Mobile data, how is Telefónica Europe capturing this growth opportunity?

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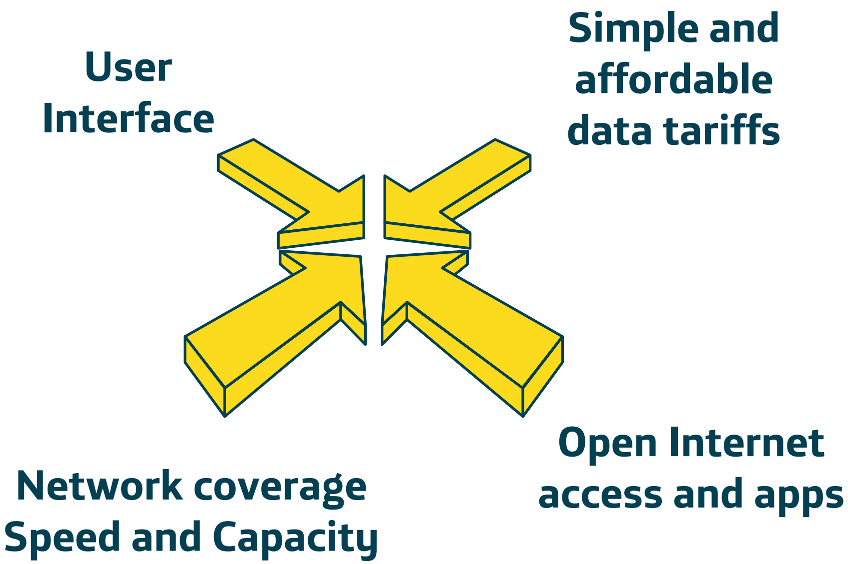
Index

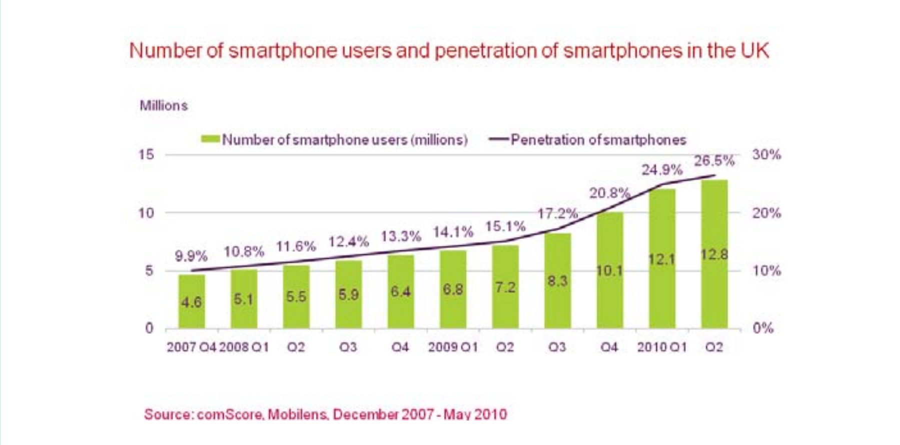
1 What has happened over the last couple of years?



Mobile Internet barriers have fallen allowing for mobile data growth

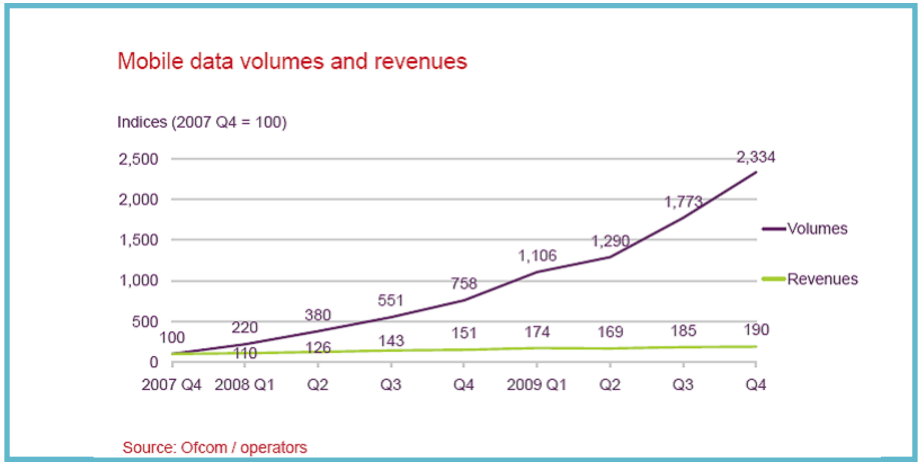
1 As a result, the small screen data market has developed quickly

