

NOTA DE PRENSA

PRESS RELEASE

Madrid, 25 February 2015

The Company has reached the operating targets laid down for the whole year, and ensured dividend continuity with 0.75 euros per share in 2015 and 2016

TELEFÓNICA ACHIEVES A NET PROFIT OF 3,001 MILLION EUROS IN 2014, IS NOW BACK ON THE PATH TO ORGANIC GROWTH OF INCOME (+2.6%) AND OIBDA (+0.2%) AND ANNOUNCES THE BEGINNING OF A NEW CYCLE

In the results presentation, César Alierta, Chairman and CEO of Telefónica, has emphasized that "the execution of our transformation strategy in recent years, coupled with the evident change in trends which is underway, lead us to upgrade the level of our ambition for the next two years. The evolution of our operations, the strength of our Balance Sheet and the current environment all present clear signs of improvement and are reflected in the acceleration of the Company's profitable and sustainable growth".

Telefónica announces its operating and financial guidance for 2015 and ambition for 2016

Operating guidance 2015 and ambition 2016 criteria (p.7)

Base 2014	Operating Guidance 2015 & Ambition 2016	Guidance 2015E	Ambition 2016E
42,853	Revenues	>7%	>5% CAGR 2014- 16E
32.6%	OIBDA Margin	Limited margin erosion around 1 p.p. (to allow for commercial flexibility if needed)	Stabilising in 2016
16.7%	CapEx / Sales	Around 17%	Around 17% (-2 p.p. 2017E vs. 2016E)

Financial Guidance 2015 & Ambition 2016	Guidance 2015E	Ambition 2016E
Net Financial Debt / OIBDA	<2.35x	<2.35x

Telefónica announces the distribution of a dividend of 0.75€ per share in 2015 and 2016

Telefónica will propose the adoption of the relevant corporate resolutions with the aim to:

- In 2015, amortise Treasury stock for a total of 1.5% share capital and distribute a dividend of 0.75 euros per share. Payable in the fourth quarter of 2015 (0.35 euros per share in the form of a voluntary scrip dividend) and in the second quarter of 2016 (0.40 euros per share in cash).
- In 2016, amortise Treasury stock for a total of 1.5% share capital and distribute a dividend of 0.75 euros per share in cash, in both cases subject to the closing of the proposed sale of O2 UK.

- Total income of 50,377 million euros for the whole of the year showing widespread acceleration in organic growth in almost all countries. At the same time, efficiency and simplification measures have secured solid profitability, with OIBDA of 15,515 million euros and an OIBDA margin of 30.8% for the whole of the year.
- In the fourth quarter, both income (12,399 million euros) and OIBDA (3,190 million euros) have been affected by the adjustment of the exchange rate in Venezuela, which has taken 2,187 million euros from income and 1,379 million euros from OIBDA, this also affected by the provision of restructuring costs.
- Telefónica's investment has 16.9% organic y-o-y growth, and totalled almost 9,500 million euros in 2014, which includes 1,294 million euros spectrum acquisition. This investment effort represents a considerable step forward towards the modernisation and differentiation of the company's networks, and strengthens the company's transformation into a Digital Telco that will ensure more sustainable future growth.
- Telefónica has maintained a strong financial discipline in 2014. At year end, total debt was 45,087 million euros, impacted by the exchange rate in Venezuela, which increased debt by 2,341 million euros. Debt would stand at 31,705 million euros and the debt ratio (net financial debt over OIBDA) at 2.15 times after the closing of the proposed sale of O2 UK and the FX change in Venezuela.
- Growth of net profit in 2014 compared to 2013 was affected by several extraordinary factors which took place mainly in the fourth quarter (non-recurrent provisions, adjustment of the exchange rate in Venezuela and provision of restructuring costs, among others). Setting aside these effects, consolidated net profit was 4,462 million euros (-18.6%).
- In 2014, Telefónica's free cash flow translated into 3,817 million euros, equal to 0.83 euros per share, meaning the Company is able to comfortably cover 2014 cash dividend payments, as it represents just 55% of FCF per share.
- In operating terms, the company at the end of 2014 had 341 million accesses, showing y-o-y growth of +6%. Particularly relevant is the performance of high-value services, with y-o-y growth of +11% and +39% in contract mobiles and smartphones, respectively.
- Spain, Brazil and Germany have consolidated their position as the Telefónica Group's major markets, where the company has managed to strengthen its competitive position:
 - In Spain, last year marked a turning point, consolidating the stabilisation of income, which reached 3,038 million euros between October and December (12,023 million euros for the whole of the year), with a clear trend of quarter-on-quarter improvement. This is the result of Telefónica Spain's competitive differential positioning in the fiber, in the mobile contract and in the pay TV segments.
 - In Brazil, Telefónica has strengthened its competitive position in the market, especially in the higher value segments, which will consolidate with the purchase of GVT. In 2014, the company captured more than half of all new mobile contract customers and 38% of the LTE market, while at the same time pushing forward the deployment of fibre (4.1 million property units connected) and has significantly increased paid-TV clients (+20%). Its main financial items grew year-on-year in organic terms, despite the impact of regulation (+0.5% and +0.9%, income and OIBDA, respectively).

