Leading growth and profitability

New York/Boston
May 31- June 1, 2011
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02 Solid start to 2011

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### Strengthened position to lead a growing industry

We have reinforced our asset base in an industry where scale and spectrum are key...

- **290 m accesses (+6% organic y-o-y)**
- **#5 on worldwide accesses ranking (Dec-10)**

**Through organic growth...**

**...selective M&A...**

**In-market consolidation**

- **Spectrum auctions**
- **Increase shareholding in CU 9.7%**

**...strategic & industrial alliances...**

**P&S Global Units**
- Financial services
- Video & DH

**OTT Companies**
- terra
- jajah
- tuenti

**...enhancing our capabilities...**

**...capturing superior growth prospects in our footprint going forward**

### 2010 Global Revenue Breakdown

<table>
<thead>
<tr>
<th>Category</th>
<th>Worldwide – US $ bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Voice</td>
<td>354</td>
</tr>
<tr>
<td>Mobile Voice</td>
<td>605</td>
</tr>
<tr>
<td>Fixed Data</td>
<td>255</td>
</tr>
<tr>
<td>Mobile Data</td>
<td>224</td>
</tr>
<tr>
<td>Telecom Industry</td>
<td>1,439</td>
</tr>
<tr>
<td>Serv. beyond Connectivity</td>
<td>609</td>
</tr>
<tr>
<td>Total Market</td>
<td>2,048</td>
</tr>
</tbody>
</table>

**CAGR 10-13E**

- Fixed Voice: -4.8%
- Mobile Voice: 2.4%
- Fixed Data: 5.1%
- Mobile Data: 10.5%
- Telecom Industry: 2.6%
- Serv. beyond Connectivity: 5.0%
- Total Market: 3.3%

**Telefónica footprint growth**

- 3.1%
- 5.0%

Source: IDC (Jan2011) and Analysys Mason (2010)
We have a clear strategy to capture the opportunities ahead of us

**Profitable mobile data growth monetisation**
- Tiered pricing
- ARPU management
- Customer innovation
- Yield management

MBB Revenues
CAGR 10-13E: +30/35%

**Development of applications and new services**
- Broaden our portfolio of apps and new services
- Leverage P&S global units and OTT assets

Serv. beyond connectivity
CAGR 10-13E: >20%

**Continue to enhance Fixed Broadband portfolio**
- Full FBB proposals with increasingly higher bandwidth
- Full IP services from voice to video
- Full bundles

FBB Revenues
CAGR 10-13E: +4/7%

**Capturing remaining mobile and fixed voice opportunities**
- Increase penetration and usage in mobile
- Defend ARPU through additional services in fixed
- Reinforce position in SME and MNC

Access & Voice Revenues
CAGR 10-13E: -3/-1%

**Revenue Mix**

<table>
<thead>
<tr>
<th></th>
<th>FY 2010</th>
<th>FY 2013E</th>
</tr>
</thead>
<tbody>
<tr>
<td>TEF</td>
<td>75%</td>
<td>64%</td>
</tr>
<tr>
<td>BB connectivity</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>Access &amp; Voice</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>Services beyond Connectivity</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Others</td>
<td>2%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Telefónica, S.A
Investor Relations
Profitable mobile data monetisation is our key strategic priority

| Innovation                  |  ❘ Focus on customer experience  
|                            |  ❘ Innovative network services and specialized customer care  
|                            |  ❘ Balanced and affordable range of devices  

| Tiered Pricing              |  ❘ Already in place in each of our markets  
|                            |  ❘ Offers based on data caps:  
|                            |  • Limited volume and additional bolt-ons/maximum speed/time of the day/type of device, service and use …  

| ARPU Management             |  ❘ Bundles of connectivity and services  
|                            |  ❘ Multiscreen/Multiplatform access  
|                            |  ❘ Shared services  

| Yield Management            |  ❘ Reinforce profitability  

**Profitability**

**Short term:**
- **Significant ARPU uplift** due to higher data usage from early adopters
- **Higher profit** than non-smartphones

**Mid to long term:**
- **ARPU uplift softening** driven by mass market
- **Increased profit** through network and service costs decrease and SAC&SRC aligned to customer spent

