Leading growth and profitability

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CSO
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ICT, one of the industries with the best growth prospects

- More Customers
- More Devices
- More Apps & Services

A great opportunity to be monetised
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 ...

... strategic & industrial alliances ...

... selective M&A ...

... in-market consolidation

... spectrum auctions

... increase shareholding in CU

9.7%

... enhancing our capabilities...

P&S Global Units

OTT Companies

Source: IDC (Jan2011) and Analysys Mason (2010)

3.1%

5.0%

Telefónica footprint growth

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

Fixed Voice Mobile Voice Fixed Data Mobile Data

Telecom Industry Serv. beyond Connectivity Total Market

CAGR 10-13E

-4.8% 2.4% 5.1% 10.5% 2.6% 5.0% 3.3%
We have a clear strategy to capture the opportunities ahead of us

<table>
<thead>
<tr>
<th>Profitable mobile data growth monetisation</th>
<th>Development of applications and new services</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Tiered pricing</td>
<td>▪ Broaden our portfolio of apps and new services</td>
</tr>
<tr>
<td>▪ ARPU management</td>
<td>▪ Leverage P&amp;S global units and OTT assets</td>
</tr>
<tr>
<td>▪ Customer innovation</td>
<td></td>
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<tr>
<td>▪ Yield management</td>
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</table>

**MBB Revenues**

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

**Serv. beyond connectivity**

- CAGR 10-13E: >20%

<table>
<thead>
<tr>
<th>Continue to enhance Fixed Broadband portfolio</th>
<th>Capturing remaining mobile and fixed voice opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Full FBB proposals with increasingly higher bandwidth</td>
<td>▪ Increase penetration and usage in mobile</td>
</tr>
<tr>
<td>▪ Full IP services from voice to video</td>
<td>▪ Defend ARPU through additional services in fixed</td>
</tr>
<tr>
<td>▪ Full bundles</td>
<td>▪ Reinforce position in SME and MNC</td>
</tr>
</tbody>
</table>

**FBB Revenues**

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

**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>Access &amp; Voice</td>
<td>18%</td>
<td>25%</td>
</tr>
<tr>
<td>BB connectivity</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
Mobile broadband is the biggest market growth opportunity today

**Sales**
Worldwide. Millions cumulative units shipped

**Time spent**
/day

**Mobile data traffic growth**
Worldwide. Pbps/Month

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1. Morgan Stanley 2010
Profitable mobile data monetisation is our key strategic priority

- Extend smart device adoption with specialized customer care
- Lead the market away from unlimited data tariffs
- Yield management
- ARPU management
- Maximise customer lifetime value
- Increase usage of data, new services and applications
Tiered pricing is based on segmentation and customer needs

<table>
<thead>
<tr>
<th>Offers based on data caps</th>
<th>Examples of execution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of service and use</td>
<td><strong>Service specific tariffs</strong> for email, chat, social</td>
</tr>
<tr>
<td></td>
<td>networks, browse...</td>
</tr>
<tr>
<td>Limited volume with additional bolt-ons</td>
<td><strong>Limited volume tariffs</strong> for 100 MB, 500 MB, 1GB</td>
</tr>
<tr>
<td>Maximum speed</td>
<td><strong>Speed offers for 2, 7, 14 Mbps</strong></td>
</tr>
<tr>
<td>Time of the day</td>
<td><strong>MB accounted half if used in off peak hours</strong></td>
</tr>
<tr>
<td>Type of device</td>
<td><strong>Seamless access from screen of choice</strong></td>
</tr>
</tbody>
</table>

Tiered pricing in place in each of our markets
We are focused on profitable mobile data growth

We have improved the data experience for all

- Heavy-user\(^1\) management freed up 7% of bandwidth\(^2\)
- Data experience has improved for the profitable majority

Customers already pay for data usage

- Almost 50% of smartphone users\(^3\) are on capped tariffs
- 3% reach the threshold where we contact them
- Of these customers c. 25% are buying an additional bolt-on

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\(^1\) Monthly usage exceeding 3GB
\(^2\) All MBB traffic: Nov-10 vs. Oct-10
\(^3\) Consumer contract segment
New tariffs position us to accelerate penetration and monetisation.

- New tariffs offer “entry level” data to drive penetration, greater flexibility, as well as packages for heavier users.
- Lowest data allowance is now at 100 MB.
- Bolt-on adoption is c. 80% in the mid £6 tariff.