- The final quarter of 2014 showed the potential of the newly established Telefónica Germany, after the integration of E-Plus on 1 October. The company is now established as the leading carrier in the mobile market, with 47.7 million accesses, and has shown stability in income in the fourth quarter resulting from the success of data monetisation.

Madrid, 25 February 2015.- Telefónica presented today FY 2014 results, a year in which the company has taken key steps and obtained visible results in its strategy of transformation towards becoming a Digital Telco. Both investment and the management of the assets portfolio have focused on increasing its competitive positioning in higher-value sectors and markets, translating into an acceleration in income growth throughout the year. At the same time, it has maintained its strict cost management and obtained significant savings from the simplification of the new operating model, resulting in positive OIBDA growth in organic terms.

Total revenues for the year stood at 50.377 million euros and this consolidates widespread acceleration of organic growth in the fourth quarter in almost all countries. As such, this figure grew, in organisational terms, by +5% between October and December with an increase of +2.6% for the whole year. At the same time, efficiency and simplification measures have secured solid profitability, with OIBDA of 15,515 million euros (+0.2% organic y-o-y) and an OIBDA margin of 30.8% for the whole of the year.

Taking all this into account, the net profit of Telefónica at the end of 2014 totalled 3,001 million euros (-34.7%), a figure which was affected by several extraordinary factors, which came into play mostly in the fourth quarter. Non-recurrent provisions for the October-December period deducted 1.088 million euros from this figure, and include the impact of the exchange rate adjustment in Venezuela, the provision of restructuring costs and the adjustment to the Telco's valuation, among other factors. Setting aside these effects for the year, consolidated net profit was 4,462 million euros (-18.6%).

In the results presentation report, Telefónica's Chairman and CEO, César Alierta, has stressed that *"results in the fourth quarter of 2014 represent the culmination of a period of intense transformation that has strengthened the Company, its growth potential and its financial position in just over two years"*.

He also explained that *"this transformation was carried out from the core of the business, thanks to an intense CapEx effort that has allowed us to adapt to the evolution of our customers' technological needs which are characterised by a booming data usage"*.

Strong growth in higher value segments

Total accesses reached 341 million at December 2014, up 6% year-on-year, after incorporating the customers of E-Plus in T. Deutschland and posting solid growth at T. Hispanoamérica, T. Brasil and T. UK. By services, commercial momentum focused on high value customers remained high in the quarter and was reflected in sustained growth of mobile contract (smartphones and LTE), fibre and Pay TV accesses.

Mobile accesses totalled 274.5 million, up 8% vs. 2013, driven by the strong growth of the mobile contract segment (+11% reported), which continued to increase its weight and accounted for 36% of mobile accesses. Particularly noteworthy in the fourth quarter was the performance of T. España, which posted mobile contract net additions (+57 thousand) for the third quarter in a row and for the first time

in the full year since 2011. Smartphones maintained a strong growth momentum (+39% year-on-year) and stood at 90.4 million, reaching a penetration of 35% over the total access base.

Retail broadband accesses totalled 17.7 million, with net additions of 11 thousand accesses in the quarter (138 thousand accesses in 2014 in organic terms). Fibre accesses stood at 1.8 million at December 2014 (2.1 times greater vs. December 2013), after posting record net additions in the quarter of 308 thousand accesses, up 16% quarter-on-quarter, boosted by T. España (248 thousand accesses). Finally, pay TV accesses totalled 5.1 million and grew 48% in organic terms.

Main results

It is important to highlight the Company's decision to adopt the exchange rate of the Venezuelan bolivar set at the previously denominated SICAD II at the end of 2014, as being the most representative among the available exchange rates as of that date, for the monetary translation of the accounting figures of cash flows and balances, impacting fourth quarter financial results. In the last auction of the quarter this rate was set at 50 bolivars per dollar. In the fourth quarter, the evolution of exchange rates was especially impacted by the aforementioned change to SICAD II and, to a lesser degree, the depreciations of the Argentine peso and the Brazilian real against the euro. Thus, the negative impact of exchange rates reduced year-on-year revenue and OIBDA growth by 20.4 percentage points and 23.9 percentage points respectively (12.1 percentage points and 13.1 percentage points in January-December 2014).

In addition, the results of E-Plus at T.Deutschland are consolidated from 1 October, affecting, together with the deconsolidation of the results of T. Czech Republic (since January 2014) and T. Ireland (since July 2014), the year-on-year comparison of Telefónica's reported financial results. Thus, changes in the perimeter of consolidation contributed with 1.6 percentage points to fourth-quarter revenue growth, while reduced full-year growth by 2.1 percentage points. OIBDA was reduced by 2.3 percentage points in the fourth quarter and by 3.5 percentage points in the full year.

