liquidation of foreign currency operations requested before the Central Bank of Venezuela before exchange agreement No. 25 came into force, will be settled at the exchange rate established in the February 8, 2013, exchange agreement, i.e. at a rate of 6.3 bolivares fuertes per U.S. dollar.

The change to the currency exchange system introduced in the aforesaid agreement will take effect in the Telefónica Group's consolidated financial statements from the moment it comes into force, on January 24, 2014. It is therefore a subsequent event that does not impact the consolidated financial statements, as the previous exchange rate of 6.3 bolivares fuertes per U.S. dollar was in force as at the year ended December 31, 2013 and up to January 24, 2014, for all foreign currency transactions.

The main aspects to be considered in 2014 are as follows. In order to estimate the impacts in euro, the rate used is the exchange rate resulting from the SICAD allocation as of January 15, 2014, amounting to 11.36 bolivares fuertes per U.S. dollar, which will vary throughout 2014.

– The decrease of the Telefónica Group's net assets in Venezuela as a result of the conversion to euro at the new exchange rate with a balancing entry in Group equity of approximately 1,800 million euros, based on the net assets as at December 31, 2013.

– As part of the decrease mentioned in the preceding paragraph, the value in euro of the net financial assets denominated in bolivar fuerte will decrease by approximately 1,200 million euros, as per the balance sheet as at December 31, 2013.

– On the other hand, it should be noted that Exchange regulations in Venezuela are in constant evolution. Thus, on February 20, 2014, the Government of Venezuela announced a complementary currency system identified as "SICAD 2", in addition to those already in existence, which will revoke the Act of Illicit Exchange ("Ley de Ilícitos Cambiarios") and will create an alternative market with bands of exchange rates, which will be regulated by the Central Bank of Venezuela. However, as of the date of authorisation for issue of this Annual Report, the system described in such announcement or the corresponding measures have not yet been formalised.

- On January 28, 2014, after obtaining the relevant regulatory approval, the sale of Telefónica Czech Republic, a.s., was completed. Subsequent to the sale, Telefónica holds a 4.9% stake in Telefónica Czech Republic, a.s.

- On February 26, 2014, the Board of Directors of Telefónica approved the implementation of a new organizational structure focused on clients and that incorporates our digital offering as the main focus for our commercial policies. The structure aims to give greater visibility to local operations, bringing them closer to the corporate decision-making center, simplifying the global structure and strengthening the transverse areas to make the decision-making process more efficient.

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Within this framework, Telefónica has created the role of the Chief Commercial Digital Officer, who will be responsible for fostering revenue growth. On the cost side, the Company has strengthened the role of the Chief Global Resources Officer. Both Officers will report directly to the Chief Operating Officer (COO), as will the local business CEOs for Spain, Brazil, Germany and the United Kingdom, in addition to the Latin American Unit, which now no longer includes Brazil.

The new model integrates the activities carried out to date by Telefónica Digital Limited, Telefónica Europe Plc ("Telefónica Europe") and Telefónica Latin America (Telefónica Latam) into the Global Corporate Center, thus simplifying the organization.

- On February 27, 2014, the Board of Directors of Telefónica has agreed, regarding the 2014 dividend, to determine the amount thereof at 0.75 euros per share, payable in two tranches:

- 0.35 euros per share by means of a "scrip dividend" in the fourth quarter of 2014.

- 0.40 euros per share in cash in the second quarter of 2015.

Regarding the 2013 dividend amounting to 0.75 euros per share, with a first tranche of 0.35 euros per share already paid in cash in November 2013, the Company confirms that the second tranche amounting to 0.40 euros per share will be paid in cash in the second quarter of 2014. The adoption of the corresponding corporate resolutions will be proposed in due course.

For information related to our significant financing transactions completed in 2013 and through the date of this Annual Report, see “Item 5. Operating and Financial Review and Prospects – Liquidity and Capital Resources – Anticipated Sources of Liquidity.

B. Business Overview

The Telefónica Group is one of the world’s leading mobile and fixed communications services providers. Its strategy is to become a leader in the new digital world and transform the possibilities it brings into reality.

Telefónica aim is to reinforce its position as an active player in the digital world capable of seizing all the opportunities afforded by its global scale and its industrial and strategic alliances.

Telefónica has a regional and integrated management model. The current organizational structure was defined in 2011 and its implementation continued through 2013. The different operations of the Telefónica Group, are organized around two geographic regions, Europe and Latin America, together with other Global Units. Telefónica Europe comprised, at year-end, the Spain, United Kingdom, Germany, Czech Republic, Slovakia and Ireland operations. Latin America includes operations in Brazil, Argentina, Peru, Chile Venezuela and Central America (El Salvador, Guatemala, Nicaragua, Panama and Costa Rica), Colombia, Mexico, Ecuador and Uruguay. Telefónica Digital is a global business division of Telefónica. Its mission is to seize the opportunities within the digital world and deliver new growth for Telefónica through research and development, venture capital, global partnerships and digital services.

Telefónica Global Resources is a global unit that aims to support the profitability and sustainability of the business by leveraging economies of scale, as well as by driving Telefónica’s transformation into a fully global company. Its goal is to maximize Telefónica's economies of scale while seeking greater efficiencies for the company, through, among other strategies, simplification, standardization, rationalization and consolidation, global procurement and the management of Telefónica's non-strategic assets.

In 2013, with the aim of strengthening direct contact with both retail and corporate clients in order to accelerate the transformation of the company into a digital telecommunications company, the Global Chief Marketing Officer position was created, which oversees all the related commercial areas, encompassing product, service, channels, handset and pricing policies, as well as advertising and brand strategies. Furthermore, Telefónica Global Solutions is facing the increasing complexity of the enterprise market where the adoption of digital solutions is increasingly common.

Telefónica Europe and Telefónica Latin America's aim is to generate sustainable growth through available means and the support of the Telefónica Group. In this report two differentiated segments are presented: Telefónica Europe (T. Europe) and Telefónica Latin America (T. Latin America).

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The Telefónica's Group strategy aims to:

- Improve the customer experience in order to continue increasing accesses.
- Lead growth:
  - Drive forward the penetration of smart phones in all markets in order to raise the rate of growth of mobile data by monetizing their increasingly widespread use;
  - Defend our competitive positioning, and leverage our customer knowledge;
  - Develop the growth opportunities that have arisen in an increasingly digital context, such as media, financial services, cloud, security, advertising, M2M, e-Health, etc; and
  - Capture the opportunity in the business segment.
- Continue working on the transformation of the Group's operating model:
  - Increase the modernization of networks in markets where we operate through technological advances and the acquisition of spectrum;
  - Maximize the benefits of economies of scale to increase efficiency;
  - Simplify the operative model; and
  - Reduce legacy cost, especially legacy network costs.

In addition, Telefónica maintains an industrial alliance with Telecom Italia, S.p.A and a strategic alliance with China Unicom in which the Group holds a 5% stake. Furthermore, in order to unlock the value of Telefónica's scale, the "Partners" program was created in 2011, and now includes five operators (Bouygues, Etisalat, Sunrise, Megafon and O2 CZ). The Partners Program is an initiative that makes available to selected operators and under commercial terms a host of services that allows partners to leverage on Telefónica's scale and to cooperate on key business topics (roaming, services to multinationals, procurement, devices, etc.).

Elsewhere, in 2013 Telefónica Europe's portfolio was restructured through a sale agreement of operations in the Czech Republic, which was closed in January 2014 after obtaining regulatory approval, and in Ireland, pending regulatory approval, and with the announcement of the acquisition of E-Plus by Telefónica Germany to form the leading operator in the European market.

Non-controlling or minority interests can be divided into two groups. Firstly, subsidiaries listed in a regulated market, such as Telefónica Brasil or Telefónica Deutschland, where minority shareholdings are widely dispersed and for which Telefónica protects minority interests by complying with the regulations of the related market. Secondly, subsidiaries with a main minority shareholder, with which agreements are entered into in order to guarantee the protection of its rights, and in certain cases (such as Colombia Telecomunicaciones) where there are also specific commitments resulting from corporate transactions (see Note 21.b).

The Company has a governance system, which applies to Telefónica's entire structure. Pursuant to the Company's commitment to its shareholders, the Board of Directors, supported by its Committees, manages the Company's business in accordance with the corporate governance rules laid down primarily in the Corporate By-laws, Regulation of the General Shareholders' Meeting, and Regulation of the Board of Directors.

Telefónica's Board of Directors consists of 18 directors and is responsible for overseeing and controlling the Company's activity. It has sole powers regarding general strategy and policies on corporate governance, corporate social responsibility, remuneration of the Board and senior management, shareholder remuneration, and strategic investments.

In order to strengthen the corporate governance of the Company, the board of directors of Telefónica, S.A. has eight committees (including the Executive Commission) which are charged with examining and overseeing areas of particular relevance. Pursuant to its regulation, the Board also confers responsibility for day-to-day management of the businesses to Telefónica's executive bodies (primarily through the Executive Committee) and management team.

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2013 highlights

Telefónica managed a total of almost 323 million accesses at the end of 2013, up 2.3% year-on-year, driven by contract mobile customers, in particular in the mobile broadband segment, and pay TV accesses. Telefónica Latin America (69% of the total) performed especially well, posting an increase in accesses of 4.2% year-on-year. It is important to note that the variance in accesses is impacted by the sale of the fixed business's residential assets in the UK and the disconnection of some inactive accesses (Czech Republic).

Revenues totaled 57,061 million euros in 2013, and showed a year-on-year decline of 8.5%, impacted by exchange rate differences and the effect of hyperinflation in Venezuela, which subtracted 7.5 percentage points from growth. Additionally, the year-on-year variance was also affected by the changes in the scope of consolidation mainly due to the sale of Atento (1.7 p.p.). Excluding these impacts, revenue in 2013 rose by 0.7% year-on-year.

The main growth drivers of Telefónica Group revenues are Latin America and mobile data revenue, partially offsetting the pressure on revenue in Europe.

The structure of revenues reflects the Company's strong diversification and, despite the abovementioned exchange rate impact, T. Latin America accounted for 51% of total revenues in 2013 (+2.2 percentage points compared with 2012), while revenues from European operations as a percentage of Telefónica Group revenues fell by 1.1 percentage points year-on-year (47% of the total). Telefónica Spain's contribution to consolidated revenues decreased by 1.3 percentage points to less than 23% of the total.

OIBDA reached 19,077 million euros, a decline of 10.1% in reported terms, impacted by exchange rate differences and the effect of hyperinflation in Venezuela, which reduced growth by 7.5 percentage points. It was also affected by the value adjustment or net loss on the sale of Telefónica Ireland and Telefónica Czech Republic, the sale of non-strategic towers in Spain, changes in the scope of consolidation (principally Atento, which is not consolidated since December 2012), and certain other impacts like contractual changes in the commercial model for selling handsets in Chile. Net of these impacts, OIBDA would have been flat with respect to the prior year. The OIBDA margin closed at 33.4% for 2013, down 0.6 percentage points year-on-year in reported terms.

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The below table shows the evolution of accesses over the past three years:

Accesses

Thousands of accesses	2011	2012	2013	%Var 11/12	%Var 12/13
Fixed telephony accesses (1)(2)	40,119.2	40,002.6	39,338.5	(0.3)%	(1.7)%
Internet and data accesses	19,134.2	19,402.6	19,102.0	1.4%	(1.5)%
Narrowband	909.2	653.2	510.8	(28.2)%	(21.8)%
Broadband (3)(4)	18,066.3	18,596.2	18,447.8	2.9%	(0.8)%
Other (5)	158.7	153.1	143.4	(3.5)%	(6.3)%
Mobile Accesses	238,748.6	247,346.9	254,717.2	3.6%	3.0%
Prepay	162,246.9	165,821.9	165,557.0	2.2%	(0.2)%
Contract (6)	76,501.7	81,525.0	89,160.3	6.6%	9.4%
Pay TV	3,309.9	3,336.2	3,602.2	0.8%	8.0%
Unbundled loops	2,928.7	3,308.8	3,833.4	13.0%	15.9%
Share ULL	205.0	183.5	130.6	(10.5)%	(28.9)%
Full ULL	2,723.7	3,125.3	3,702.9	14.7%	18.5%
Wholesale ADSL	849.3	845.4	866.9	(0.5)%	2.5%
Other	1,518.0	1,577.1	1,658.2	3.9%	5.1%
Final Client Accesses	301,311.8	310,088.3	316,759.9	2.9%	2.2%
Wholesale Accesses	5,296.0	5,731.3	6,358.5	8.2%	10.9%
Total Accesses	306,607.8	315,819.6	323,118.4	3.0%	2.3%

Note:

- Telefónica Spain mobile accesses include since 2013 the accesses of Tuenti and in 2012 they have been restated with the same criteria.