**CLV uplift**
TEF. 2010

<table>
<thead>
<tr>
<th>Base 100</th>
<th>Country 1</th>
<th>Country 2</th>
<th>Country 3</th>
<th>Country 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100</td>
<td>110</td>
<td>130</td>
<td>135</td>
<td>150</td>
</tr>
<tr>
<td>Smartphone</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Beyond connectivity we are reinforcing our service ecosystem

**7 Verticals**

- Video & DH
- Applications
- Financial services
- eHealth
- Security
- M2M
- Cloud

**7 Companies**

- Jajah
- Tuenti
- Terra
- Rumbo
- TIS
- TLS
- T Solutions

**Unified communications**
- Social network
- Media content and services
- eTravel
- Security
- eLearning
- Enterprise solutions

ONE PLATFORM - ONE SERVICE
Our transformation strategy to enable growth and maximize efficiency

**Best in class Networks**
- Leveraging fixed and mobile technologies to meet customer demands
- Managing efficiently coverage and traffic growth

**IT as a key transformation accelerator**
- Highly resilient 6 Global Data Centers
- Global Applications when applicable focused on business requirements

**Online Company**
- Increase online processes to improve engagement with our costumers, employees and vendors
- Process and system end-to-end integration

**Global Functions**
(P&S development, R&D, Finance & Global procurement, IT & Technology)

**Strategic and Industrial Alliances**

**Continuous focus on efficiency improvement**

**Further leveraging our scale**
We are expanding our value oriented customer base to deliver a solid long term guidance

Accesses 2013E (million)  
CAGR 10-13E  
> 340  
~ +6%

MBB  
+50%

FBB  
+7%

Mobile  
+5%

Fixed  
-1%

Revenues  
CAGR 10/13E  
+ 1/4%

OIBDA margin  
2011 – 2013E  
Upper 30s  
Limited erosion, from 2010

CapEx  
Cumulative 2011 – 2013E  
< €27 bn

1/3 CapEx  
to capture the digital world opportunity (UBB+ MBB)

CapEx/ Sales peak in FY 2011E
Solid business and financial trends supporting shareholders returns and solvency

**Shareholder remuneration**
- €1.6 DPS for FY 2011E (14.3% y-o-y)
- €1.75 DPS minimum target for FY 2012E
- €1.75 minimum annual shareholder remuneration beyond 2012

**Solvency Protection**
- Net debt + cash commitments within the range 2.0 to 2.5x OIBDA

**Predictable M&A strategy**
- Spectrum auction in current markets to foster growth
- Product & Service innovation to further strengthen our growth capabilities

Not to be paid with debt
FCF exceeding dividend payments

€ in billions

- **2010 FCF Pre-spectrum:** €10.2
- **Avg. of crisis FY 2008-2010:** €9.6
- **DPS €1.60**
- **2010 FCF:** €7.2

**Sustained OIBDA growth trend**

- Regions with positive organic growth in FY 2010 offset Spain decrease

**Additional FCF from VIVO acquisition:** €0.2 bn

**No critical reliance on uncertain CF**

- Venezuela FCF in FY 2010: €0.3 bn
- Interest payments savings vs. accrual (FY 2010): €0.4 bn

**Room for higher CapEx**

- FY 2011E organic maximum CapEx increase: €0.5 bn
- Spectrum acquisition

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1 Proportional FY 2010 Vivo’s FCF acquired less annualised interest expenses after taxes
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Financial Summary

<table>
<thead>
<tr>
<th>€ in millions</th>
<th>Jan-Mar 2011</th>
<th>Change y-o-y</th>
<th>Organic change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>15,435</td>
<td>+10.8%</td>
<td>+1.4%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>5,574</td>
<td>+9.0%</td>
<td>-1.0%</td>
</tr>
<tr>
<td>OIBDA Margin</td>
<td>36.1%</td>
<td>-0.6 p.p.</td>
<td>-0.9 p.p.</td>
</tr>
<tr>
<td>Operating Income (OI)</td>
<td>3,057</td>
<td>+4.3%</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Net income</td>
<td>1,624</td>
<td>-1.9%</td>
<td>Higher D&amp;A, taxes, fin. expenses and minorities</td>
</tr>
<tr>
<td>OpCF (OIBDA-CapEx)</td>
<td>4,022</td>
<td>+2.5%</td>
<td>-4.9%</td>
</tr>
</tbody>
</table>