Revenues totalled 50,377 million euros in 2014, with organic growth accelerating in the fourth quarter to 5.0% year-on-year (+2.8% in the third quarter; +2.6% in January-December) and speeding up in all segments. In reported terms, revenues fell year-on-year (-14.1% in the fourth quarter; -11.7% in January-December), affected by the negative impact of exchange rate fluctuations and changes to the consolidation perimeter mentioned above. Most notably, the change to SICAD II in Venezuela had a negative impact of 2,187 million euros on fourth quarter revenues.

Mobile data revenues remained one of the Company's main growth drivers, increasing by 9.9% in organic terms in 2014 (+10.6% year-on-year in October-December) and accounted for 41% of mobile service revenues (+3 percentage points compared with 2013). Non-SMS data revenues advanced 23.9% year-on-year in organic terms in 2014 (+22.8% in the quarter) and accounted for 73% of data revenues.

In the fourth quarter, a provision of 644 million euros for non-recurrent restructuring and other costs was registered with the aim of enhancing the Company's future efficiency. As a result, operating expenses totalled 36,149 million euros in January-December 2014, up 3.8% year-on-year in organic terms.

Strong profitability

Gains on sales of fixed assets totalled 327 million euros in 2014 while Operating income before depreciation and amortisation (OIBDA) in January-December 2014 totalled 15,515 million euros, up 0.2% year-on-year in organic terms, reflecting revenue growth and the benefits from the efficiency measures implemented and despite the higher commercial and network expenses mentioned above.

In the fourth quarter, OIBDA amounted to 3,190 million euros, stable year-on-year in organic terms (-35.9% reported), and was affected by one-off factors with a negative impact of 1,379 million euros: the adoption of the exchange rate set at SICAD II (-915 million euros), the provision of 644 million euros for restructuring costs.

In reported terms, OIBDA fell by 18.7% in 2014, impacted by the exchange rate fluctuations, changes to the consolidation perimeter and one-off factors mentioned earlier. OIBDA margin stood at 30.8% in January-December 2014, with limited year-on-year erosion in organic terms (-0.8 percentage points).

Operating income (OI) totalled 6,967 million euros in 2014, 1.9% higher year-on-year in organic terms.

Share of profit (loss) of investments accounted for by the equity method amounted to -510 million euros in January-December 2014, mainly due to losses booked following the classification of Telco, S.p.A. investment as an asset held for sale in the fourth quarter, while net financial expenses amounted to 2,822 million euros in 2014 (-1.6% year-on-year), of which 293 million euros were due to net negative foreign exchange differences primarily associated with the Company's decision to adopt the exchange rate of the Venezuelan bolivar set at SICAD II.

Thus, and as a result of all the items and one-off factors explained above, consolidated net income in 2014 amounted to 3,001 million euros (4,462 million euros in underlying terms), down 34.7% year-on-year (-18.6% underlying) and 89.5% year-on-year in the fourth quarter (-29.7% underlying). In the fourth quarter extraordinary effects amounted to 1,088 million euros and included: the impact of the adoption of the exchange rate set at SICAD II in Venezuela (-399 million euros), the provision for restructuring expenses (-405 million euros), the value adjustment of Telco, S.p.A (-257 million euros) and other factors (-26 million euros). Basic earnings per share in underlying terms amounted to 0.93 euros in 2014 and to 0.25 euros in the fourth quarter.

In 2014, the Company remained focused on network differentiation and modernisation, with 75% of total investment in the year, excluding spectrum, devoted to transformation and growth (+6 percentage points year-on-year in organic terms). As a result, CapEx grew 16.9% year-on-year in organic terms and totalled 9,448 million euros, including 1,294 million euros related to spectrum acquisition (primarily in Brazil, Argentina and Venezuela in the fourth quarter and in Colombia and Central America in the first quarter). Operating cash flow (OIBDA-CapEx) totalled 6,067 million euros in 2014.

Financing activity

In 2014, free cash flow amounted to 3,817 million euros in 2014, 4,748 million euros excluding spectrum payments. Net financial debt stood at 45,087 million euros at the end of December 2014, down 294 million euros year-on-year. Excluding the impact of the evolution of the exchange rate in Venezuela, which increased debt by 2,341 million euros, debt would have been reduced by 2,635 million

euros. The leverage ratio (net debt over OIBDA₁) for the last 12 months at the end of 2014 stood at 2.74 times. Considering the closing of the proposed sale of O2 UK and the FX change in Venezuela, the leverage ratio would stand at 2.15 times.