(1) PSTN (including Public Use Telephony) x1; ISDN Basic access x1; ISDN Primary access; 2/6 Access x30. Company´s accesses for internal use and total fixed wireless included. Includes VoIP and Naked ADSL.

(2) In the second quarter of 2013, 209 thousand accesses were disconnected due to the disposal of the assets of the fixed business in UK.

(3) ADSL, satellite, optical fiber, cable modem and broadband circuits.

(4) In the second quarter of 2013, 511 thousand accesses were disconnected due to the disposal of the assets of the fixed business in UK.

(5) Retail circuits other than broadband.

(6) The first quarter of 2013 includes the disconnection of 114 thousand inactive accesses in Czech Republic.

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The chart below shows the evolution of accesses by region over the past three years:

Accesses by region (millions)

The Group’s strategy is based on capturing growth in our markets and especially on attracting high-value-added customers.

In the mobile segment, contract accesses rose by 9.4% to 89.2 million and now account for 35% of the total mobile customer base (+2 percentage points year-on-year), underlining the focus on the high-value segment.

The Company's mobile broadband accesses stood at 72.8 million in December 2013, maintaining solid growth of 38% year-on-year, and representing 29% of mobile accesses (+7 percentage points year-on-year). Underpinning this growth was the strong performance of smartphones, which achieved a penetration of 27% in terms of mobile internet tariffs over the customer base (+8 percentage points year-on-year), with net additions of 20.7 million (+35% year-on-year).

Telefónica’s customer base includes the consumer and business segments, and therefore is not affected by customer concentration risk.

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The below table shows our consolidated results of operations for the past three years:

Results of operations	Year ended December 31						Percent Change			
	2013		2012		2011		2013 vs 2012		2012 vs 2011	
Millions of euros	Total	% of revenues	Total	% of revenues	Total	% of revenues	Total	%	Total	%
Revenues	57,061	100.0%	62,356	100.0%	62,837	100.0%	(5,295)	(8.5)%	(481)	(0.8)%
Other income	1,693	3.0%	2,323	3.7%	2,107	3.4%	(630)	(27.1)%	216	10.3%
Supplies	(17,041)	(29.9)%	(18,074)	(29.0)%	(18,256)	(29.1)%	1,033	(5.7)%	182	(1.0)%
Personnel expenses	(7,208)	(12.6)%	(8,569)	(13.7)%	(11,080)	(17.6)%	1,361	(15.9)%	2,511	(22.7)%
Other expenses	(15,428)	(27.0)%	(16,805)	(27.0)%	(15,398)	(24.5)%	1,377	(8.2)%	(1,407)	9.1%
Operating income before depreciation and amortization (OIBDA)	19,077	33.4%	21,231	34.0%	20,210	32.2%	(2,154)	(10.1)%	1,021	5.1%
Depreciation and amortization	(9,627)	(16.9)%	(10,433)	(16.7)%	(10,146)	(16.1)%	806	(7.7)%	(287)	2.8%
Operating income	9,450	16.6%	10,798	17.3%	10,064	16.0%	(1,348)	(12.5)%	734	7.3%
Share of profit (loss) of associates	(304)	(0.5)%	(1,275)	(2.0)%	(635)	(1.0)%	971	(76.2)%	(640)	n.m.
Net financial expense	(2,866)	(5.0)%	(3,659)	(5.9)%	(2,941)	(4.7)%	793	(21.7)%	(718)	24.4%
Corporate income tax	(1,311)	(2.3)%	(1,461)	(2.3)%	(301)	(0.5)%	150	(10.3)%	(1,160)	n.m.
Profit for the year	4,969	8.7%	4,403	7.1%	6,187	9.8%	566	12.9%	(1,784)	(28.8)%
Non-controlling interests	(376)	(0.7)%	(475)	(0.8)%	(784)	(1.2)%	99	(20.8)%	309	(39.4)%
Profit for the year attributable to equity holders of the parent	4,593	8.0%	3,928	6.3%	5,403	8.6%	665	16.9%	(1,475)	(27.3)%

n.m.: non meaningful

Year ended December 31, 2013 compared with year ended December 31, 2012

The main metrics in profit and loss statement were negatively impacted in 2013 by exchange rate fluctuations, mainly due to the devaluation of the bolivar fuerte and the depreciations of the Brazilian real and the Argentine peso against the euro. Thus, exchange rates reduced year-on-year revenue and OIBDA growth in 2013 by 7.5 percentage points.

Note that the Telefónica Group deconsolidated the results from the Atento Group as of the end of November 2012 (following the disposal of the company during the fourth quarter of 2012), therefore affecting year-on-year comparisons of Telefónica's reported financial results.

Revenues in 2013 totaled 57,061 million euros, decreasing 8.5% in reported terms, impacted by the exchange rate differences and the effect of hyperinflation in Venezuela which reduced year-on-year growth by 7.5 percentage points.

Additionally, revenues were affected by changes in the consolidation perimeter especially the deconsolidation of the Atento group (-1.7 p.p.). Excluding these impacts, revenue in 2013 rose by 0.7% year-on-year.

The Telefónica Group's main revenue growth drivers were Telefónica Latin America and mobile data revenue, partially offsetting the pressure on revenue in Europe.

The structure of revenues reflects the Company's diversification and despite the above mentioned exchange rate impact, Telefónica Latin America accounted for 51% of total revenues in 2013 (+2.2 percentage points compared with 2012), while revenues from European operations as a percentage of Telefónica Group revenues fell by 1.1 percentage points year-on-year (47% of the total). Telefónica Spain's contribution to consolidated revenues decreased by 1.3 percentage points to less than 23% of the total.

Mobile data revenues decreased 0.7% in reported terms. Excluding the impact of exchange rate differences and the effect of the hyperinflation in Venezuela, mobile data revenues would have increased 9.3% being the main growth driver in 2013. They now account for 37% of mobile service revenues, +3 percentage points compared with 2012. Especially noteworthy is the growth in non-SMS data revenues (+11.2% in reported terms and +22.2% in the year excluding the impact of exchange rate differences and the effect of hyperinflation in Venezuela), which accounted for 64% of total data revenues in the year in reported terms (+7 percentage points year-on-year).

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Other income: mainly includes own work capitalized in our fixed assets, the profit from the sale of other assets, and the disposal of non-strategic towers in Latin America and Spain. The lower level of sales of non-strategic towers compared to 2012 is the main driver for its decrease.

Other income in 2013 consisted mainly of the sale of non-strategic towers in Latin America and Spain (113 million euros in other income and 111 million euros in OIBDA), the capital gain from the disposal of the assets of the fixed business in the United Kingdom (83 million euros), the capital gain from the sale of assets in Germany (76 million euros) and the capital gain from the sale of the stake in Hispasat (21 million euros).

In 2012 this item is mainly explained by the sale of non-strategic towers in Latin America and Spain (659 million euros in other income and 643 million euros in OIBDA), the gain from the sale of applications (39 million euros), and the capital gains from the sale of the Atento group (61 million euros), of Rumbo (27 million euros) and the partial sale of Hispasat (26 million euros).

Total consolidated expenses, which include supplies, personnel expenses and other expenses (primarily external services and taxes) amounted to 39,678 million euros in 2013. This represents an 8.7% decrease year-on-year in reported terms, which was primarily due to:

- exchange rate differences and the effect of hyperinflation in Venezuela (-7.3 p.p.);
- changes in the consolidation perimeter caused by the disposal of Atento and Rumbo (-1.9 p.p.);
- value adjustments or impairment and loss on sale of companies in 2013 and 2012:

- the impact of losses on the sale of companies in 2013, totaled an amount of 192 million euros, primarily from the sale agreements of Telefónica Ireland and Telefónica Czech Republic (+0.4 p.p.);

- the impact of value adjustments or impairment and loss on sale of companies in 2012, which totaled an amount of 624 million euros, primarily from the sale of part of our stake in China Unicom and a value adjustment of Telefónica Ireland (-1.4 p.p.); and

- a contractual change in the commercial model for selling handsets in Chile as a result of which we began from September 2012, to record all of the costs of handsets sold immediately rather than capitalizing such costs and depreciating them over the life of the contract (+0.4 p.p.).

Excluding the aforementioned items, total expenses grew 1.2% in 2013 compared with 2012, mainly as a result of the greater commercial activity in Telefónica Latin America, focused on capturing high-value customers.

- Supplies stood at 17,041 million euros in 2013, falling 5.7% with respect to 2012, impacted to a large degree by exchange rate differences and the effect of hyperinflation in Venezuela, which reduced this item by 7.3 percentage points. Additionally, the year-on-year change is affected by changes in the consolidation perimeter (-1.4 p.p.) and by the contractual change in the commercial model for selling handsets in Chile discussed above (+0.9 p.p.). Excluding both effects, expenses grew 2%, as a result of the greater commercial activity in Telefónica Latin America, both in the mobile segment, due to an increase in the weighting of smartphone sales, and in the fixed business, mainly pay TV, which offset the decline in equipment costs in Europe and the lower termination costs at the group level.

- Personnel costs totaled 7,208 million euros and fell by 15.9% with respect to 2012, mainly impacted by the exchange rate differences and the effect of hyperinflation in Venezuela (-6.2 p.p.) and changes in the consolidation perimeter (-13.6 p.p.). Excluding both effects personnel expenses increased by 4% explained by the negative impact of inflation in certain Latin American countries, despite the higher reduction reported at Telefónica Europe due to savings from workforce restructuring programs, mainly in Spain, the Czech Republic and the UK. This item also reflects non-recurrent restructuring expenses amounting to 156 million euros in 2013 versus 67 million euros in 2012.

The average headcount in 2013 was 129,893 employees, 3.9% lower than the average in 2012 excluding the impact of the deconsolidation of Atento.

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- Other expenses amounted to 15,428 million euros, falling 8.2%, mainly affected by the impact of exchange rate differences and the effect of hyperinflation in Venezuela (-8 p.p.). In addition, it was also affected by changes in the consolidation perimeter (+3.5 p.p.), by the above mentioned value adjustment in companies in 2012 and 2013 (-2.6 p.p.) and expenses associated to sale of non-strategic towers (-0.1 p.p.). Excluding these effects this item fell 1.1%, explained by the lower costs in Telefónica Europe, mainly in commercial expenses, systems and networks, due to the efficiency measures carried out especially in Spain, which involved simplification of processes, distribution channels and call centers redefinition, internalization of activities, savings from the restructuring plan and temporary cancelation of the corporate contribution to pension plans.

OIBDA reached 19,077 million euros, showing a decline of 10.1%, impacted by:

- exchange rate differences and the effect of hyperinflation in Venezuela (-7.5 p.p.);
- the lower amount of non-strategic towers sold in 2013 compared to 2012 (-2.5 p.p.);
- changes in the consolidation perimeter mainly caused by the disposal of Atento (-1.0 p.p.);
- value adjustments or impairment and loss on sale of companies in 2013 and 2012:

– the impact of the sale of companies mainly the sale agreements of Telefónica Ireland and Telefónica Czech Republic in 2013 (-1.3 p.p.);

– the impact of value adjustments or impairment and loss on sale of companies in 2012 totaled 624 million euros, primarily from the sale of part of our stake in China Unicom and a value adjustment of Telefónica Ireland (+2.9 p.p.); and

- the contractual change in the commercial model for selling handsets in Chile (-0.8 p.p.).

Excluding the aforementioned items, OIBDA for 2013 is stable versus the prior year. OIBDA margin was 33.4% in 2013, down 0.6 percentage points year-on-year in reported terms.

By region, Telefónica Europe contributed the most to consolidated OIBDA, accounting for 52.0% (+3.8 percentage points versus December 2012). Telefónica Latin America represented 49% as margins in Europe increased through the year.

Depreciation and amortization in 2013 (9,627 million euros) registered a year-on-year drop of 7.7%, mainly due to the exchange rate effects and the sale of the Atento Group, Telefónica Ireland, and Telefónica Czech Republic. The depreciation and amortization charges arising from purchase price allocation processes amounted to 856 million euros during 2013 (-11.1% year-on-year).

