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

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What has happened over the last couple of years?

- User Interface
- Simple and affordable data tariffs
- Network coverage
- Speed and Capacity
- Open Internet access and apps

Mobile Internet barriers have fallen allowing for mobile data growth
As a result, the small screen data market has developed quickly.

### Growing penetration of smartphones

![Graph showing the number of smartphone users and penetration of smartphones in the UK.]

- Source: comScore, Mobiles, December 2007 - May 2019

### Explosive demand, flattish revenue

![Graph showing mobile data volumes and revenues.]

- Source: Ofcom / operators

### New & innovative players stimulating the market

![Brands of Apple, Microsoft, and HP.]

### Increasing customer average lifetime value

![Bar chart showing ARPU uplift and greater Customer Lifetime Value.]

- phone
- smartphone
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
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)
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

**Revenue mix (T. Europe)**

<table>
<thead>
<tr>
<th>Broadband, Applications and other</th>
<th>2008</th>
<th>2012E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access &amp; Voice</td>
<td>89%</td>
<td>&lt;75%</td>
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<td></td>
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</tbody>
</table>

* Assumes 2008 constant FX (average FX) and excludes changes in consolidation
This has driven our decision to introduce usage based pricing, first in the UK.

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

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

Capturing quality growth and maintaining already high levels of customer satisfaction
Smooth transition to mobile data centric networks, wider choice of spectrum and devices, also key to ensure profitable growth

<table>
<thead>
<tr>
<th>Spectrum</th>
<th>Devices</th>
<th>Network equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UMTS 900</strong></td>
<td>Ger: 2x5MHz</td>
<td>Available in the market</td>
</tr>
<tr>
<td></td>
<td>UK: 2x17.4 MHz</td>
<td>Available for deployment</td>
</tr>
<tr>
<td><strong>LTE 800</strong></td>
<td>Ger: 2x10MHz</td>
<td>Dongles in the market</td>
</tr>
<tr>
<td></td>
<td>UK: Government revisits access to 800MHz for O2 &amp; VOD</td>
<td></td>
</tr>
<tr>
<td><strong>LTE 2600</strong></td>
<td>Ger: 2x20MHz</td>
<td>Dongles in the market</td>
</tr>
<tr>
<td></td>
<td>UK: Auction H2 2011E</td>
<td>Telefonica trialling LTE in 6 countries including Germany and UK</td>
</tr>
</tbody>
</table>
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