Distribution of iPhone + Android Usage

<table>
<thead>
<tr>
<th>Allowance</th>
<th>Usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 MB</td>
<td></td>
</tr>
<tr>
<td>500 MB</td>
<td></td>
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</tbody>
</table>

Monthly Data Allowance

- The Basics: £3 per month
- The All-Rounder: £6 per month
- The Works: £10 per month


100 MB | 500 MB | 1 GB
Yield management to reinforce customer profitability

- **Acquisition**: manage tariffs, channels, handsets
- **Customer lifetime**: better understanding customer profitability and active management of profit drivers per customer
- **High level strategies**: optimization of retail activities, network development and commercial policies

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**Smartphone 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

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**CLV uplift**

*Illustrative*

<table>
<thead>
<tr>
<th>TEF. 2010</th>
<th>Country 1</th>
<th>Country 2</th>
<th>Country 3</th>
<th>Country 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base 100</td>
<td>110</td>
<td>130</td>
<td>135</td>
<td>150</td>
</tr>
</tbody>
</table>

**CLV**: Customer Lifetime Value

Telefónica, S.A.
Investor Relations
Mobile broadband is the major growth driver for Telefónica revenues

**MBB Accesses**

- **TEF. Millions**
  - Dec - 10: 23.7
  - Dec - 13E: >80

**MBB Penetration**

- **TEF.**
  - Dec - 10: 11%
  - Dec - 13E: ~30%

**MBB Revenues**

- **TEF. €bn**
  - FY 2010: 3.2
  - FY 2013E: ~30%

CAGR +50%}

MBB Penetration: MBB accesses with data attached rate/Total mobile customer base

MBB Revenues from smartphones, smart devices and connectivity MBB, mobile mail, MBB equipment (PCMCIA, Dongles), roaming and WAP browsing. SMS and M2M excluded.

1 Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela and changes in consolidation perimeter.
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 customers, employees and vendors
  - Process and system end-to-end integration

**Continuous focus on efficiency improvement**

**Further leveraging our scale**

- **Global Functions** (P&S development, R&D, Finance & Global procurement, IT & Technology)
- **Strategic and Industrial Alliances**
We are expanding our value oriented customer base to deliver a solid long term guidance

<table>
<thead>
<tr>
<th>Accesses 2013E (million)</th>
<th>340</th>
<th>~+6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAGR 10-13E</td>
<td></td>
<td></td>
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</tbody>
</table>

| 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
Smarterphone 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**
Solid business and financial trends supporting shareholders returns and solvency

<table>
<thead>
<tr>
<th>Shareholder remuneration</th>
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<tbody>
<tr>
<td>§ € 1.6 DPS for FY 2011E (14.3% y-o-y)</td>
</tr>
<tr>
<td>§ € 1.75 DPS minimum target for FY 2012E</td>
</tr>
<tr>
<td>§ €1.75 minimum annual shareholder remuneration beyond 2012</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Solvency Protection</th>
</tr>
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<tbody>
<tr>
<td>§ Net debt + cash commitments within the range 2.0 to 2.5x OIBDA</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Predictable M&amp;A strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>§ Spectrum auction in current markets to foster growth</td>
</tr>
<tr>
<td>§ Product &amp; Service innovation to further strengthen our growth capabilities</td>
</tr>
</tbody>
</table>
FCF exceeding dividend payments

**Sustained OIBDA growth trend**

Regions with positive organic growth in FY 2010 offset Spain decrease
- **Spain**: € -0.8 bn
- **Latam**: € +0.8 bn
- **Europe**: € +0.1 bn

**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
## Solid start to 2011

<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><strong>Revenues</strong></td>
<td>15,435</td>
<td>+10.8%</td>
<td>+1.4%</td>
</tr>
<tr>
<td><strong>OIBDA</strong></td>
<td>5,574</td>
<td>+9.0%</td>
<td>-1.0%</td>
</tr>
<tr>
<td><strong>OIBDA Margin</strong></td>
<td>36.1%</td>
<td>-0.6 p.p.</td>
<td>-0.9 p.p.</td>
</tr>
<tr>
<td><strong>Operating Income (OI)</strong></td>
<td>3,057</td>
<td>+4.3%</td>
<td>-1.3%</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>1,624</td>
<td>-1.9%</td>
<td>Higher D&amp;A, taxes, fin. expenses and minorities</td>
</tr>
<tr>
<td><strong>OpCF (OIBDA-CapEx)</strong></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)**

### Broad diversification

- **T. Latam**: 45% (+2.4 p.p.)
- **T. España**: 28% (-1.8 p.p.)
- **T. Europe**: 25% (+0.6 p.p.)

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*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.*
Q1 11 performance in-line with year-end targets

**2011 Guidance**

- **Revenues**: Up to 2%
- **OIBDA Margin**: Upper 30s, Limited erosion y-o-y
- **CapEx**: ~ 9,000

**Q1 11**

- **Revenues**: 1.4%
- **OIBDA Margin**: 35.6% (-0.9 p.p.)
- **CapEx**: 1,412

Growth to accelerate throughout the year
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