Operating income in 2013 totaled 9,450 million euros, decreasing 12.5% year-on-year, highly impacted by exchange rate differences and the effect of hyperinflation in Venezuela (-9.6 p.p.). Additionally the year-on-year change is affected by the lower amount of non-strategic towers sold in 2013 as compared to 2012 (-4.9 p.p.), the value adjustment of companies in 2013 and 2012 (+4.9 p.p.), sales of companies (-0.1 p.p.), changes in the consolidation perimeter (-1.5 p.p.) and by the contractual change in the commercial model for selling handsets in Chile in 2012 (-0.9 p.p.). Excluding these impacts operating income would have fallen 0.5% year-on-year.

Share of profit (loss) of investments accounted for by the equity method was a loss of 304 million euros in 2013 compared with a loss of 1,275 million euros in 2012 and was affected by adjustments to the value of the stake of

Telco, S.p.A. in Telecom Italia, S.p.A and the contribution to results in the year, resulting in a negative impact on "Share of loss of investments accounted for by the equity method" of 267 million euros and 1,277 million euros, respectively.

Net financial expense amounted to 2,866 million euros in 2013, 21.7% lower than in 2012, of which 111 million euros were due to net negative foreign exchange differences. Excluding this effect, net financial expenses fell 11.8% year-on-year, mainly due to an 11.4% reduction in the average debt. The effective cost of debt over the last twelve months, excluding exchange rate differences was 5.34%, 3 basis points below December 2012, with savings from management improvements over the gross cost of debt in euros offsetting the impact on the effective cost from the fact that most of the reduction has been in euros (with below average costs).

Corporate income tax in 2013 stood at 1,311 million euros, on a pre-tax income of 6,280 million euros, implying an effective tax rate of 20.9%, 4.0 percentage points lower year-on-year. This is mainly due to the recognition in 2012 of the tax assessments in Spain.

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Profit attributable to non-controlling interests reduced 2013 net profit by 376 million euros and was down 20.7% year-on-year, mainly as a result of the lower profit attributed to minority interests in Brazil, affected by the exchange rate.

As a result of the performance of the above items, profit for the period in 2013 was 4,593 million euros (16.9% higher year-on-year).

Year ended December 31, 2012 compared with year ended December 31, 2011

The year 2012 was a key year in the transformation of Telefónica. Throughout the year, a number of initiatives were undertaken aimed at helping the Company begin growing again. Telefónica Latin America surpassed Telefónica Europe in revenues for the first time, continuing to be one of the group’s two main levers of growth, along with mobile data revenues. In Telefónica Europe, there has been a recovery in sales activity in certain markets owing to the success of tariffs that have been launched, especially "Movistar Fusión" in Spain, which reflect an improvement of its competitive position across different markets, even though revenues of Telefónica Europe fell 6.5% with respect to 2011.

In view of the sale of the Atento Group in the fourth quarter of 2012, the results of that business area were deconsolidated from the Telefónica Group as of the end of November 2012. This had an impact on the year-on-year comparison of Telefónica's economic results in reporting terms.

OIBDA was also impacted by the 527 million euros write-down the Telefónica Group made against its stake in Telefónica Ireland.

Revenues for 2012 stood at 62,356 million euros, which represented a decrease of 0.8% on the 2011 figure. This decrease was due to less favorable conditions in some markets, and the prevailing economic situation, in which competition is steeper and regulatory changes have had adverse impacts. The exchange rate differences and the effect of hyperinflation in Venezuela contributed 0.1 p.p. to change in revenues; when stripping out this impact, the fall was 0.9% in 2012.

The Company's strong diversification continues to be a key differential for the Group in the current market situation, as reflected by the revenues structure. In this regard, revenues showed solid growth in Telefónica Latin America (up 5.5% year-on-year) and accounted for 49% of consolidated revenues (up 2.9 p.p. compared to 2011), outperforming those of Telefónica Europe (48% of the Group’s total and down 6.5% year-on-year). Telefónica Spain's contribution to consolidated revenues decreased to 24%.

The decline in revenue compared to the prior year was caused by the lower average revenue per access for the Group, mainly due to lower average revenue per mobile access in Spain and the UK, and the overall fall in average revenue per fixed access in the Group, which undermined the growth in accesses. Revenues were strongly impacted by cuts to interconnection rates, which had a drag of approximately 1.1 p.p. on overall revenue growth.

In terms of services, mobile data revenue continued to be the largest growth driver in 2012 (up 12.8% year-on-year), accounting for over 34% of mobile service revenues in the period (31% in 2011). Non-SMS data revenue climbed 24.1% year-on-year, raising its share of total data revenue by 5 p.p. to 57%.

Other income is primarily comprised of the gains on disposals of assets, which were 782 million euros in 2012 (down 5.0% year-on-year). In 2012, other income primarily reflects: i) sales of non-strategic towers, with an impact of 643 million euros on Other income (and OIBDA), primarily in Brazil, Mexico, Chile, Spain and Peru; ii) the sale of software applications (gains of 39 million euros; 18 million euros recognized in Telefónica Spain); and iii) the fourth-quarter sales of the Atento Group (gains of 61 million euros), Rumbo (gains of 27 million euros) and Hispasat (partial sale, gains of 26 million euros). In 2011, this caption mainly reflected: i) the positive impact derived from the partial reduction of the Group's economic exposure in Portugal Telecom (184 million euros); and ii) the sale of non-strategic towers (541 million euros).

Total expenses, which include supplies, personnel expenses and other expenses (mainly external services and taxes other than corporate income tax) stood at 43,448 million euros, down 2.9% on the 2011 figure. These expenses were affected by exchange rate differences and hyperinflation adjustments (0.3 p.p.); when stripping out this impact, expenses were down 3.2%. The year-on-year variance reported is also affected by the provision for restructuring expenses in Spain, made in the third quarter of 2011 (2,671 million euros). The year-on-year reduction in expenses is primarily explained by the absence of similar restructuring charges in 2012 and lower commercial expenditure, especially in Spain, as a result of a new commercial model in place from the end of 2011.

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- Supply costs amounted to 18,074 million in 2012, down 1.0% on 2011, reflecting the lower mobile interconnection costs and lower handset consumption in Spain resulting from the new policy doing away with subsidies and the lower volume of handset upgrades.

- Personnel expenses were 8,569 million euros, down 22.7% on 2011. The year-on-year variance was affected by the provision for personnel restructuring in Spain, mentioned above. When stripping out the impact of this provision, which amounted to 2,671 million euros, personnel expenses were 1.9% higher than in 2011, reflecting the adjustments for inflation in certain Latin American countries.

The average headcount was 272,598 employees, 13,547 less than the 2011 average. The decrease mainly reflects the sale of Atento in the fourth quarter of 2012. When stripping out the Atento business, Telefónica's average headcount was 131,468 employees, 2,480 less than in 2011.

- Other expenses rose 9.1% year-on-year to 16,805 million euros. This increase was primarily driven by the increase in external services caused by higher customer service costs, and network and systems costs as well as the 527 million euros write-down of the Telefónica Group made against its stake in Telefónica Ireland and by the capital loss (97 million euros) generated on the sale of China Unicom shares.

OIBDA stood at 21,231 million euros, up 5.1% from 2011. When stripping out the negative impact of exchange rate differences and the effect of hyperinflation in Venezuela (0.3 p.p.), OIBDA grew by 5.4%. The OIBDA margin for 2012 was 34.0%, as a result of a year-on-year erosion of revenues that was not offset by cost savings.

In terms of geographic segments, Telefónica Latin America had the largest contribution to consolidated OIBDA (52.3%, down 1.6 p.p. compared to December 2011). Telefónica Europe accounts for less than 50%.

Depreciation and amortization rose by 2.8% year-on-year, to 10,433 million euros. This variance was primarily due to amortization of new spectrum licenses acquired in Germany, Brazil, Colombia, Mexico and Venezuela, and to the overall increase in fixed assets. Total depreciation and amortization charges derived from purchase price allocation processes stood at 962 million euros in 2012 (down 14.1% year-on-year).

Operating income in 2012 amounted to 10,798 million euros, a reported increase of 7.3%, helped by a 5.1% increase in OIBDA and hurt partially by a 2.8% increase in depreciation and amortization.

The share of profit (loss) of associates in 2012 reflects a loss of 1,275 million euros (versus a loss of 635 million euros in 2011), primarily due to the write-down of Telco, S.p.A.'s investment in Telecom Italia and the recovery of all the operating synergies considered at the time of this investment, with a net loss impact of -1,355 million euros in 2012 and -662 million euros in 2011.

Net financial expense in 2012 totaled 3,659 million euros, 24.4% more than in 2011. This increase is due to two effects: first, an increase in average cost of net debt primarily due to the increase in average net debt (up 3.3% to a total of 58,187 million euros), the rise in credit spreads and the need to enhance liquidity (with very low returns compared to the cost of the debt) as a result of the financial market crises; and, secondly, to the increase in net exchange differences caused by the decline in estimated value of the bolivar fuerte. In spite of the increase in credit costs, the Group's average cost of gross financial debt held steady at 4.7%. Stripping out net exchange rate differences, such expenses implied an average cost of net debt of 5.37% in 2012.

Corporate income tax in 2012 amounted to 1,461 million euros, implying an effective tax rate of 24.9% over the 5,864 million euros of profit before tax, lower than statutory rates, mainly due to the recognition of tax losses in several countries.

Profit attributable to non-controlling interests reduced net profit by 475 million euros in 2012, and primarily reflects the share of Telefónica Brasil, Telefónica Czech Republic and Telefónica Germany's profits attributable to non-controlling interests. The year-on-year variance (a decrease of 39.5%) was due to reversal in the fourth quarter of 2011 of deferred tax liabilities recognized on the Vivo purchase price allocation (1,288 million euros) as a result of the change in the tax value of certain assets acquired.

In all, the consolidated profit of 2012 amounted to 3,928 million euros (down 27.3% year on year).

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Segment results

Some of the figures in the table below are compared at a constant exchange rate in order to analyze yearly performance excluding the effect of exchange rate variation. For certain of the financial results discussed below, comparison has been made using previous year's average exchange rate to convert the figure and by excluding the consideration of Venezuela as a hyperinflationary economy. In these cases a comment of "excluding foreign exchange rate effect" or "excluding foreign exchange rate effect and the consideration of Venezuela as a hyperinflationary economy" (or similar wording) has been indicated.

Some figures discussed further below have been compared in local currency (LC), taking the financial magnitudes in the relevant local currency as they were registered in the corresponding periods.

							Var 11/12		Var 12/13	
Millions of euros	2011	% Total	2012	% Total	2013	% Total	Reported	Ex fx (*)	Reported	Ex fx (*)
Revenues	62,837		62,356		57,061		(0.8)%	(0.9)%	(8.5)%	(1.0)%
T. Europe	32,076	51.0%	30,006	48.1%	26,840	47.0%	(6.5)%	(7.8)%	(10.6)%	(9.3)%
T. Latin America	28,941	46.1%	30,520	48.9%	29,193	51.2%	5.5%	6.7%	(4.3)%	9.6%
OIBDA	20,210		21,231		19,077		5.1%	5.4%	(10.1)%	(2.6)%
T. Europe	9,262	45.8%	10,228	48.2%	9,917	52.0%	10.4%	9.5%	(3.0)%	(2.1)%
T. Latin America	10,890	53.9%	11,103	52.3%	9,439	49.5%	2.0%	3.1%	(15.0)%	(1.4)%
OIBDA Margin	32.2%		34.0%		33.4%					
T. Europe	28.9%		34.1%		36.9%					
T. Latin America	37.6%		36.4%		32.3%					
Operating income	10,064		10,798		9,450		7.3%	8.8%	(12.5)%	(2.8)%
T. Europe	4,181	41.5%	5,214	48.3%	5,211	55.1%	24.7%	23.9%	(0.1)%	0.5%
T. Latin America	6,120	60.8%	6,015	55.7%	4,805	50.8%	(1.7)%	0.7%	(20.1)%	(3.0)%
Net income	5,403		3,928		4,593					

(*) Excluding exchange rate differences and the effect of hyperinflation in Venezuela.

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Revenues and OIBDA Contribution by Country

We include below some charts showing the revenues and OIBDA contribution by main countries, and segments, to total Consolidated Group revenues and OIBDA for 2011, 2012 and 2013. By way of explanation, total Group revenues and OIBDA are 100% in each year, and in each country or region the percentage represents its contribution to the total Group.

As the preceding charts show, the Telefónica Group has high geographic diversification with Telefónica Latin America's revenues contribution to Group revenue increasing in the last three years. Spain and Brazil are the largest single contributors to Group revenue and OIBDA, followed by the UK, Germany, Venezuela and Central America, Argentina and Chile. Beginning in 2013 we present figures of Venezuela and Central America together, and figures for previous years have been revised.