Q1 11 EPS: € 0.36 (€ 0.41 ex PPAs)

Organic growth: assumes constant average exchange rates as of Q1 10 and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in Q1 10 the consolidation of Vivo, HanseNet and Tuenti are included whereas the results of Manx Telecom are excluded. In OIBDA terms, in Q1 11, the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded from organic growth calculation. In addition, results from the Costa Rica operation are excluded from organic growth. Telefónica’s CapEx excludes investments in spectrum, the Real Estate Efficiency Programme at T. España, and the real estate commitments associated with Telefónica’s new headquarters in Barcelona.
Smartphone adoption driving mobile data growth

**MBB penetration in our mobile base (Mar-11)**

- **Telefónica**: 12%
- **T. Europe**: 27%
- **T. España**: 21%
- **T. Latam**: 6%

- 18% in Venezuela
- 7% in Chile
- 6% in Brazil

**Q1 11 Mobile data revenue growth (organic y-o-y)**

- **Total Mobile data**: +18.6%
- **Non-P2P SMS**: +36.5%

- Enlarged and increasingly affordable range of devices
- Focused commercial actions
- Tiered pricing across operations drives profitable mobile data monetisation

**Mobile data revenues gaining traction** to close to 30% of MSR (26% in Q1 10)

**Sequential improvement in non-P2P SMS growth**

**Increase in P2P SMS sales** (up 4.8% organic y-o-y)

**Significant upside ahead**
Q1 11 performance in-line with year-end targets

- **Revenues**
  - 2011 Guidance: Up to 2%
  - Q1 11: 1.4%

- **OIBDA Margin**
  - 2011 Guidance: Upper 30s, Limited erosion y-o-y
  - Q1 11: 35.6% (-0.9 p.p)

- **CapEx**
  - 2011 Guidance: ~ 9,000
  - Q1 11: 1,412

**Growth to accelerate throughout the year**
T. España: Continued weakness, slightly better top line performance

Revenues (y-o-y change)

Q4 10  Q1 11

Mobile, Fixed, Total

Q1 11 OpEx breakdown (y-o-y change)

Subcontracts Supplies Bad debt Taxes Personnel Total

Q1 11 CapEx

Growth & Transformation Recurrent Total

- Sequential improvement across businesses
- Value oriented commercial strategy among tough price competition:
  - Focused on MBB and contract
  - FBB retail market share at 53%

- Cost line virtually frozen despite:
  - Higher personnel costs (CPI revision)
  - Increased commercial costs on growing smartphone sales

- Positive bad debt evolution
- Negotiations with unions just started

- Strategic areas driving increased CapEx, enhancing the quality gap:
  - Selective fibre roll-out and VDSL
  - Expanding MBB capacity & coverage

- Growth to slowdown in coming quarters on different execution path vs. 2010

Revenues (y-o-y change)

Q4 10  Q1 11

Mobile, Fixed, Total

Q1 11 OpEx breakdown (y-o-y change)

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Q1 11 CapEx

Growth & Transformation Recurrent Total

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- Growth to slowdown in coming quarters on different execution path vs. 2010
Solid momentum on data across businesses

**MSR (Q1 11 y-o-y)**
-7.6% MSR
-6.8% Outgoing MSR

- **Sound data growth** leveraging higher MBB base (x1.6 y-o-y)

**Mobile ARPU**

- **Voice**: Ongoing price competition with no elasticity
- **Data ARPU** growth getting traction

**Wireline Revenues**

Q4 10
- Data & IT
- Voice & Access
- Internet & BB
- Subsidiaries

Q1 11
-9.8%
+0.7 p.p.
+3.8 p.p.
+0.6 p.p.
-5.3%

- **Improvement driven by data & IT revenue**
- **Further erosion on Internet & BB driven by ARPU erosion**

**Internet & FBB business**

Retail FBB ARPU
-10.7%
-12.7%

Revenues
-2.1%
-4.2%

- **No change in market dynamics**: Strong price competition

- **MSR (Q1 11 y-o-y)**
  - +1.3 p.p. due to applications sale
  - -8.4% in Q4 10