In 2014, Telefónica's financing activity through capital markets stood at around 14,740 million equivalent euros and was mainly focused on completing the financing of the acquisition of E-Plus (via the issue of a bond mandatorily convertible into Telefónica shares for a notional amount of 1,500 million euros and the execution of the capital increase of T. Deutschland), strengthening the liquidity position, actively managing the cost of debt and smoothing the debt maturity profile of Telefónica S.A. for the following years. Therefore, as of the end of 2014, the Group maintains a comfortable liquidity position to accommodate the next debt maturities.

Telefónica maintains total undrawn committed credit lines with different credit entities for an approximate amount of 11,545 million euros, with around 10,618 million euros maturing in more than 12 months, which, together with the cash position, increases liquidity to 19.4 billion euros.

Digital Services

Highlights in the area of the Chief Commercial Digital Officer (CCDO) include the following: In the Consumer (B2C) area, revenue from the Video business amounted to 954 million euros in 2014 and grew 29% year-on-year in organic terms due to the improvement in service quality, the ongoing development of new and exclusive content and the growth in Pay TV accesses; Global Device Management continued to foster the acceleration of smartphone adoption, with a special focus on LTE. Thus, in the fourth quarter, 75% of total devices acquired by the Company were smartphones, while 41% were LTE (+24 percentage points year-on-year).

In the Corporate (B2B) area, M2M revenues stood at 183 million euros in January-December 2014 (+41% year-on-year in organic terms), boosted by the growth of M2M accesses (+16% year-on-year organic). Cloud business revenues grew by 25% year-on-year in organic terms to reach 342 million euros. In Information Security, revenues in 2014 stood at 115 million euros, with growth accelerating to 57% year-on-year in organic terms.

Global IT area

In 2014, Telefónica Global Resources technological transformation strategy obtained visible results and advanced strongly in terms of network and system modernisation towards an all-IP Company. This process is part of an efficient management model focused on simplifying operations and reducing legacy costs, which in turn enables the Company to differentiate its products and services, improving customer satisfaction.

The Global Network and Operations unit continued to accelerate UBB rollout. As a result, premises passed with fibre reached 14.7 million at the end of December, twice vs previous year figure and LTE base stations surpassed 20,100 (10,500 in 2013), with over 80% of 3G and LTE base stations connected at high speed to the transmission network. 4G coverage in Europe stands at almost 60%, while the LTE deployment in Latin America increases to 10 countries. In the fourth quarter, Argentina and Venezuela acquired LTE spectrum. This higher UBB coverage contributed to reach 1.8 million fibre customers (2.1x year-on-year) while LTE customers totalled 13.2 million.

¹ Adjusted for the sale of companies, restructuring costs and also incorporating E-Plus OIBDA corresponding to January-September period (homogenised under the accounting policies of Telefónica).

The global IT area continued to successfully manage and execute simplification and transformation through systems processes, applications and integrations. The advances made in IT simplification in 2014, a key driver to accelerate transformation, are shown in continuous progress in reducing, with over 430 applications eliminated and the increase of virtualised servers to 46% (+11 percentage points compared with December 2013) as a result of the infrastructure consolidation process in leading data centers, which results in to a 13% reduction in physical servers.

Operating guidance 2015 and ambition 2016 criteria:

2014 adjusted bases:

- ✓ **Exclude:**
 - T. UK results from January-December 2014.
 - T. Venezuela results from January-December 2014.
 - OIBDA excludes additionally tower sales and the provision for restructuring costs.
 - CapEx excludes additionally spectrum acquisition, Real Estate Efficiency Plan and the investment in Telefónica's Headquarter in Barcelona.
- ✓ **Include:**
 - E-Plus results consolidated in T. Deutschland results since the fourth quarter of 2014.
 - T. Ireland results from January-June 2014.

2015E guidance and 2016E ambition:

- ✓ Assume **constant exchange rates as of 2014** (average FX in 2014).
- ✓ **Exclude:**
 - T. UK results.
 - T. Venezuela results.
 - OIBDA excludes additionally: write-offs, capital gains/losses from the disposal of companies, tower sales, material non-recurrent impacts and major restructuring related to integration processes in Germany and Brazil and to the simplification program.
 - CapEx excludes additionally spectrum acquisition and Real Estate Efficiency Plan.
- ✓ **Include:**
 - GVT results consolidated in T. Brasil results since July 2015.

Financing guidance 2015 and ambition 2016 criteria:

Net financial debt / OIBDA both adjusted for the closing of the proposed sale of O2 UK

TELEFÓNICA ESPAÑA

Telefónica España's results in 2014 marked an inflection point in the Company's transformation, reflecting a gradual recovery in revenues that allow for an increasingly sustainable business model and to focus on future growth, in a more favourable macroeconomic and competitive environment.

Thus, revenues have confirmed a clear trend of improvement quarter-on-quarter with a 4.9% decline in the fourth quarter (+1.7 percentage points vs. the previous quarter), underpinned by a differential competitive positioning that has boosted commercial activity, the penetration of growth services (fibre, TV and 4G), the level of customer loyalty and satisfaction, and resulted in a more stable high-value access base.