Together, these countries accounted for 88% of OIBDA and 83% of Group revenue in 2013 (88% of OIBDA and 82% of revenue in 2012 and 84% of OIBDA and 83% of revenue in 2011, respectively), and are therefore those on which our following discussion of segment results is focused below.

Contribution to growth by country

In the charts included below, we disclose the contribution to growth by country and segment excluding the effects of exchange rate differences and the effect of hyperinflation in Venezuela. It shows the contribution to consolidated growth of revenues and OIBDA of the main countries and segments, for 2012 and 2013. For example, the negative 3.3% of Telefónica Spain in 2013 means that Telefónica Spain's drop in revenues caused a -3.3 p.p. decrease in total consolidated revenues in 2013, and the addition of all countries' contribution shown in the chart equals the total Group revenues decline in 2013 (-1.0% excluding the impact of exchange rate differences and the effect of hyperinflation in Venezuela).

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Segment Discussion

TELEFÓNICA LATIN AMERICA

The below table shows the evolution of accesses in Telefónica Latin America over the past three years:

Accesses

Thousands of accesses	2011	2012	2013	%Var 11/12	%Var 12/13
Fixed telephony accesses (1)	23,960.7	24,153.3	24,526.3	0.8%	1.5%
Internet and data accesses	8,244.2	8,732.5	9,239.7	5.9%	5.8%
Narrowband	304.6	209.1	125.5	(31.4)%	(40.0)%
Broadband (2)	7,828.9	8,415.3	9,011.7	7.5%	7.1%
Other (3)	110.6	108.0	102.6	(2.3)%	(5.0)%
Mobile accesses	166,297.9	176,595.4	184,507.0	6.2%	4.5%
Prepay	131,087.2	137,141.5	138,076.0	4.6%	0.7%
Contract	35,210.7	39,453.9	46,431.0	12.1%	17.7%
Pay TV	2,257.7	2,426.8	2,773.6	7.5%	14.3%
Final Clients Accesses	200,760.5	211,908.0	221,046.7	5.6%	4.3%
Wholesale Accesses	50.9	47.0	41.5	(7.5)%	(11.7)%
Total Accesses	200,811.3	211,955.1	221,088.2	5.5%	4.3%
Terra Accesses	641.7	604.7	412.5	(5.8)%	(31.8)%
Total Latin America Accesses	201,453.0	212,559.8	221,500.7	5.5%	4.2%

(1) PSTN (including public use telephony) x1; ISDN basis access x1; ISDN primary access; 2/6 access x30. Includes the Group's accesses for internal use and total fixed wireless accesses.
(2) Includes ADSL, fiber optic, cable modem and broadband circuits.
(3) Remaining retail circuits other than broadband.

The below table shows the evolution of Telefónica's estimated mobile market share over the past three years:

Evolution of competitive position

	Mobile Market Share (1)		
Telefónica Latin America	2011	2012	2013
Brazil	29.5%	29.1%	28.6%
Argentina	29.8%	29.7%	31.4%
Chile	39.1%	38.8%	38.7%
Peru	61.4%	60.0%	59.7%
Colombia	22.4%	21.6%	24.0%
Venezuela	32.7%	32.9%	32.0%
Mexico	20.9%	19.2%	18.5%
Central America	27.9%	29.7%	31.8%
Ecuador	28.4%	29.3%	32.6%
Uruguay	38.0%	37.4%	35.8%

(1) Company estimation.

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The below table shows the evolution of Telefónca's ADSL market share over the past three years:

Evolution of competitive position

	Share of ADSL (1)		
Telefónica Latin America	2011	2012	2013
Brazil	21.9%	18.8%	16.3%
Argentina	31.1%	30.9%	30.5%
Chile	43.0%	41.2%	40.2%
Peru	90.1%	90.1%	86.9%
Colombia	18.1%	18.1%	18.7%

(1) Company estimation.

Main 2013 trends in the mobile business

- Estimated total market penetration in Latin America at the end of December 2013 was 118% (+2.9 percentage point year-on-year).
- Mobile accesses reached 184.5 million at year end (+4.5% year-on-year growth), with notable growth in accesses in the contract segment (+17.7%) and despite the impact of the application a more restrictive criteria in the calculation of the number of customers for the prepay segment (+0.7%). Contract accesses represented 25% of total mobile accesses and totaled 46.4 million.
- The continued growth in mobile broadband accesses is noteworthy, reaching 43.6 million a year end (increasing year-on-year 60%) leveraged on the strong demand for smartphones, whose access base grew 75% year-on-year and increased its weight by 9 percentage points over the entire mobile access base.
- Net additions stood at 7.9 million for the year, boosted by the 60% year-on-year growth in contract accesses, with 7.0 million new accesses in 2013 (+64% year-on-year).
- Traffic grew by 9% year-on-year, with notable year-on-year growth reported in all the countries in the region.
- ARPU growth year-on-year was 5.7%, despite the reduction of mobile termination rates. Thus, outgoing ARPU posted year-on-year growth of 8.4%, driven by non-SMS data and the growth in voice traffic.

Key 2013 trends in the fixed line business

- Total accesses reached 36.6 million in December 2013, growing year-on-year by 3%.
- Traditional business accesses stood at 24.5 million, up 1.5% year-on-year, reflecting the acceleration in the capture of new accesses, with net additions of 373 thousand in the year.
- Broadband accesses amounted to 9.0 million (year-on-year growth of 7.1%) with net additions of 596 thousand in the year. Thus, broadband accesses represented 37% of traditional business accesses, increasing 2 percentage points year-on-year.
- Pay TV accesses stood at 2.8 million, with year-on-year growth of 14.3%, with net additions of 347 thousand in the year, despite the commercial repositioning of MMDS in Brazil, which resulted in a reduction of 71 thousand clients.

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Results

Millions of euros Telefónica Latin America	2011	2012	2013	Var 11/12 Reported	Var 11/12 Ex fx (1)	Var 12/13 Reported	Var 12/13 Ex fx (1)
Revenues	28,941	30,520	29,193	5.5%	6.7%	(4.3)%	9.6%
OIBDA	10,890	11,103	9,439	2.0%	3.1%	(15.0)%	(1.4)%
OIBDA Margin	37.6%	36.4%	32.3%	(1.3) p.p.	–	(4) p.p.	–
Depreciation and amortization	(4,770)	(5,088)	(4,634)	6.7%	6.3%	(8.9)%	0.5%
Operating Income	6,120	6,015	4,805	(1.7)%	0.7%	(20.1)%	(3.0)%

(1) Excluding exchange rate differences and the effect of hyperinflation in Venezuela.

2013 Results

Telefónica Latin America represented 51.2% of the Group’s revenues and 49.5% of OIBDA in 2013. The segment contributed 4.7 percentage points to the year-on-year change in the Group’s revenue, and -0.8 percentage points to the change in the Group’s OIBDA, excluding the impact of exchange rate differences and the effect of hyperinflation in Venezuela.

Telefónica Latin America’s revenues in 2013 amounted to 29,193 million euros in 2013, with a 4.3% decline in year-on-year growth in reported terms, mainly due to exchange rate differences and the effect of hyperinflation in Venezuela. Stripping out these factors, which reduced growth by 14 percentage points, growth would have been 9.6%. This performance reflects the positive performance of mobile service revenues, which rose by 11.8% in the year excluding the impact of exchange rate differences and the effect of hyperinflation in Venezuela (they decreased 1.5% in reported terms), due to the good performance of data revenue and despite the negative impact of changes in regulations.

This rise was driven by the explosion of data in the region, rising 37.8% in 2013 in non-SMS data revenues, excluding exchange rate differences and the effect of hyperinflation in Venezuela (16% in reported terms). Voice revenues dropped 7% year-on-year in reported terms but were up 8.4% year-on-year without exchange rate differences and the impact of hyperinflation in Venezuela, due to the sharp increase in traffic and despite the negative impact of changes in regulations.

Revenues from handset sales amounted to 1,993 million euros and increased 20.0% in reported terms, despite the impact of exchange rate differences and the effect of hyperinflation in Venezuela. Stripping out these effects, growth would have been 44.5%, growing in all countries in the region as a result of the growth in smartphones.

Revenues from the fixed business fell 11.3% in reported terms, affected by exchange rate differences. Excluding this effect, revenues from the fixed business remained stable for the year (-0.1% year-on-year) as the decrease in voice revenues was offset by fixed broadband better performance.

Total expenses, which include supplies, personnel expenses and other expenses (mainly subcontract expenses and others) stood at 20,298 million euros in 2013, declining 1.4% in reported terms, affected by:

- exchange rate differences and the effect of hyperinflation in Venezuela (13.6 p.p.);
- the sale of non-strategic towers (-0.1 p.p.); and
- contractual changes in the commercial model for selling handsets in Chile (0.8 p.p.).

Excluding these effects, total expenses would have grown 11.5%. The change in total expenses is explained by:

- Supply costs increased to 8,104 million euros, rising by 5.7% year-on-year in reported terms impacted by the exchange rate differences and the effect of hyperinflation in Venezuela (-14.4 p.p.) and contractual changes in the commercial model for selling handsets in Chile (+2.2 p.p.). Excluding both effects, supply costs grew 17.7%. The decline of MTR expenses (net of exchange rate differences and the effect of hyperinflation in Venezuela) did not offset the growth in costs, due to the greater commercial activity in the mobile business, with a higher weight of smartphone sales, and at the fixed unit, with higher content costs associated with the sharp rise in pay TV accesses, and increased expenses associated with the provision of data services;

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- Personnel costs stood at 2,840 million euros, growing 12.4% excluding the impact of exchange rates differences and the effect of hyperinflation in Venezuela. This year-on-year growth is mainly due to the impact of inflation in some countries in the region; and

- Other expenses were 9,354 million euros, declining 6.4% in reported terms, impacted by the exchange rate differences and the effect of hyperinflation in Venezuela (-12.7 p.p.) and the sale of non-strategic towers (-0.1 p.p.). Excluding both effects, other expenses grew 6.4%, due to the higher sales commissions and customer service expenses associated with increased commercial activity.

OIBDA stood at 9,439 million in 2013, showing a reported year-on-year decline of 15%, impacted by:

- exchange rate differences and the effect of hyperinflation in Venezuela (-13.5 p.p.);

- contractual changes in the commercial model for selling handsets in Chile (-1.5 p.p.); and

- the sale of non-strategic towers (-4.9 p.p.).

Excluding the aforementioned items, OIBDA growth would have been 5.3%.

The OIBDA margin stood at 32.3% for the full year, down 4 percentage points year-on-year in reported terms; primarily due to the negative evolution of the exchange rates and lower sales of non-strategic towers in 2013 (40 million euros compared to 583 million euros in 2012).

2012 Results

Telefónica Latin America represented 49% of consolidated revenue (up 2.9 p.p. compared to 2011) and 52.3% of consolidated OIBDA (a 1.6 p.p. decrease compared to 2011). The segment contributed 3.1 p.p. to the year-on-year variation in the Group's revenues stripping out the impact of exchange rate differences, main differences due to Venezuela's and Central America's, Argentina's and Brazil's contribution.

Telefónica Latin America reported a 5.5% year-on-year increase in revenue to 30,520 million euros in 2012, despite the negative impact (-1.2 p.p.) of exchange rate differences and the effect of hyperinflation in Venezuela. These figures reflect the strong mobile service revenues generated in the year 2012 (up 11.4%), despite the negative impact of regulations.

The mobile broadband business posted a 24.1% rise in mobile data revenues compared to 2011, accounting for 29% of mobile services revenues (up 3 p.p. year-on-year). The increase in connectivity revenues underpinned growth in non-SMS data revenues (up 32.9% in the year, accounting for 57% of data revenues, up 4 p.p. year-on-year).

Revenues from handset sales increased by 17.9% to 1,661.4 million euros.

Brazil has shored up its role as the main regional market, accounting for 45% of the region's revenues in 2012.

Revenue in the fixed line business was hit by the drop in fixed lines, which outweighed the growth in broadband and TV, with lower ARPUs due to intense commercial activity.

Total expenses in 2012 were 20,577 million euros, an increase of 6.8%. Exchange rate differences and the impact of hyperinflation in Venezuela had an impact on total expenses of 322 million euros. Stripping out this impact, the increase would have been 8.2%.

- Supply costs were 7,670 million euros, up 2.8%, due mainly to increased demand for terminals related to the larger share of Smartphone sale, to higher content, digital and data services costs and higher site lease costs for the deployment of towers and due to our sale and leaseback of certain towers.

- Personnel expenses rose 13.5% to 2,908 million euros, driven mostly by increases in certain countries in the area with high inflation.