- **Data**
  - +10.0%

- **Non-P2P SMS**
  - +21.4%

- **Outgoing MSR**
  - -8.3%
  - -9.1%
  - -10.7%
  - -13.5%

- **Q4 11 (y-o-y)**
  - +0.7%

- **Q1 11 (y-o-y)**
  - Q4 10 (y-o-y)
  - Q1 11 (y-o-y)
**T. Latam: Strong growth, sustained healthy profitability**

- **Solid commercial momentum**
- **Healthy revenue & OIBDA growth**:
  - Outstanding performance in Brazil
  - Consistent growth in the Southern Region
  - Weak results in Mexico flattening contribution from the Northern Region
  - Lower contribution from regional initiatives dragging y-o-y growth
- **Flattish OIBDA margin** (36.2%; -0.3 p.p. y-o-y organic) despite fast accesses growth

### Accesses
- **(Mar-11 organic y-o-y growth)**
- **Total** +8%
- **Fixed** -1%
- **TV** +10%
- **Mobile** +10%
- **MBB** +24% in contract
- **FBB** +15%

### Revenue
- **(Q1 11 organic y-o-y growth)**
- Brazil: +3.0p.p.
- Southern Region: +3.0p.p.
- Northern Region: +0.0p.p.
- Others: -0.3p.p.
- Q1 11: +5.7%

**Contribution to Telefónica revenue**
- Brazil: 23%
- Southern Region: 15%
- Northern Region: 7%
- Others: 7%
- Q1 11: 23%

### OIBDA
- **(Q1 11 organic y-o-y growth)**
- Brazil: +5.3p.p.
- Southern Region: +3.1p.p.
- Northern Region: -0.6p.p.
- Q1 11: +4.9%

**Contribution to Telefónica OIBDA**
- Brazil: 23%
- Southern Region: 16%
- Northern Region: 7%
- Others: 7%
- Q1 11: 23%

---

**Organic growth** assumes average constant exchange rates as of Q1 10 and excludes changes in the consolidation perimeter and hyperinflation accounting in Venezuela in both years.
Brazil: Outperforming market peers

Improved operational & financial performance after the acquisition of 50% of Brasilcel

Revenue Breakdown (y-o-y organic growth)

<table>
<thead>
<tr>
<th></th>
<th>Q1 11</th>
<th>FY 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSR</td>
<td>+11.4%</td>
<td>+14.6%</td>
</tr>
<tr>
<td>Mobile Data</td>
<td>+62.3%</td>
<td>+47.0%</td>
</tr>
<tr>
<td>Total Fixed</td>
<td>+7.4%</td>
<td>+2.7%</td>
</tr>
<tr>
<td>FBB</td>
<td>+62.3%</td>
<td>+1.7%</td>
</tr>
</tbody>
</table>

% Data Rev./MSR

Revenue (y-o-y organic growth)

<table>
<thead>
<tr>
<th></th>
<th>Q1 10</th>
<th>H1 10</th>
<th>9M 10</th>
<th>FY 10</th>
<th>Q1 11</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSR</td>
<td>+0.3%</td>
<td>+1.5%</td>
<td>+2.7%</td>
<td>+3.6%</td>
<td>+6.2%</td>
</tr>
</tbody>
</table>

OIBDA & margin (y-o-y organic growth)

<table>
<thead>
<tr>
<th></th>
<th>Q1 10</th>
<th>H1 10</th>
<th>9M 10</th>
<th>FY 10</th>
<th>Q1 11</th>
</tr>
</thead>
<tbody>
<tr>
<td>OIBDA</td>
<td>-9.2%</td>
<td>-7.7%</td>
<td>-4.4%</td>
<td>+1.5%</td>
<td>+11.9%</td>
</tr>
</tbody>
</table>

Synergies on track

Synergies NPV (€ bn)

<table>
<thead>
<tr>
<th>Revenue</th>
<th>G&amp;A C. costs</th>
<th>Opex</th>
<th>CapEx</th>
<th>Integr. costs</th>
<th>Total Operating Synerg.</th>
<th>Financial Synerg.</th>
<th>Total Synergies</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.4/05</td>
<td>1.1/1.2</td>
<td>0.5/0.6</td>
<td>0.5/0.6</td>
<td>-0.2</td>
<td>2.3/2.7</td>
<td>1/1.5</td>
<td>3.3/4.2</td>
</tr>
</tbody>
</table>

Already progressing:

- **Offer**:
  - Joint offer for the corporate segment
  - Fixed Wireless effort outside Sao Paulo

- **Platforms and efficiency**:
  - DLD traffic management
  - Joint network planning (transmission)
  - Data center rationalisation

- **Customer**:
  - Brand convergence
  - Extending the contracts that we have with Open Telefónica
T. UK: value growth, benchmark financial performance

**Mobile customer KPIs (y-o-y growth)**

- **Customers (Mar-11 y-o-y)**
  - Total: +4%
  - Contract: +9%
- **Contract upgrades**
  - Q4 10: +0%
  - Q1 11: -24%

**Selective approach to a competitive market:**
- Best in class contract churn at 1.1%
- Contract base is 48% over total (+2 p.p. y-o-y)
- 82% of contract handsets sold in Q1 11 were smartphones
- Smartphone penetration\(^1\) at 33% (+4 p.p. vs. Dec-10)

**Healthy growth leveraging a solid framework in place for mobile data monetisation:**
- Encouraging trends from new data refresh in March: bolt-on adoption is c. 80% in the mid £6 tariff
- Handset sales and fixed revenues also driving growth to 5.3% y-o-y

**Revenue Q1 11 (y-o-y growth)**

- MSR: +3.6%
- Data: 9.8%
- Non-P2P SMS: 34.5%
- % over MSR: +43%

**Profitability Q1 11 (y-o-y growth)**

- OIBDA: +13.7%
- OIBDA margin: 27.3%

**Focus on customer lifetime value along with smart market investment:**
- Lower upgrades in the quarter and interconnection cost benefit
- CapEx evolution (-3.2% y-o-y) mainly benefiting from spectrum refarming
- Progressing well with the restructuring program

---

\(^1\) Smartphones with data attached rate/total mobile base excluding dongles and M2M.

Growth rates in financials are given in local currency.
T. Germany: Growth acceleration, leveraging integration

- Total customer base up 9% y-o-y to 24 million
- Strong contract net adds and lower churn (-0.1 p.p. y-o-y)
- Sustained push in MBB penetration to 22% of our mobile base
- Further expansion in prepay segment (+11% y-o-y)
- Cross-selling opportunities ahead as HanseNet integration finalised

Customer KPIs (y-o-y growth)

- **Contract Mobile Net Adds (y-o-y)**
  - Q1 10: +31% (43%)
  - Q1 11: +34% (67%)

Revenue (Q1 11 y-o-y organic growth)

- Mobile Revenues (ex-MTRs): 12.3%
- Data: 18.5% (39%)
- Non-P2P SMS: 31.8%

OIBDA margin (y-o-y organic change)

- Q1 11: 21.2% (-0.1 p.p.)

- **Revenues up 1.9% y-o-y despite strong regulatory headwinds:**
  - MTR cuts dragged 6.1 p.p. of total mobile revenue growth
  - Benefit from hardware sales through “My Handy”
  - 2/3 of new contract customers signed for a data package in Q1

- **Stable margins y-o-y despite strong push in contract & MBB**
- **Progress in restructuring to deliver more efficiency gains from Q2**
- **LTE roll-out in line with strategy**
Solid liquidity position to manage debt maturities

**Unused committed lines (Mar-11)**

<table>
<thead>
<tr>
<th>€ in billions</th>
<th>Undrawn credit lines Dec-09</th>
<th>Undrawn credit lines Mar-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.2</td>
<td></td>
<td>9.0</td>
</tr>
<tr>
<td>+1.8</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Includes undrawn amount on new syndicated to cover pending payments on Brasilcel acquisition (€2 bn)

**Maturity profile (Mar-11)**

<table>
<thead>
<tr>
<th>€ in billions</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1.3</td>
<td>6.9</td>
<td>7.5</td>
<td></td>
</tr>
</tbody>
</table>

4bn on syndicated facility recently extended to 2014 and 2016

Average Debt Life above 6 years
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02 Solid start to 2011

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Conclusions

- We are better positioned to lead our growing industry: the right scale, capabilities and strategy

- We are focused on value growth and on capturing new services opportunities

- We continue transforming our company to enable growth and maximize efficiency

- We maintain a solid financial position while investing in our business and committing best in class shareholder’s remuneration

- We have posted a solid start to year driven by strong execution