Accordingly, at the end of 2014 the Company was the leader in the Pay TV market with 1.9 million customers (x3 year-on-year) and had over one million 100 Mb fibre customers (x2 year-on-year), while the mobile contract base posted net additions in the year for the first time since 2011 (excluding the disconnection of inactive M2M accesses in the first quarter).

Telefónica España had 41.2 million accesses at the end of 2014, 1% below 2013 (-2% year-on-year at the end of September) due to the disconnection of 569 thousand inactive M2M mobile contract accesses in the first quarter of the year. "Movistar Fusión", with a customer base of 3.7 million and 1.4 million additional mobile lines, maintained solid year-on-year growth (+27% compared with 2013) and further increased penetration levels (73% of the fixed broadband customer base and 57% of the mobile contract base in the consumer segment). Retail broadband accesses rose to 5.9 million, up 1% year-on-year, with net additions of 13 thousand accesses in the fourth quarter (39 thousand in the year), boosted by the strong performance of fibre and the reduction in churn (1.5%, -0.1 percentage points year-on-year). Fibre customer growth accelerated again in the quarter, reaching record net additions of 248 thousand accesses, up 19% compared with the previous quarter and 2.5 times the figure in the fourth quarter of 2013.

The improved commercial activity, the growth in high-value customers and the lower impact of customer repositioning consolidated the stabilization of revenues at around 3,000 million euros per quarter (3,038 million euros in October-December). Thus, revenues in 2014 amounted to 12,023 million euros, down 7.2% year-on-year (6.4 percentage points less than the decline in 2013). In the fourth quarter revenues improved their trend up to -4.9% (compared with -6.6% in July-September) mainly due to the better performance of service revenues. Operating expenses amounted to 6,965 million euros in 2014, down 1.1% year-on-year on the back of the ongoing cost control and the savings generated by the various efficiency initiatives implemented several years ago.

OIBDA amounted to 5,671 million euros in 2014 (-10.6% year-on-year; -3.3% in the quarter), impacted by the Company's greater commercial effort to capture the growth and value opportunity in the market. OIBDA margin stood at 51.0% (46.5% excluding the sale of towers; -1.4 percentage points year-on-year in organic terms).

CapEx amounted to 1,732 million euros in 2014, (+13.3% year-on-year in reported terms) and grew by 15.2% year-on-year in organic terms. The year-on-year growth reflects the faster pace of

connection of fibre and TV customers and the rapid rollout of fibre and LTE networks, differential assets that enable the Company to maintain its leadership in quality.

TELEFÓNICA UK *(year-on-year changes in organic terms)*

In January 2015, Telefónica and Hutchison Whampoa agreed to enter into exclusive non-binding negotiations for the potential acquisition of O2 UK for an indicative price in cash of £10.25bn.

In the last quarter 2014, Telefónica UK showed strong trends building on momentum from previous quarters, which has been underpinned by the strength of the O2 brand, successful commercial propositions and customer loyalty. With this, the Company delivered positive revenue growth year-on-year, strong contract and prepay trading and OIBDA margin stability for the full year.

Fast LTE deployment continued, reaching 58% outdoor population coverage at December (+20 percentage points year-on-year), giving a strong opportunity to further increase data traffic (data usage of LTE customers is 3 times higher vs 3G) and resulting into high single digit ARPU uplift. This has led to LTE customers representing 19% of the mobile base at the end of December. Total accesses grew 3% year-on-year and totalled 24.7 million at December.

Revenue in the October-December period accelerated its growth to 5.4% year-on-year excluding the impact of "O2 Refresh" (+2.3% year-on-year in the third quarter), leading to a positive full year growth of 0.6%. Reported revenue reached 7,062 million euros (+0.2% year-on-year in 2014; +3.2% in the last three months) on the back of improving mobile service revenue trends and growing handset and others revenue on the back of strong trading of high-end devices (+28.8% year-on-year in the fourth quarter vs +10.3% in the third quarter). Operating expenses reached 5,485 million euros in the year, 0.9% lower than in the same period of 2013 (+4.3% in the fourth quarter).

OIBDA reached 1,744 million euros in 2014 (+1.1% year-on-year; -3.0% year-on-year in the quarter) and was impacted by non-recurrent effects mostly related to the disposal of fixed business assets in 2013 (73 million in the second quarter of 2013; 10 million euros in the fourth quarter of 2013; 34 million euros in the third quarter of 2014). Excluding these effects and the previously mentioned true-up commission and restructuring expenses, OIBDA in the fourth quarter remained broadly flat (-0.6% year-on-year vs -4.8% year-on-year in the third quarter) and grew 1.3% in the full year. This resulted in an OIBDA margin of 24.7% in the year to December 2014 (+0.2 percentage points year-on-year; +0.3 percentage points excluding non-recurrent items mentioned above).