- Other expenses rose 8.3% year-on-year to 9,999 million euros, driven by larger growth in commercial activity and increased spending on customer services.

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OIBDA was 11,103 million euros in 2012, for reported year-on-year growth of 2.0% (up 1.1 p.p. when stripping out the effect of exchange rate differences and hyperinflation in Venezuela). The OIBDA margin was 36.4% for the year, down 1.3 p.p. compared to 2011.

- Both OIBDA and the OIBDA margin for 2011 and 2012 reflect the sale of non-strategic towers: 583 million euros in 2012, and 541 million euros in 2011.

- In 2012 a number of factors (integration expenses, brand changes and reversal of provisions in Brazil, service interruptions in Argentina, retroactive impact of the new Venezuela labor law, etc.) brought OIBDA down by 42 million euros.

- Following a contractual change in the handset sales model in Chile, as from the fourth quarter of 2012, OIBDA is affected by the new accounting treatment given for revenues and expenses formerly linked to a mobile handset sales model involving lease without charge, with a negative impact of 22 million euros in the fourth quarter of 2012.

BRAZIL

Accesses

Thousands of accesses	2011	2012	2013	% Var 11/12	% Var 12/13
Fixed telephony accesses (1)	10,977.4	10,642.7	10,747.8	(3.0)%	1.0%
Internet and data accesses	3,942.6	3,964.3	4,102.0	0.6%	3.5%
Narrowband	214.5	137.9	92.1	(35.7)%	(33.2)%
Broadband (2)	3,648.0	3,748.4	3,936.7	2.8%	5.0%
Other (3)	80.0	78.1	73.2	(2.5)%	(6.2)%
Mobile accesses	71,553.6	76,137.3	77,240.2	6.4%	1.4%
Pre-Pay	55,438.1	57,335.1	53,551.9	3.4%	(6.6)%
Contract	16,115.5	18,802.2	23,688.3	16.7%	26.0%
Pay TV	698.6	601.2	640.1	(13.9)%	6.5%
Final Clients Accesses	87,172.1	91,345.4	92,730.0	4.8%	1.5%
Wholesale Accesses	28.0	24.4	18.8	(13.0)%	(22.8)%
Total Accesses	87,200.1	91,369.8	92,748.9	4.8%	1.5%

(1) PSTN (including public use telephony) x1; ISDN basis access x1; ISDN primary access; 2/6 access x30. Includes the Group’s accesses for internal use and total fixed wireless accesses.
(2) Includes ADSL, fiber optic, cable modem and broadband circuits.
(3) Remaining retail circuits other than broadband.

In 2013, Telefónica Brasil strengthened its competitive positioning in the market; reinforcing its leadership in high value segments of the mobile market through ongoing service innovation and differential coverage and network quality and in the fixed market through a renewed commercial offer and deployment of the fiber network.

In the fixed business, in addition to the fiber network in Sao Paulo, the Company also continued to develop Fixed Wireless technology, which enables fixed services to be offered in areas where the copper network has not been rolled out. With the aim of strengthening its portfolio and broadband services, the Company has also relaunched “Vivo Internet Box”, which provides mobile internet associated with a WiFi modem with a capacity of up to 40 GB. In the second half of the year, Telefónica Brasil undertook a commercial repositioning in Pay TV.

Innovative services continue to be rolled out, such as the new mobile generation network deployment of both 3G and 4G, which was launched in the second quarter and now covers 73 cities and the launch of "Multivivo", a product which allows data and/or voice to be shared between several devices and that already had 1.4 million users at year end.

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Results

Millions of euros				% Var 11/12		% Var 12/13	
Brazil	2011	2012	2013	€	LC	€	LC
Revenues	14,326	13,618	12,217	(4.9)%	2.3%	(10.3)%	2.2%
Wireless Business	8,437	8,573	8,092	1.6%	9.4%	(5.6)%	7.5%
Service revenues	8,014	8,167	7,608	1.9%	9.7%	(6.8)%	6.1%
Wireline Business	5,890	5,045	4,125	(14.4)%	(7.8)%	(18.2)%	(6.8)%
OIBDA	5,302	5,161	3,940	(2.7)%	4.8%	(23.7)%	(13.0)%
OIBDA Margin	37.0%	37.9%	32.3%	0.9 p.p.		(5.6) p.p.	
CapEx	2,468	2,444	2,127	(1.0)%	6.6%	(13.0)%	(0.9)%
OpCF (OIBDA - CapEx)	2,834	2,717	1,813	(4.1)%	3.2%	(33.3)%	(24.0)%

2013 Results

Revenues totaled 12,217 million euros, 10.3% less than 2012 in reported terms. Excluding the effect of exchange rate differences, revenues grew 2.2% year-on-year, mainly due to the strong performance of the mobile business (+7.5%), more than compensating the decline in fixed revenues (-6.8%). 2013 wireless business revenues amounted to 8,092 million euros, down 5.6% in reported terms, although stripping out the effect of exchange rate differences they would have grown 7.5%, boosted by handset sales revenues (+35.4%) due to the higher weight of smartphone sales and the growth of service revenues (+6.1%) due to the growth in outgoing service revenues from both the growth of the customer base and the greater weighting of data revenues partially compensated by the incoming revenues affected by the reduction in mobile termination rates.

Revenues from the fixed business amounted to 4,125 million euros, down 18.2% in reported terms, although stripping out the effect of exchange rate differences they would have decreased 6.8%, impacted by the reduction in the fixed-mobile retail tariff as well as by intense competition in the fixed broadband and Pay TV businesses.

Brazil - Mobile

	2011	2012	2013	% Var LC 11/12	% Var LC 12/13
Traffic (million minutes) (1)	92,081	113,955	115,698	27.4%	1.5%
ARPU (EUR)	10.2	8.9	8.0	(6.4)%	2.3%

(1) From the third quarter of 2013, duplicated traffic was deleted following the integration of fixed and mobile companies.

OIBDA totaled 3,940 million euros in 2013, down 23.7% in reported terms, decreasing 13.0% when excluding the effect of exchange rate differences. This performance is partially explained by the sale of non-strategic towers in 2012 resulting in a gain of 445 million euros versus only 29 million euros in 2013. Net of the aforementioned factors OIBDA decreased by 5.5%, losing 2.6 percentage points of margin with respect to 2012.

The increase in revenues in local currency terms is not completely reflected in OIBDA, which was affected by personnel restructuring costs (51 million euros), as well as higher network costs and expenses related to handsets and customer service, associated with higher commercial activity. OIBDA margin stood at 32.3% in reported terms in the full year.

2012 Results

Revenues amounted to 13,618 million euros in 2012, for year-on-year growth of 2.3% in local currency. Revenues from the mobile business came in at 8,573 million euros for the year, up 9.4% in local currency compared to 2011, where service revenues close at 9.7% in local currency compared to 2011 due to the good evolution of the outgoing revenues boosted by the average customer base growth and the growing weight in data revenues. This is partially offset by the incoming revenue fall (and consequent ARPU decrease) affected by the negative impact of the lower mobile termination rates. Additionally, our customer base in Brazil suffered a drop due to the disconnection of inactive prepay mobile customers in Brazil (1.6 million accesses in the second quarter).

The fixed business reported revenues of 5,045 million euros, down 7.8% in local currency due to lower retail fixed-mobile rates and to steep competition in the fixed broadband and pay TV businesses.

OIBDA stood at 5,161 million euros in 2012, up 4.8% in local currency driven by mobile revenues growth, offset by fixed voice revenues drop as well as expenses growth due to higher personnel costs coming from the internalization of contractors and workforce restructuring expenses and the increase of external services costs, associated to a higher commercial activity. On the other hand, OIBDA was positively affected by the recognition of 445 million euros in other income derived from the sale of non-strategic assets, compared to 187 million euros in 2011. The overall OIBDA margin was 37.9%, a 0.9 p.p. improvement on 2011.

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ARGENTINA

Accesses

Thousands of accesses	2011	2012	2013	% Var 11/12	% Var 12/13
Fixed telephony accesses (1)	4,611.0	4,762.4	4,833.5	3.3%	1.5%
Fixed wireless	38.2	234.6	342.7	514.1%	46.0%
Internet and data accesses	1,630.7	1,755.5	1,848.5	7.7%	5.3%
Narrowband	35.7	19.3	12.9	(46.0)%	(32.8)%
Broadband (2)	1,595.1	1,736.3	1,835.5	8.9%	5.7%
Mobile accesses	16,766.7	17,604.0	19,954.7	5.0%	13.4%
Pre-Pay	10,581.3	11,000.0	12,916.6	4.0%	17.4%
Contract	6,185.4	6,604.0	7,038.1	6.8%	6.6%
Final Clients Accesses	23,008.4	24,121.9	26,636.7	4.8%	10.4%
Wholesale Accesses	13.9	14.1	14.0	1.2%	(0.4)%
Total Accesses	23,022.3	24,136.0	26,650.7	4.8%	10.4%

(1) PSTN (including public use telephony) x1; ISDN basis access x1; ISDN primary access; 2/6 access x30. Includes the Group's accesses for internal use and total fixed wireless accesses.
(2) Includes ADSL, fiber optic, cable modem and broadband circuits.

In 2013 Telefónica Argentina maintained its market leadership due to its competitive position and ongoing focus on quality and innovation in its products and services.

The company launched Quam, a secondary brand to Movistar for mobile telephony services, reflecting its commitment to innovation by being the first telco to launch an offer of this type in the region. This new offer gives Telefónica access to fresh market segments with a simple proposal that combines various minute, SMS and data bundles and is aimed at ensuring that the youngest customers in the prepay segment are always connected.

Results

Millions of euros				% Var 11/12		% Var 12/13	
Argentina	2011	2012	2013	€	LC	€	LC
Revenues	3,174	3,697	3,681	16.5%	18.4%	(0.4)%	23.2%
Wireless Business	2,039	2,431	2,470	19.2%	21.2%	1.6%	25.8%
Service revenues	1,880	2,200	2,154	17.0%	19.0%	(2.1)%	21.2%
Wireline Business	1,237	1,390	1,332	12.3%	14.2%	(4.2)%	18.6%
OIBDA	1,085	1,076	977	(0.8)%	0.8%	(9.2)%	12.4%
OIBDA Margin	33.4%	28.5%	26.1%	(4.8) p.p.	–	(2.5) p.p.	–
CapEx	449	519	574	15.6%	17.5%	10.6%	36.9%
OpCF (OIBDA - CapEx)	636	557	403	(12.4)%	(10.9)%	(27.6)%	(10.5)%

2013 Results

Revenues stood at 3,681 million euros in 2013, a decline of 0.4%, mainly as a result of exchange rate effects. Excluding exchange rate effects, revenues would have risen 23.2% year-on-year, driven by improvement in both the fixed and mobile business.

- Revenues from the mobile business declined 2.1% in reported terms, negatively affected by the exchange rate. Stripping out exchange rate effects, mobile business revenues grew 21.2% year-on-year in 2013 due to the growth in the customer base and the higher level of consumption, in particular of data, which remained the main growth driver. Data revenues increased by 31% year-on-year in 2013, and now account for 48% of service revenues (+3 percentage point year-on-year). The growth of devices revenues of 36.9% in reported terms was due to the growth of commercial activity contribution. Stripping out exchange rate effects, revenues grew 69.4%.

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Argentina - Mobile

	2011	2012	2013	% Var LC 11/12	% Var LC 12/13
Traffic (million minutes)	18,788	21,201	22,540	12.8%	6.3%
ARPU (EUR)	9.7	11.0	9.4	14.6%	5.9%

- Revenues from the fixed business fell 4.2% in reported terms, negatively impacted by the exchange rate. Excluding exchange rate effects, revenues increased 18.6% year-on-year, due to revenue growth of (+29.4%) in broadband and new services, on the back of strong broadband ARPU growth (+21% year-on-year in the year in local currency). As a result, broadband and new service revenues now account for 50% of fixed revenues.

Telefónica's OIBDA in Argentina amounted to 977 million euros in the full year, a year-on-year decrease of 9.2%, negatively impacted by exchange rate effects. Excluding exchange rate effects, OIBDA grew 12.4% year-on-year due to the increase in revenues. OIBDA margin was 2.5 percentage points less than the year before, due to rising costs due to the generalized price increases, although the company continues to undertake cost containment measures to mitigate the effects of high inflation.

2012 Results

The financial results in Argentina for the year were negatively affected by compensation paid to customers in respect of a software outage in Movistar's national network equipment, which affected service on April 2, 2012. In addition, results were also adversely affected by the heavy storm that hit the northern part of Buenos Aires on April 4, 2012.