Growing penetration of smartphones



New & innovative players stimulating the market

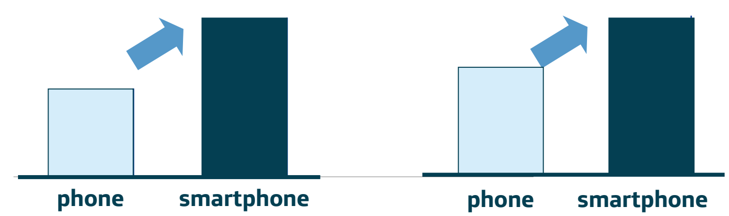
Explosive demand, flattish revenue



Increasing customer average lifetime value

ARPU uplift ...

... greater Customer Lifetime Value



1

And we are now taking the right steps to profitably monetize this opportunity

Data capacity optimisation	▪ Increase number of sites ▪ Increase frequency carriers / site
Reduce cost/Mbyte	▪ Use low frequency spectrum ▪ Gradual migration to LTE & FO
Traffic offload	▪ Promote WiFi usage ▪ Selective Femtocell deployment
Adapt offer to actual usage	▪ Segment tariffs by usage profile

2

Telefónica Europe has gone up the learning curve, ahead of competition, leading to competitive advantages

Deep knowledge on how mobile data interacts with our network

- Smartphones 3-4 times greater signalling activity vs. traditional phone

Data consumption quickly shifting to video

- One streamed YouTube video has the same effect on the network as 500K simultaneous SMS

Changing usage patterns: faster growth in late adopters

- Data volume doubling every 4 months

Data consumption is heavily concentrated

- 65% of data traffic comes from just 3% of data users

Telefónica O2 UK, a success story

"Home of the smartphone": the largest base with the lowest contract churn in the market

- Efficiently adapted network for voice & data
- The first to introduce tiered pricing which will lead to higher revenue and better customer experience for vast majority of customers
- Utilising UK knowledge throughout Telefónica and leveraging Telefónica scale

All data points taken from the UK market (internal sources)

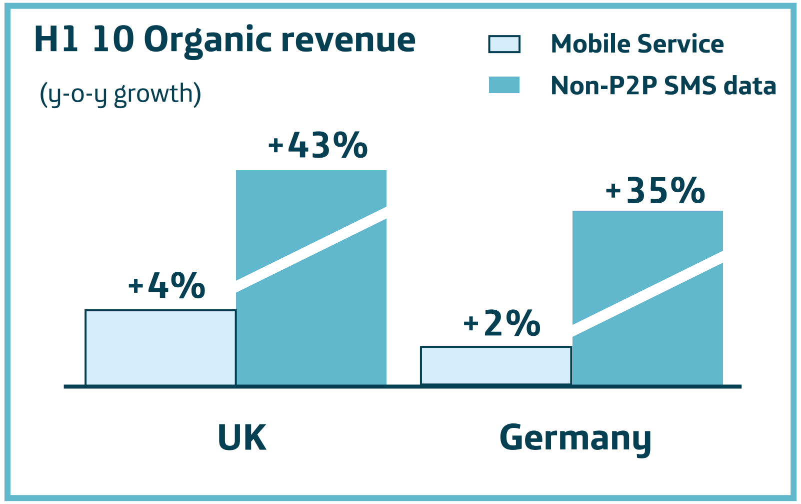
3 Telefónica Europe revenue opportunities are based on a new model

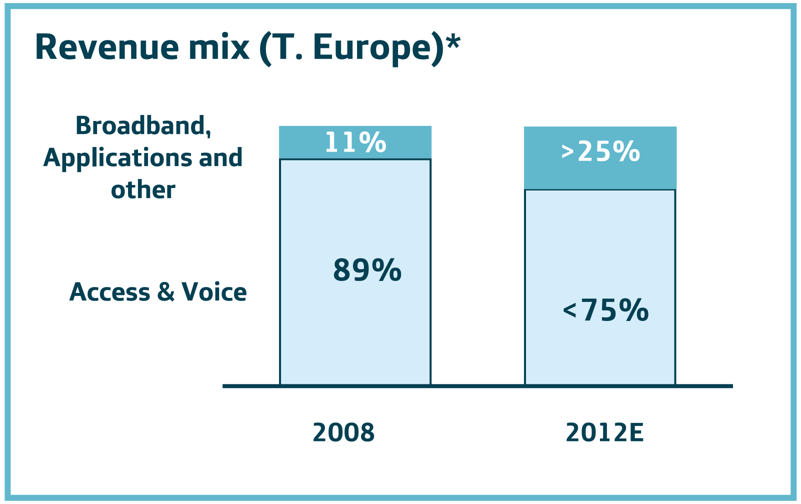
To date we have seen…

- **Flat rates**
- **Low penetration levels**
  - T. Europe reached over 8 m MBB accesses at June 2010 (+54% y-o-y)
- **Pure access**