CapEx amounted to 755 million euros in 2014, an increase of 7.5% year-on-year excluding spectrum (719 million in 2013), mainly focused on LTE expansion.

TELEFÓNICA DEUTSCHLAND

The fourth quarter of 2014 reflects the starting point for the new Telefónica Deutschland with the integration of E-Plus Group from October 1, 2014 onwards. The new Company aims to become the leading Digital Telco in Germany, starting as the clear number one in terms of mobile customer base, with 42.1 million accesses at the end of December.

It expects to deliver synergies of more than 5 billion euros with an annual run rate contribution to Operating Cash Flow of 800 million euros from year 5 of the integration, primarily from the combination of networks, rationalization of the retail shop footprint, reduction of overhead and additional revenue-generating opportunities. The fourth quarter of the year saw the new Telefónica Deutschland sustaining a strong trading performance across segments and brands, which is the result of a successful start of joint commercial activities, with a focus on data monetization driven by LTE and the launch of new devices.

At the end of December, Telefónica Deutschland's total access base stood at 47.7 million, with strong mobile contract trading in the quarter and an improving trend for the retail DSL business, reflecting an increasing demand for higher speed accesses.

Revenues totalled 5,522 million euros for January to December 2014, +12.4% year-on-year due to the consolidation of the E-Plus Group from October 1, 2014. In the fourth quarter, revenues amounted to 2,019 million euros, broadly stable year-on-year vs. combined revenues from both Companies in the same period of 2013. The fourth quarter of 2014 was significantly impacted by a 401 million euros non-cash provision for restructuring activities following the acquisition of E-Plus Group (409 million euros in the full year). Operating expenses were 4,817 million euros in 2014 and totalled 2,006 million euros in the fourth quarter of 2014.

OIBDA for 2014 amounted to 733 million euros and was negative in 38 million euros in the last quarter following the provision for restructuring activities. OIBDA margin excluding restructuring costs reached 18.0% in the fourth quarter.

CapEx in 2014 totalled 849 million euros, with a clear focus of the accelerated deployment of the LTE network (outdoor coverage of 62% at the end of December; +20 percentage points year-on-year), and the initial activities for the integration of the two Companies.

TELEFÓNICA BRASIL *(year-on-year changes in organic terms)*

In 2014 Telefónica Brasil significantly reinforced its competitive position in the market. In the mobile business, the strategic focus on quality and innovation enabled the Company to strengthen its leadership in the higher value segments, capturing more than half of contract net additions in the market in 2014 and more than 38% of LTE net additions. In the fixed business, significant advances were made in the Company's transformation process, accelerating the fibre network deployment (4.1 million premises passed; 375 thousand customers connected) and significantly increasing Pay TV accesses (+20% year-on-year).

Moreover, in the fourth quarter the Company acquired the spectrum that was awarded in the auction held on 30 September 2014 of one of the three national blocks of spectrum in the 700 MHz band for the provision of LTE services (889 million euros including the cost of the license and the clean-up of the spectrum).

At December 2014, Telefónica managed 95.6 million accesses in Brazil, 3% more than at December 2013; despite the application of more restrictive reporting criteria for prepaid customers.

Regarding the financial results, it should be highlighted that they were affected by the reduction of mobile termination rates on 26 February 2014 (-25.0%), the reduction of the fixed-mobile retail tariff (VC: -13.0%) and from June 2014 by the reduction in the fee of the basic plans in the fixed business set by Anatel with the target of passing to customers the benefits arising from the merger of the mobile and fixed businesses.

Revenues amounted to 11,231 million euros, up 0.5% year-on-year. Revenues in the fourth quarter decreased by 0.3% year-on-year due to the positive impact of a tax reversal in the same quarter of 2013 (58 million euros; contributing -1.8 percentage points to the year-on-year change). Operating expenses in 2014 (7,742 million euros) were virtually stable year-on-year.

OIBDA totalled 3,543 million euros, with a year-on-year growth of 0.9% in 2014 (-1.3% in the quarter). The regulatory impact reduced year-on-year growth by 3.9 percentage points (-3.8 percentage points in the quarter). The OIBDA margin stood at 31.5% in 2014 (+0.1 percentage points year-on-year) and at 32.6% in the quarter (-0.4 percentage points year-on-year).

CapEx totalled 2,933 million euros in 2014 (+15.0% year-on-year in organic terms, excluding 889 million euros for the acquisition of spectrum in the fourth quarter of 2014 and 185 million euros registered in 2013) and was mainly designated towards the development, quality and capacity of mobile networks and expansion of the fibre network.

TELEFÓNICA HISPANOAMÉRICA *(year-on-year changes in organic terms)*

In 2014 Telefónica Hispanoamérica solidified its strong growth trend in organic terms of both revenues and OIBDA. Moreover, the growth in the OIBDA margin in most countries in the region was especially noteworthy, in particular in Mexico, Colombia and Chile, accompanied by a marked intensity in commercial activity that resulted in a volume of gross additions significantly higher than that of previous years.