Revenues: Service revenues from the mobile business grew sharply in 2012 (19.0% excluding foreign exchange rate effects), reflecting higher usage levels, driven by data usage and growth in the customer base. Data revenues are the main lever for growth (33.5%, excluding exchange rate differences).

Revenues in the fixed line business rose 14.2% in local currency due to the solid growth in revenues from broadband and new services (+26.5%), reflecting the strong improvement in Internet and content revenues and revenues from data, IT and leasing of capacity.

OIBDA at Telefónica Argentina stood at 1,076 million euros, a 0.8% rise in local currency, not fully reflecting the positive evolution of revenues due to the general rise in prices that impacted operating expenses, (mainly personnel expenses and external services due to inflation).

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VENEZUELA AND CENTRAL AMERICA

Beginning in 2013, figures of Venezuela and Central America are presented together, and figures for previous years have been revised.

Accesses

Thousands of accesses (1)	2011	2012	2013	% Var 11/12	% Var 12/13
Fixed telephony accesses	1,413.5	1,500.7	1,426.7	6.2%	(4.9)%
Fixed wireless (2)	1,224.3	1,340.5	1,168.7	9.5%	(12.8)%
Internet and data accesses	42.8	41.0	12.4	(4.1)%	(69.8)%
Narrowband	31.3	29.7	1.7	(4.9)%	(94.3)%
Broadband (3)	4.9	4.9	4.7	11.8%	(3.9)%
Other (4)	6.7	6.4	6.0	11.0%	(6.4)%
Mobile accesses	17,004.2	19,929.3	21,666.8	19.2%	8.7%
Pre-Pay	15,424.6	18,060.2	19,489.8	1.9%	7.9%
Contract	1,577.5	1,869.1	2,177.0	88.3%	16.5%
Pay TV	114.3	215.3	385.6	88.3%	79.1%
Final Clients Accesses	18,574.9	21,686.3	23,491.6	16.8%	8.3%

(1) Includes Guatemala, Panama, El Salvador, Nicaragua and Costa Rica.

(2) Fixed wireless accesses exclude since the first quarter of 2013, 58 thousand accesses included as fixed telephony accesses.

(3) Includes ADSL, K optical fiber, cable modem and broadband circuits.

(4) Retail circuits other than broadband.

During 2013, Telefónica continued strengthening its unique position due to its integrated services offer and the ongoing improvements in network quality and coverage, showing a positive trend both in operational and financial terms along the whole year.

Commercial activity in 2013 was focused on incentivizing the consumption of data plans and launching new offerings adapted to customer needs depending on voice, SMS and data demand.

Underlining its commitment to innovation and maintaining a greater access to technology and comfort to its customers, the Company in Venezuela began a nationwide rollout of WiFi infrastructure in the fourth quarter of 2013. The goal is to install 1,000 hotspots by 2016, with a view to placing Telefónica as the telecommunications company with the largest WiFi network in the country.

Note also that 2013 economic-financial results in reported terms were affected by the devaluation of the bolivar fuerte which was announced on February 8, 2013, by the Venezuelan government, devaluing the bolivar fuerte from 4.3 bolivares fuertes per U.S. dollar to 6.3 bolivares fuertes per U.S. dollar. In the same way, the Venezuelan government announced on January 22, 2014, a new exchange rate to be established and a general foreign exchange plan by which specific transactions will be managed by an auction system at SICAD exchange rate. That exchange rate was fixed at roughly 11.4 bolivares fuertes per U.S. dollar over the last auctions. Additionally, the Venezuela Government issued an “Organic Law on Fair Pricing” that may affect the Company’s results trend.

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Results

Millions of euros Venezuela & Central America	2011	2012	2013	% Var 11/12 €	% Var 11/12 LC(*)	% Var 12/13 €	% Var 12/13 LC(*)
Revenues	3,230	4,009	4,228	24.1%	25.7%	5.5%	38.7%
Service revenues	2,949	3,581	3,738	21.4%	22.7%	4.4%	34.6%
OIBDA	1,342	1,640	1,739	22.2%	22.9%	6.0%	43.8%
OIBDA Margin	41.5%	40.9%	41.1%	(0.6) p.p.		0.2 p.p.	
CapEx	548	594	739	8.5%	8.3%	24.3%	75.2%
OpCF (OIBDA - CapEx)	794	1,046	1,000	31.6%	32.9%	(4.4)%	26.6%

(*) Excluding the effect of hyperinflation in Venezuela.

2013 Results

Revenues in 2013 stood at 4,228 million euros, posting year-on-year growth of 5.5% in reported terms. Excluding exchange rate differences and the effect of hyperinflation in Venezuela, year-on-year growth is 38.7% after growing 45.5% year-on-year in Venezuela excluding exchange rate differences and the effect of hyperinflation and 7.6% year-on-year in Central America. Thus mobile services revenues grew by 4.4% in reported terms (34.6% excluding exchange rate effects and hyperinflation) boosted by the expansion of mobile data services and the sharp growth in voice traffic. In Venezuela mobile service revenues grew by 4.2% in reported terms compared to 40% excluding exchange rate differences and the effect of hyperinflation in Venezuela, while in Central America mobile service revenues increased by 10.1% year-on-year in 2013.

Data revenues accounted for 29.9% of mobile service revenues and decreased by 6.1% year-on-year in 2013 in reported terms. Stripping out the exchange rate differences and the effect of hyperinflation in Venezuela, year-on-year growth would stand at 32.7% Underpinning this performance was the sharp growth in non-SMS data revenues, which now account for 64% of data revenues (+7 percentage points year-on-year).

Venezuela & Central America - Mobile

	2011	2012	2013	% Var LC 11/12	% Var LC 12/13
Traffic (million minutes)	14,529	27,536	32,304	12.9%	17.3%
ARPU (EUR)	16.7	13.8	11.6	17.4%	19.4%

OIBDA stood at 1,739 million euros in 2013, up 6.0% year-on-year in reported terms (excluding exchange rate differences and the effect of hyperinflation in Venezuela, up 43.8% year-on-year). This increase is due to higher revenues that offset the 4.0% increase in reported costs. Excluding exchange rate differences and the effect of hyperinflation in Venezuela, costs grew by +33.6%, mainly impacted by the widespread price increases that translated into higher expenses paid in dollars for services and equipment purchases due to the negative impact of the devaluation. Thus, the OIBDA margin stood at 41.1% for the year (+1.5 percentage points year-on-year, excluding exchange rate differences and hyperinflation in Venezuela).

2012 Results

In 2012, revenues stood at 4,009 million euros, growing 24.1% year-on-year in reported terms. Excluding foreign exchange rate differences and the effect of hyperinflation in Venezuela, the interannual growth is 25.7%. Net of foreign exchange rate differences and hyperinflation, Venezuela and Central America increased by 28.1% and 15.8% respectively. Mobile service revenues were up 21.4% in reported terms. Excluding the foreign exchange rate differences and the effect of the hyperinflation in Venezuela, revenues would have increased 22.7% driven by the larger customer base and the increase in ARPU. In Venezuela mobile service revenues were up 22.0% in reported terms and were up 25.6% net of foreign exchange rate differences and the effect of hyperinflation in Venezuela. In Central America these revenues increased 22.0% year-on-year in reported terms and 14.2% in local currencies.

Data revenues represent 33.2% of total mobile service revenues and grew 35.8% compared to 2011, in reported terms, resulting in an interannual growth of 37.3% excluding foreign exchange rate differences and the effect of hyperinflation in Venezuela.

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OIBDA stood at 1,640 million euros in 2012, up 22.2% in reported terms and up 22.9% excluding the effect of hyperinflation in Venezuela and foreign exchange rate differences. OIBDA was affected by the sale of non-strategic towers in Central America for 4.6 million euros compared to 36.8 million euros in 2011.

CHILE

Accesses

Thousands of accesses	2011	2012	2013	% Var 11/12	% Var 12/13
Fixed telephony accesses (1)	1,848.1	1,737.9	1,654.2	(6.0)%	(4.8)%
Internet and data accesses	887.4	940.1	977.5	5.9%	4.0%
Narrowband	5.8	5.5	5.2	(5.2)%	(5.5)%
Broadband (2)	878.1	932.0	969.9	6.1%	4.1%
Other (3)	3.5	2.5	2.4	(27.0)%	(6.5)%
Mobile accesses	9,548.1	10,040.1	10,490.3	5.2%	4.5%
Pre-Pay	6,732.7	7,385.0	7,806.5	9.7%	5.7%
Contract	2,815.4	2,655.1	2,683.8	(5.7)%	1.1%
Pay TV	390.8	424.0	503.2	8.5%	18.7%
Final Clients Accesses	12,674.4	13,142.1	13,625.2	3.7%	3.7%
Wholesale Accesses	5.2	4.9	5.0	(5.9)%	2.6%
Total Accesses	12,679.6	13,147.0	13,630.2	3.7%	3.7%

(1) PSTN (including public use telephony) x1; ISDN basis access x1; ISDN primary access; 2/6 access x30. Includes the Group's accesses for internal use and total fixed wireless accesses.
(2) Includes ADSL, fiber optic, cable modem and broadband circuits.
(3) Remaining retail circuits (broadband).

Telefónica strengthened its leadership position in Chile in 2013 due to its innovative services and the ongoing improvement in the quality of its fixed and mobile network.

On November 15, 2013, Telefónica Chile announced the launch of nationwide LTE services, further underscoring its commitment to the rollout of telecommunications in the country.

In another noteworthy development the Company was awarded one of the three blocks of radioelectric spectrum for LTE auctioned in the 700 MHz band. This will enable a more efficient rollout of the network for the delivery of 4G services, further strengthening the Company's position.

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Results

Millions of euros				% Var 11/12		% Var 12/13	
Chile	2011	2012	2013	€	LC	€	LC
Revenues	2,310	2,569	2,483	11.2%	3.3%	(3.3)%	1.6%
Wireless Business	1,399	1,559	1,534	11.5%	3.6%	(1.6)%	3.4%
Service revenues	1,283	1,429	1,385	11.4%	3.5%	(3.1)%	1.8%
Wireline Business	1,037	1,113	1,049	7.3%	(0.3)%	(5.8)%	(1.0)%
OIBDA	1,035	1,033	818	(0.2)%	(7.3)%	(20.8)%	(16.8)%
OIBDA Margin	44.8%	40.2%	32.9%	(4.6) p.p.	–	(7.3) p.p.	–
CapEx	529	606	488	14.6%	6.5%	(19.5)%	(15.4)%
OpCF (OIBDA - CapEx)	507	427	330	(15.7)%	(21.7)%	(22.7)%	(18.8)%

Revenues stood at 2,483 million euros in 2013, a decline of 3.3%, as compared to 2012 mainly as a result of exchange rate effects. Excluding exchange rate differences, revenues grew 1.6% year-on-year.

- Mobile revenues fell 1.6% year-on-year to 1,534 million euros. This performance was mainly due to exchange rate effects. Excluding the impact of exchange rate differences, revenues rose by 3.4% year-on-year due to the Company's innovation and quality strategy, which has caused an increase in high-value customers.

- Revenues from the fixed business stood at 1,049 million euros in 2013, down 5.8% from 2012 (-1.0% in local currency), negatively affected by the exchange rate differences, as well as by the drop in voice and access revenues which fell 14.7% in reported terms (-10.4% in local currency). The decline in revenue was partially offset by broadband and new services revenues, which grew 2.8% in reported terms (+8% excluding exchange rate differences) from broadband and TV accesses as a result of the strategy rolled out to improve quality and maximize customer value. As a result, broadband and new business revenues accounted for 57% of fixed revenues in the year (+5 percentage points year-on-year).

Chile - Mobile

	2011	2012	2013	% Var LC 11/12	% Var LC 12/13
Traffic (million minutes)	12,218	13,064	13,339	6.9%	2.1%
ARPU (EUR)	11.6	12.0	10.9	(3.9)%	(4.6)%

OIBDA amounted to 818 million euros in 2013, a year-on-year decline of 20.8%, negatively affected by the exchange rate, and a contractual change in the commercial model for selling handsets in Chile, which resulted in higher costs. Excluding exchange rate differences, OIBDA fell 16.8% year-on-year primarily due to the impact of the contractual change in handset sales. Excluding the impact of the contractual change in handset sales, OIBDA would have decrease 1%. Excluding non-strategic tower sales OIBDA would have grown 1.6%. The OIBDA margin stood at 32.9% in the year, a 7.3 p.p. decrease, due to the aforementioned contractual change. Excluding the contractual change in handset sales the decrease was 0.9 p.p.