But going forward…

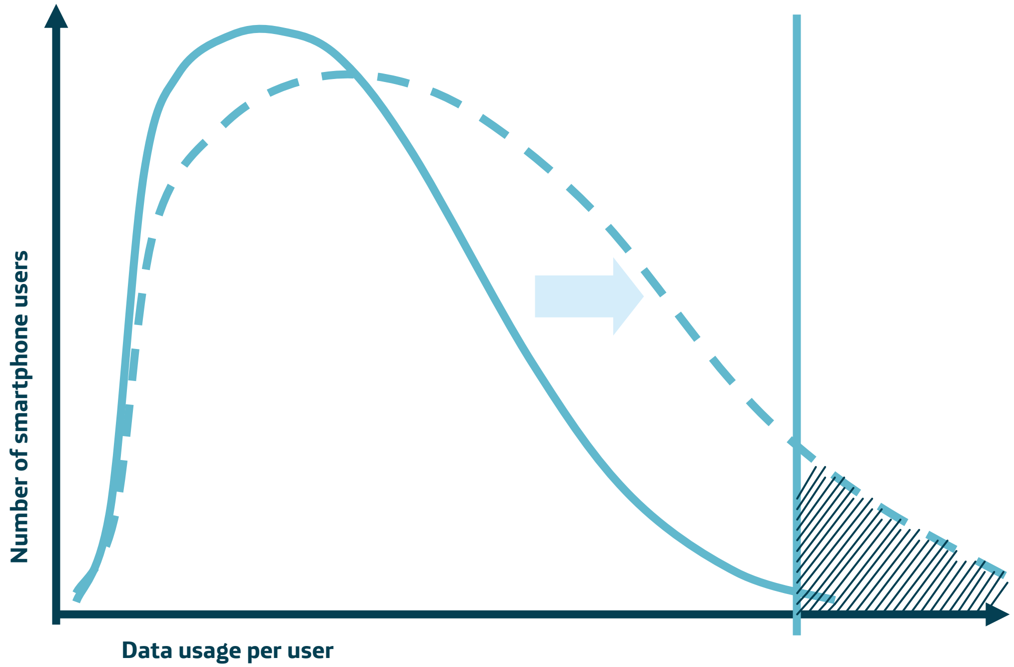
- **Tiered pricing**
- **Increased penetration**
  - T. Europe expects to reach 28 m MBB accesses by 2012
- **Applications / advertising**





* Assumes 2008 constant FX (average FX) and excludes changes in consolidation

3 This has driven our decision to introduce usage based pricing, first in the UK



- Currently, 3% of users above 500 Mb, consuming the majority of data
- Further migration to smartphones in the customer base will continue to increase data usage and data usage per customer will continue growing

Data monetization will include a much greater proportion of customers over time

The first step to Tiered pricing, already an industry trend:

- Simple targeted propositions with different schemes to address customer needs
- Efficient management of service quality
- AT&T, Vodafone, TeliaSonera, ... already launching tiered mobile data offers

Capturing quality growth and maintaining already high levels of customer satisfaction

3 Smooth transition to mobile data centric networks, wider choice of spectrum and devices, also key to ensure profitable growth

	Spectrum	Devices	Network equipment
UMTS 900	Ger: 2x5MHz UK: 2x17.4 MHz	Available in the market	Available for deployment
LTE 800	Ger: 2x10MHz UK: Government revisits access to 800MHz for O2 & VOD	Dongles in the market	Telefonica trialling LTE in 6 countries including Germany and UK
LTE 2600	Ger: 2x20MHz UK: Auction H2 2011E	Dongles in the market	Telefonica trialling LTE in 6 countries including Germany and UK

4

Conclusions

- Surging demand for mobile data is the clear driver for future growth in the business
- Telefónica Europe has had a two year head start in the UK; a competitive advantage for the Group
- And we have a clear plan on how to profitably monetize this growth opportunity while improving customer experience