Total accesses stood at 131.6 million at the end of December 2014 (3% year-on-year). Mobile accesses reached 110.3 million (+3% year-on-year), supported by growth both in the contract segment (+4% year-on-year) and in the prepay segment (+3% year-on-year), while regarding operating trends in the fixed business, traditional fixed accesses at the end of 2014 stood at 13.4 million. Retail broadband accesses reached 5.4 million (+6% year-on-year) with net additions of 64 thousand accesses in October-December and 304 thousand accesses in January-December and pay TV accesses grew by 14% year-on-year to 2.4 million.

Revenues amounted to 13,155 million euros in 2014, up 14.6% year-on-year, following a further acceleration in the last quarter (+18.2% year-on-year; +14.1% in the third). In reported terms, revenues decreased by 22.0% year-on-year in the full year and by 49.4% in the last quarter, affected by the evolution of exchange rates, following the Company's to adopt the exchange rate of the Venezuelan bolivar, set at the previously denominated SICAD II at the end of 2014, as being the most representative among the available exchange rates of the state of the business in Venezuela, and the depreciation of other currencies, chiefly the Argentine and Chilean pesos. Operating expenses amounted to 9,284 million euros in 2014, with a year-on-year increase of 13.6%.

OIBDA totalled 4,068 million euros in 2014, growing by 16.4% year-on-year (+15.6% year-on-year in the last quarter of the year), with an OIBDA margin of 30.9% in January-December.

CapEx totalled 2,842 million euros in the full year, rising by 29.1% organic year-on-year. The strong investment effort was mainly focused on the deployment of the LTE network in most countries of the region and on the rollout of the fixed broadband network with a strategic focus on a steady increase in speeds and digitalisation.

Telefónica Argentina (year-on year variations in organic terms)

In 2014, Telefónica Argentina maintained its leadership position in the sector due to the ongoing improvement of the quality of its products and infrastructures, as well as the innovation in its commercial offer. The Company had 26.6 million accesses at the end of 2014, virtually stable year-on-year.

Revenues stood at 3,063 million euros and grew by 23.8% in December (+22.2% year-on-year in October-December) due to the positive evolution of both businesses. Operating expenses totalled 2,284 million euros in 2014, increasing by 24.4% year-on-year, mainly due to higher personnel and subcontracting expenses related to the widespread increase in prices.

OIBDA amounted to 802 million euros in 2014, with year-on-year growth accelerating to 24.2% (+24.3% year-on-year in the quarter) and the OIBDA margin stood at 25.8% in 2014 (+0.1 percentage points year-on-year) and at 28.6% in the fourth quarter (stable year-on-year).

CapEx totalled 676 million euros in 2014, with year-on-year growth of 31.7% (excluding 168 million euros for the acquisition of spectrum in the fourth quarter mentioned earlier), mainly devoted to the improvement and deployment of fixed and mobile networks.

Telefónica Chile (year-on year variations in organic terms)

In 2014, Telefónica strengthened its leadership position in the Chilean telecommunications market, highlighting the progress made in higher-value segments. Telefónica Chile manages 13.9 million accesses (+2% year-on-year).

Revenues totalled 2,089 million euros in 2014, down 3.0% year-on-year (-4.1% in the last quarter). Operating expenses amounted to 1,422 million euros, down 3.7% year-on-year (-4.9% in the quarter).

Thus, OIBDA stood at 708 million euros in 2014 and accelerating its year-on-year growth to 3.0% in the last quarter (+1.5% in 2014) despite the negative impact of the regulatory changes (+5.6% year-on-year in January-December excluding this effect; +7.6 percentage points in October-December). OIBDA margin stood at 33.9% (+1.5 percentage points year-on-year) and at 34.9% in the quarter (+2.5 percentage points year-on-year).

CapEx totalled 429 million euros (+1.4% year-on-year in 2014) and was allocated towards improving the coverage and capacity of mobile and fixed networks.

Telefónica Peru (year-on year variations in organic terms)

In 2014, Telefónica Perú continued to lead the telecommunications market and posted the largest growth in mobile contract accesses in T. Hispam and a solid increase in broadband and pay TV connections. Telefónica Perú managed 22 million total accesses at the end of December (+5% year-on-year).

Revenues stood at 2,504 million euros in 2014, up 7.3% year-on-year (+6.4% in the quarter). Operating expenses reached 1,696 million euros in the January-December period, up 6.6% year-on-year and up 11.5% in October-December.

As a result, OIBDA stood at 844 million euros at the end of the year, up 9.2% year-on-year, while in the last quarter OIBDA decreased by 0.6% due to the greater commercial intensity. The OIBDA margin stood at 33.7% in January-December and grew by 0.6 percentage points year-on-year (24.3% in the quarter).