2012 Results

Revenues: Mobile revenues rose 3.6% in local currency to 1,559 million euros fuelled by growth in service revenues. Service revenues were 3.5% higher in local currency, with the growth in the customer base making up for the downtrend in ARPU in local currency caused by the drop in usage, mainly among pre-pay customers, in view of greater market competition.

Fixed line revenues remained stable with respect to 2011, amounting to 1,113 million euros, underpinned by broadband and new services revenues (52% of revenues and up 10.9% in local currency), reflecting the growth in Internet, TV, content revenues, data, IT and capacity lease revenues, which offset the 9.9% decrease in voice and access revenues (in local currency).

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OIBDA dropped 7.3% in local currency despite the revenue increase of 3.3% due to higher commercial activity in the mobile business with the start-up of portability, which results in higher growth in supplies, content and interconnection expenses plus the negative effect in other revenues from the sale of towers (32 million euros compared to 50.1 million euros in 2011). In addition, following a contractual change in the handset sales model in Chile, OIBDA is affected by the negative effect of the new accounting treatment applicable to revenues and expenses formerly linked to a mobile handset sales model involving lease without charge that was previously accounted as CapEx (negative impact of 22 million euros, all included in the last quarter of the year).

MÉXICO

Accesses

Thousands of accesses	2011	2012	2013	% Var 11/12	% Var 12/13
Mobile accesses	19,742.4	19,168.0	20,332.8	(2.9)%	6.1%
Pre-Pay	18,149.8	17,668.3	18,863.2	(2.7)%	6.8%
Contract	1,592.6	1,499.7	1,469.7	(5.8)%	(2.0)%
Fixed wireless	745.3	1,158.9	1,558.9	55.5%	34.5%
Total Accesses	20,487.7	20,326.9	21,891.7	(0.8)%	7.7%

2013 was a key year for the Mexican telecommunications market following the approval in June of the new Telecommunications Law. Details of the changes that the regulatory reform will bring about and the execution of its implementation is expected to be set out in the first half of 2014, initiating a process of structural transformation in the sector.

Meanwhile, the Company's focus was on the ongoing transformation of its commercial offer aiming to improve its competitive positioning with the launch of the "Movistar Ilimitado" plan during second quarter of the year (plan in the prepaid segment with off-net minute bundles, SMS, data capacity from 50 MB and unlimited on-net calls for top-ups of more than 100 pesos) and the launch of the "Prepago Doble" plan in October, which offers double the balance topped up for all top-ups. Furthermore, in December, the Company further strengthened its commercial offer with the launch of "Plan GigaMove", a new, more competitive range of data contract plans aimed at high value customers. Depending on the plan chosen, the customer benefits from up to 3 GB of browsing, 1,500 SMS to any company, Spotify Premium, Twitter, Whatsapp, Facebook and unlimited mail. Telefónica also continues to strive to make the most efficient use of its network and in January signed a new deal with the distributor MAZ Tiempo following the agreements inked last September with the mobile virtual network operators Coppel and Virgin. An agreement was also reached in January with NII Holdings whereby Telefónica Mexico will provide Nextel with nationwide voice and data coverage services on its 3G mobile network. This deal provides Telefónica Mexico with an additional lever to strengthen its wholesale services strategy in the country.

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Results

Millions of euros				% Var 11/12		% Var 12/13	
México	2011	2012	2013	€	LC	€	LC
Revenues	1,557	1,596	1,580	2.5%	0.4%	(1.0)%	(0.8)%
Service revenues	1,387	1,416	1,340	2.1%	(0.0)%	(5.3)%	(5.1)%
OIBDA	572	432	266	(24.6)%	(26.1)%	(38.3)%	(38.2)%
OIBDA Margin	36.7%	27.0%	16.9%	(9.7) p.p.	–	(10.2) p.p.	–
CapEx	471	427	242	(9.4)%	(11.3)%	(43.3)%	(43.2)%
OpCF (OIBDA - CapEx)	101	5	24	(95.2)%	(95.3)%	n.s.	n.s.

n.s.: not significant

2013 Results

Revenues stood at 1,580 million euros in 2013, a decline of 1%, negatively impacted by 0.2% percentage points by exchange rate differences, and posting a decline of 0.8% in local currency terms. The year on year decline is primarily due to the decrease in mobile service revenues (-5.1% in local currency) caused mainly by the reduction in mobile termination rates which had a negative impact on revenue performance amounting to 29 million euros. Excluding this impact, mobile services revenue would have shown a year-on-year decrease of 3.1%. This decrease is mainly due to reduction in SMS prices and the process of replacing SMS with other alternative forms of communication driven by the steady adoption of smartphones, with this reduction partially offset by the growth in non-SMS data revenues (+15.8%).

OIBDA in 2013 stood at 266 million euros, down 38.3% year-on-year, with an OIBDA margin of 16.9% (-10.2 p.p. year-on-year), affected by the increase in commercial activity over the year. Furthermore, 2012 included the sale of non-strategic towers for 77 million euros, whereas there were no towers sold in 2013.

2012 Results

Revenues amounted to 1,596 million euros in 2012, for 0.4% growth year-on-year in local currency. Mobile service revenues remained stable compared to 2011 in local currency amounting to 1,416 million euros in 2012 due to an increase in data revenues, despite an estimated negative impact of 64 million euros from the lower interconnection rates approved by the regulatory authorities in the second quarter of 2011. Data revenues climbed 15.0% from 2011 to 2012, despite the 54% reduction in SMS interconnection rates in September 2012. Data revenues account for 33% of mobile service revenues (up 4 p.p. year-on-year). Non-SMS data revenues rose 61.8% year-on-year, accounting for 39% of data revenues (up 11 p.p. compared to 2011).

OIBDA was 432 million euros in 2012 (down 26.1% year-on-year), for an OIBDA margin of 27.0%, strongly impacted by the sale of non-strategic towers in 2011, which amounted to 240 million euros as compared to 77 million euros of non-strategic tower sales in 2012. Stripping out this effect, OIBDA grew 6.5%, slightly over revenue evolution. It is important to highlight the interconnection rates reduction which negatively impacted OIBDA by 14 million euros. Such rate reduction is more than offset by a higher level of efficiency coming from the Iusacell roaming agreement and higher commercial efficiency.

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PERU

Accesses

Thousands of accesses	2011	2012	2013	% Var 11/12	% Var 12/13
Fixed telephony accesses (1)	2,848.4	2,883.4	2,801.5	1.2%	(2.8)%
Fixed wireless	444.6	580.3	313.5	30.5%	(46.0)%
Internet and data accesses	1,120.4	1,317.6	1,437.1	17.6%	9.1%
Narrowband	9.4	8.2	5.0	(12.8)%	(38.7)%
Broadband (2)	1,090.6	1,288.3	1,411.1	18.1%	9.5%
Other (3)	20.4	21.0	21.0	3.1%	–
Mobile accesses	13,998.3	15,196.9	15,762.0	8.6%	3.7%
Pre-Pay	11,079.6	11,555.3	11,258.7	4.3%	(2.6)%
Contract	2,918.7	3,641.6	4,503.3	24.8%	23.7%
Pay TV	799.0	901.6	897.1	12.8%	(0.5)%
Final Clients Accesses	18,766.1	20,299.5	20,897.6	8.2%	2.9%
Wholesale Accesses	0.4	0.4	0.4	(8.0)%	(8.7)%
Total Accesses	18,766.6	20,299.9	20,898.0	8.2%	2.9%

(1) PSTN (including public use telephony) x1; ISDN basis access x1; ISDN primary access; 2/6 access x30. Includes the Group’s accesses for internal use and total fixed wireless accesses.
(2) Includes ADSL, fiber optic, cable modem and broadband circuits.
(3) Remaining retail circuits (broadband).

In 2013, Telefónica Perú strengthened its integrated services offer, maintaining a clear focus on achieving further improvements in service quality and on simplifying plans and tariffs that enabled the Company to deliver a solid operating and financial performance.

This commitment to quality resulted in a doubling of the speed of fixed broadband while the Company also fostered the migration of customers to pay TV bundles with HD channels. In the mobile business, the restructuring of the tariff portfolio in favor of voice and data plans continued to drive smartphone adoption.

Also worth highlighting is the Company's commitment to continue expanding telecommunications in the country, with the award in the fourth quarter of 2013 of one of the two blocks of radioelectric spectrum for LTE auctioned on July 22 in the AWS band (2x20 MHz). A 20-year concession contract has been signed (120 million euros). The Company plans to roll out the 4G network to 234 district capitals (around 50% of the population) over the next five years. In keeping with this plan, Telefónica Perú launched commercial 4G services in seven districts of Lima at the end of November. At present, it is the only company in Peru providing this service.

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Results

Millions of euros				% Var 11/12		% Var 12/13	
Peru	2011	2012	2013	€	LC	€	LC
Revenues	2,030	2,400	2,454	18.2%	4.6%	2.3%	8.1%
Wireless Business	1,088	1,314	1,393	20.8%	6.9%	6.0%	12.1%
Service revenues	948	1,164	1,220	22.7%	8.6%	4.8%	10.8%
Wireline Business	1,069	1,226	1,239	14.7%	1.5%	1.1%	6.9%
OIBDA	751	909	875	21.0%	7.1%	(3.7)%	1.8%
OIBDA Margin	37.0%	37.9%	35.6%	0.9 p.p.	–	(2.2) p.p.	–
CapEx	302	378	479	25.2%	10.8%	26.8%	34.1%
OpCF (OIBDA - CapEx)	449	531	396	18.2%	4.6%	(25.5)%	(21.2)%

2013 Results

Revenues in 2013 stood at 2,454 million euros, increasing 2.3% year-on-year in reported terms, or 8.1% excluding exchange rate differences, driven both by the growth in the mobile business and in the fixed business. Revenues were adversely impacted by regulatory changes affecting fixed-mobile calls in 2013 and by the mobile termination rate reduction in October 2012 and 2013. Excluding these impacts, revenues would have increased by 10% year-on-year in 2013.

- Mobile business revenues amounted to 1,393 million euros, with year-on-year growth of 6%. Excluding exchange rate differences, growth would have been 12.1% year-on-year. Mobile service revenues rose 4.8% in 2013 in reported terms. Stripping out exchange rate differences growth in this item would have been 10.8% year-on-year in 2013, continuing the positive trend despite the negative impact of the abovementioned regulatory changes. Excluding these effects, growth stood at 13.4% year-on-year in 2013.

- Data revenue was the main driver of this performance, advancing 28.4% year-on-year in reported terms. Excluding exchange rate differences year-on-year growth was 35.8%. Data accounts for 22% of service revenues (+4 percentage points year-on-year). Growth in smartphones continued, causing non-SMS data revenues to rise by a solid 64.7% year-on-year in 2013 and they accounted for 81% of mobile data revenues (+14 percentage points year-on-year).

- Revenues from the fixed business stood at 1,239 million euros in 2013 and grew 1.1% year-on-year. Excluding exchange rate differences, growth would have been 6.9%, with broadband and new services acting as the main growth drivers, registering a year-on-year increase of 9.3% in reported terms, or 15.5% excluding exchange rate differences, which offset the decline in voice.

OIBDA stood at 875 million euros in 2013, down 3.7% year-on-year in reported terms (excluding exchange rate differences, up 1.8% year-on-year). Excluding exchange rate differences and the sale of non-strategic towers registered in 2012, year-on-year-growth is 4.4%. This is due to the good performance of revenues which offsets higher commercial costs derived from the greater commercial activity aimed at high value customers, higher content costs, the increase in personnel costs related to the profit sharing plan (whereby employees receive a percentage of the company's net profits) and higher tax costs due to the regulatory inclusion of a 1% tax on the TV and BAF businesses' revenues. The OIBDA margin stood at 35.6% in the year (-1.3 percentage points year-on-year).

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2012 Results

In 2012, revenues amounted to 2,400 million euros, up 4.6% year-on-year in local currency, due to growth in both the mobile and fixed businesses.

Revenues in the mobile business (up 6.9%) were driven by voice and data revenues, with a year-on-year rise of 44.8% despite adverse regulatory impacts which affected fixed-mobile calls (due to a decrease in the regulated retail rate) and the mobile interconnection rate cuts in October 2011 and 2012. On the other hand, handset revenues fall by 4.4% year-on-year. Revenues from the fixed business totaled 1,226 million euros in 2012, up 1.5% on the prior year. As in 2011, broadband and new services revenues were the primary growth drivers, with a year-on-year rise of 12.9%, offsetting a sharp decline in voice revenues.