CapEx amounted to 421 million euros in the year (+23.4% year-on-year), with significantly larger investment in broadband aimed at improving service quality and in the deployment of 3G and 4G networks.

Telefónica Colombia *(year-on year variations in organic terms)*

In 2014, Telefónica Colombia achieved solid results both in operational (growth in accesses across all services) and financial terms (a steady year-on-year increase in revenues and double-digit OIBDA growth thanks to the efficiencies generated). At the end of December, the company managed 15.7 million accesses, up 6% year-on-year.

Revenues in January-December period of 2014 amounted to 1,719 million euros, up 7.8% year-on-year (+5.8% in the quarter), driven by the growth of both, the mobile and fixed businesses. Operating expenses reached 1,130 million euros, up 3.3% year-on-year, though they fell 1.6% in the last quarter due to lower mobile commercial activity (removal of subsidies) and the efficiencies improvements (ongoing review of expenses and process simplification).

OIBDA amounted to 627 million euros in 2014 (+16.2% year-on-year), with year-on-year growth accelerating in the fourth quarter to 18.9%, driven by efficiency improvements and greater rationality of the commercial expenses. Thus, the OIBDA margin for the quarter increased to 39.0% (+4.4 percentage points year-on-year), driving OIBDA margin for the year to 36.5% (+2.7% percentage points year-on-year).

CapEx stood at 496 million euros (+17.9% year-on-year in organic terms, excluding 111 million euros for renewal of spectrum executed in the first quarter of 2014) and reflects the Company's efforts in advancing towards a differential offer, by increasing mobile and fixed connection speed and consolidating its leadership in the deployment of the 4G network.

Telefónica Mexico *(year-on year variations in organic terms)*

During 2014, the progressive operational and financial improvement initiated in the end of 2013 was consolidated, based on both the commercial repositioning and the quality assets that results from the strong investment efforts made in the last years. During the fourth quarter, the Company posted, once again, record-high gross additions and maintained the trend of sharp acceleration in year-on-year growth in revenue and OIBDA. Accesses stood at 23.2 million at the end of 2014, up 6% year-on-year.

Revenues in 2014 stood at 1,649 million euros, up 8.8% year-on-year in 2014, accelerating its growth in the last quarter of the year to 10.6%. Operating expenses (1,346 million euros) increased by 3.1% year-on-year in 2014 but decreased by 4.8% year-on-year in the fourth quarter.

OIBDA amounted to 337 million euros in 2014 (+36.6% year-on-year), after doubling year-on-year in the fourth quarter (109 million euros). Therefore, the OIBDA margin stood at 20.5% in the year and at 24.1% in the fourth quarter (+4.3 percentage points and +11.7 percentage points year-on-year respectively).

CapEx totalled 252 million euros in 2014 (+8.4% year-on-year) and was mainly devoted to expanding and improving the deployment of 3G and 4G networks and to transforming the distribution channel.

Telefónica Venezuela & Central America *(year-on year variations in organic terms)*

In 2014, Telefónica reinforced its differential position in Venezuela and Central America thanks to its continuous improvements in service quality and network coverage that resulted in a positive performance both in operating and financial terms.

It is worth noting that the financial results in Venezuela in the fourth quarter have been affected by the Company's decision to adopt the exchange rate for the Venezuelan bolivar of 50 bolivar fuerte per dollar. This change in the conversion of financial information implies a reduction in revenues of 2,187 million euros and 915 million euros in OIBDA in the fourth quarter in order to adapt the results of previous quarters to the new exchange rate. The adjustment of the exchange rate is the second change in the contribution of Venezuela (after the adoption in the first quarter of the SICAD I system) and implies a change from 6.30 to 50 bolivar fuerte por dollar, with a significant impact on year-on-year changes in reported terms.

Accesses stood at 23.2 million euros at the end of 2014, 11.9 million in Venezuela 11.4 million in Central America.

Revenues in 2014 reached 1,420 million euros (+30.5% year-on-year) with year-on-year growth accelerating to 46.6% in the fourth quarter. In Venezuela, revenues stood at 692 million euros, up 54.7% year-on-year in the quarter and 35.8% in the year. In Central America revenues increased by 7.2% year-on-year in 2014 (+6.2% year-on-year in the quarter). Operating expenses (962 million euros) increased by 34.0% year-on-year in 2014.

OIBDA totalled 463 million euros in 2014, up 20.9% year-on-year (+10.5% in the fourth quarter). The OIBDA margin stood at 32.6% in 2014, down 3.1 percentage points year-on-year (-10.9 percentage points in the fourth quarter).

CapEx amounted to 435 million euros in 2014 (+64.8% year-on-year, excluding the above-mentioned 39 million euros of spectrum investment in Venezuela in the fourth quarter of 2014 and 82 million euros in Panama in the first quarter of 2014), reflecting the Company's commitment to continuously improving the region's network and infrastructure to provide the best quality of service.