OIBDA stood at 909 million euros in 2012 (up 7.1% year-on-year), mainly explained by the good revenue performance, partially offset by higher commercial costs driven by the increased commercial activity relating to higher-value customers, higher taxes related to the canon for the usage of radio electric spectrum and also the personnel expenses increase related to the employee participation of the company results (employees get a percentage of net income of the company). This OIBDA growth is positively affected by the recognition in 2012 of 23 million euros gains from the sale of non-strategic towers, compared to gains of 2 million euros in the fourth quarter of 2011. Finally the OIBDA margin places at 37.9% (up 0.9 p.p. compared to 2011).

COLOMBIA

Accesses

Thousands of accesses	2011	2012	2013	% Var 11/12	% Var 12/13
Fixed telephony accesses (1)	1,480.6	1,420.4	1,447.1	(4.1)%	1.9%
Internet and data accesses	620.3	714.0	862.2	15.1%	20.8%
Narrowband	7.9	8.5	8.5	7.5%	(0.0)%
Broadband (2)	612.3	705.4	853.7	15.2%	21.0%
Mobile accesses	11,391.1	11,703.6	12,121.7	2.7%	3.6%
Pre-Pay	8,626.8	8,675.2	8,818.5	0.6%	1.7%
Contract	2,764.2	3,028.4	3,303.2	9.6%	9.1%
Pay TV	255.0	284.8	347.6	11.7%	22.1%
Final Clients Accesses	13,746.9	14,122.8	14,778.7	2.7%	4.6%
Wholesale Accesses	3.3	3.3	3.3	–	0.0%
Total Accesses	13,750.2	14,126.1	14,782.0	2.7%	4.6%

(1) PSTN (including public use telephony) x1; ISDN basis access x1; ISDN primary access; 2/6 access x30. Includes the Group’s accesses for internal use and total fixed wireless accesses.
(2) Includes ADSL, fiber optic, cable modem and broadband circuits.

In 2013 Telefónica Colombia maintained the steady commercial and financial improvement seen since June 2012 following the merger between Telefónica Móviles Colombia, S.A. and Colombia Telecomunicaciones, S.A. that strengthened the Company’s position in the country’s telecommunications sector.

It is worth noting that the structural changes implemented by the Colombian regulator (“CRC”) in the first semester of 2013 continued to boost the telecommunications market through the application of asymmetric mobile termination rates between the dominant operator and the rest of the companies (including Telefónica). In order to adapt to the new regulatory backdrop and to progress with its commercial repositioning, the Company focused on higher-value customers in 2013 while strengthening the integrated marketing of services.

The Company also further underlined its commitment to the sector's development in the fourth quarter by securing 30 MHz of spectrum in the AWS band (2x15 MHz) for the provision of LTE services at the auction on June 26 at a total cost of 109 million euros. In December it launched LTE services commercially, in the five most important cities in the country.

Telefónica Colombia managed a total of 14.8 million accesses at the end of December 2013, for year-on-year growth of 5%.

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Results

Millions of euros				% Var 11/12		% Var 12/13	
Colombia	2011	2012	2013	€	LC	€	LC
Revenues	1,561	1,765	1,705	13.0%	1.6%	(3.4)%	3.7%
Wireless Business	906	1,069	1,052	18.1%	6.1%	(1.6)%	5.7%
Service revenues	841	994	969	18.3%	6.3%	(2.5)%	4.6%
Wireline Business	655	695	652	6.1%	(4.7)%	(6.2)%	0.7%
OIBDA	540	607	580	12.4%	1.0%	(4.6)%	2.5%
OIBDA Margin	34.6%	34.4%	34.0%	(0.2) p.p.	–	(0.4) p.p.	–
CapEx	405	352	457	(13.2)%	(22.0)%	29.9%	39.5%
OpCF (OIBDA - CapEx)	135	256	123	89.2%	70.0%	(52.0)%	(48.5)%

2013 Results

Revenues in 2013 totaled 1,705 million euros, down 3.4% year-on-year, in large part due to exchange rate differences. Excluding exchange rate differences, revenues would have increased 3.7% year-on-year; supported by the better performance of the mobile and fixed business, and despite the impact of the reduction in mobile termination rates (excluding this effect, revenues would increase 5.2% year-on-year in 2013 in local currency).

- Mobile revenues were 1,052 million euros down 1.6% in reported terms and up 5.7% year-on-year excluding foreign exchange rate differences. Excluding the impact of the reduction in mobile termination rates, revenues would have grown by 7.1% year-on-year in local currency, as a consequence of the higher mobile ARPU, rising 5.7% in local currency; and the higher customer base, reaching 12.1 million customers, up 4% year on year.

- Fixed revenues totaled 652 million euros, down 6.2% in reported terms and up 0.7% year-on-year in local currency, leveraged on the good performance of fixed broad band and Pay TV as a result of the higher customer base (up 21% and 22% year-on-year, respectively).

OIBDA stood at 580 million euros in 2013, down 4.6% year-on-year in reported terms. Excluding exchange rate effects, OIBDA grew 2.5% year-on-year, reflecting the higher commercial activity, and partly offset by the benefits from the merger of the fixed and mobile units. Note that the sale of non-strategic towers for two million euros was booked in 2012.

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2012 Results

Revenues totaled 1,765 million euros in 2012 (year-on-year growth of 1.6% in local currency), due to the strong performance of the mobile business, despite lower ARPU and the reduction in mobile termination rates. The fixed business reported revenues of 695 million euros, down 4.7% in local currency due to a lower number of accesses, the increase of competition in an already highly competitive environment and the reduction in termination rates.

OIBDA was 607 million euros at the 2012 year end, up 1.0% in local currency compared to the prior year as a result of higher revenues (up 1.6% year-on-year) and operating expenses decreasing 2.2% year-on-year, due to the efficiency measures applied by the business operator in Colombia, which were mainly reflected in lower personnel and subcontract expenses. Supply costs also fell year-on-year due to the reduction in termination rates. These were offset by the year-on-year comparison affected by recognition of gains on the sale of non-strategic towers of 2 million euros in 2012 and 25 million euros in 2011.

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TELEFÓNICA EUROPE

The below table shows the evolution of accesses in Telefónica Europe over the past three years:

Accesses

Thousands of accesses	2011	2012	2013	%Var 11/12	%Var 12/13
Fixed telephony accesses (1)(2)	16,158.5	15,849.3	14,812.2	(1.9)%	(6.5)%
Internet and data accesses	10,248.3	10,065.4	9,449.7	(1.8)%	(6.1)%
Narrowband	519.8	444.1	385.3	(14.6)%	(13.2)%
Broadband (3)	9,680.4	9,576.2	9,023.6	(1.1)%	(5.8)%
Other (4)	48.2	45.1	40.8	(6.5)%	(9.4)%
Mobile accesses	72,450.7	70,751.5	70,210.2	(2.3)%	(0.8)%
Prepay	31,159.7	28,680.4	27,480.9	(8.0)%	(4.2)%
Contract (5)	41,291.0	42,071.1	42,729.2	1.9%	1.6%
Pay TV	1,052.2	909.3	828.6	(13.6)%	(8.9)%
Final Clients Accesses	99,909.7	97,575.5	95,300.7	(2.3)%	(2.3)%
Wholesale Accesses	5,245.1	5,684.3	6,317.0	8.4%	11.1%
Total Accesses	105,154.8	103,259.8	101,617.7	(1.8)%	(1.6)%

Note: Mobile accesses of Telefónica Spain include since 2013 accesses of Tuenti and in 2012 this same criteria has been used.
(1) Basic Fix Line (including Public Use Telephony) x1, RDSI primary access, Digital Accesses 2/6x30. Includes internal use, VOIP and Naked ADSL.
(2) During the second quarter of 2013, 209 thousand accesses were derecognized due to the asset sale of the Fixed Business in UK.
(3) During the second quarter of 2013, 511 thousand accesses were derecognized due to the asset sale of the Fixed Business in UK.
(4) Other non-broadband retail circuits.
(5) During the first quarter of 2013, 114 thousand inactive accesses were derecognized in the Czech Republic.

The below table shows the evolution of Telefónica's estimated mobile market and ADSL share over the past three years:

Competitive Positioning

	Mobile Market Share (1)		
Telefónica Europe	2011	2012	2013
Spain	39.6%	36.2%	33.9%
United Kingdom	26.6%	26.6%	26.5%
Germany	16.1%	16.7%	16.9%
Czech Republic	38.0%	38.6%	38.7%
Ireland	33.2%	33.0%	31.4%
Slovakia	18.3%	21.1%	23.7%

	ADSL Market Share (1)		
	2011	2012	2013
Spain	49.7%	48.8%	47.4%

(1) Internal estimations.

During 2013, Telefónica Europe's portfolio was restructured through the sale of operations in the Czech Republic, which closed in January 2014 after obtaining regulatory approval, and Ireland, pending regulatory approval, and with the announcement of the acquisition of E-Plus by Telefónica Deutschland.

Telefónica Europe comprised, at the end of 2013, the operations in Spain, United Kingdom, Germany, Czech Republic, Slovakia and Ireland.

In 2013, Telefónica Europe undertook a transformation strategy towards a more efficient business model, within a very dynamic and competitive market environment. Against this backdrop, the Company has worked to enhance its competitiveness and accelerate its commercial activities, as well as improve efficiency (reflected in its improved OIBDA margin) and profitability, due to its on-going efforts to simplify and reduce costs.

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2013 was a key year in the updating of Telefónica Europe's commercial offer, with the launch of simple and innovative tariffs, focused on the capture and growth of data both in the fixed (fiber) and mobile (4G) businesses. In this respect, the strengthening of “Movistar Fusión” as a driver of recovery in Spain, the commitment to “Refresh” to further streamline packages and to increase the dynamism of distribution channels in the United Kingdom, and the boost given by the “O2 Blue All-in” tariffs in Germany, all stand out as the basis of the growth in mobile data.

The new “O2 Refresh” tariff was launched in April and represents a unique commercial focus, offering an innovative value proposal to customers. This tariff aims to strengthen our market positioning, driving forward our strategy focused on data, while eliminating subsidies and improving the mix of distribution channels and offering our customers more flexibility "to change telephones with the same frequency that telephones change". The “O2 Blue All-in” tariffs in Germany are tariffs focused on mobile data.

The greater take up of 4G services in the United Kingdom and Germany, and the acceleration in the roll out of fiber optic and Pay TV in Spain will be the main pillars of expected growth in 2014.

Total accesses stood at 101.6 million at the end of December (-1.6% year-on-year) affected by asset disposals in Telefónica UK's fixed consumer business on May 1, 2013 (720 thousand accesses) and the disconnection of 114 thousand accesses of inactive mobile contract customers in the first quarter of 2013 in the Czech Republic.

Main 2013 trends in accesses in the mobile business

- Mobile accesses totaled 70.2 million at year end, a decline of 0.8% year-on-year, with the contract segment continuing to increase its weight over the reduced total (61% of the base; +1 percentage points as compared to 2012).

- Good commercial momentum with strong growth in mobile contract customers with a net gain in 2013 of 772 thousand accesses (excluding the disconnection of inactive customers in the Czech Republic). Total net mobile losses in 2013, excluding those disconnections in the Czech Republic, stood at 427 thousand accesses due to the loss of prepay customers.

- Mobile broadband accesses continued on a very positive trajectory and totaled 29.2 million at the end of 2013 (+14.6% year-on-year growth) driven by the growing demand for data and the strong rise in the adoption of smartphones (42% penetration in terms of mobile internet data tariffs over total mobile customer base, at year-end; +7 percentage points, year-on-year).

Main 2013 trends in accesses in fixed business

- Retail fixed broadband accesses stood at 9.0 million (-5.8% year-on-year) at year end, primarily impacted by the sale of the fixed business's residential assets in the UK (-511 thousand accesses). However, it should be highlighted that in 2013 an improvement was seen in net adds for the fixed broadband segment especially in the last part of the year, driven by strong growth in fiber optic in Spain.

- Fixed telephony accesses fell by 6.5%, year-on-year, to 14.8 million at year end, affected by competitive pressures in the market, and additionally, by asset disposals in Telefónica UK's fixed consumer business in the second quarter (-209 thousand accesses).

Results

Millions of euros	Var 11/12	Var 12/13

Telefónica Europe	2011	2012	2013	Reported	Ex fx	Reported	Ex fx
Revenues	32,074	30,006	26,840	(6.4)%	(7.8)%	(10.6)%	(9.3)%
OIBDA	9,262	10,228	9,917	10.4%	9.5%	(3.0)%	(2.1)%