Telefónica

Global Telecom & Media Conference

Angel Vilá
Chief Financial and Corporate Development Officer
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Agenda: Addressing major concerns

01 INTRODUCTION: HIGH DIVERSIFICATION, VERY DIFFERENT REALITIES

02 TURNAROUND PLAN IN SPAIN

03 PERFORMANCE IN THE UK

04 BALANCE BETWEEN GROWTH AND PROFITABILITY IN BRAZIL

05 GROUP PROFITABILITY

06 FINANCIAL FLEXIBILITY
High diversification, our key strength to face very different realities

<table>
<thead>
<tr>
<th></th>
<th>T. LATAM</th>
<th>T. EUROPE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>48.5% revenues; 50.2% OIBDA</td>
<td>48.7% revenues; 49.5% OIBDA</td>
</tr>
<tr>
<td>2012E GDP growth</td>
<td>3.7%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Competition</td>
<td>Rational</td>
<td>Intense</td>
</tr>
<tr>
<td>Accesses</td>
<td>Robust growth (+11%)</td>
<td>Stable (-1%)</td>
</tr>
<tr>
<td>Outgoing mobile voice revenue</td>
<td>Double digit growth due to higher accesses and usage</td>
<td>Double digit decline driven by usage optimization and price competition</td>
</tr>
<tr>
<td>Mobile data revenue</td>
<td>Double digit growth; 28% of MSR</td>
<td>Single digit growth; 40% of MSR</td>
</tr>
<tr>
<td>Fixed broadband revenue</td>
<td>Double digit growth driven by strong access growth (33% of fixed accesses)</td>
<td>Declining due to lower accesses (59% of fixed accesses) and ARPU on aggressive ULL</td>
</tr>
<tr>
<td>Total revenue growth</td>
<td>+8.3% (+2.5% in Q4 11)</td>
<td>-6.8% (-7.0% in Q4 11)</td>
</tr>
</tbody>
</table>

**Significant growth levers ahead**

- **Mobile voice in Latin America**
- **FBB in Latin America & Spain**
- **Mobile broadband across footprint**
- **Services beyond connectivity**

*Data for T. Latam and T. Europe corresponding to Q1 12
GDP growth based on Focus Economics consensus forecasts, May 12
% y-o-y change*
Turnaround plan in Spain: framework

2011 diagnosis

- Economic crisis accelerated change in customer behavior
- Market value erosion driven by aggressive price competition:
  - Promotion driven environment
  - High investments in handset subsidies
  - High portability volumes
  - Increasing churn
- Access loss and ARPU erosion, specially in high value segments
- Top line decline
- Pressure in profitability

Our action plan

- Deep tariff refresh in FBB and Mobile businesses:
  - Remove price-premium disadvantage and reposition customers in competitive schemes (lowering churn)
  - Integrated tariffs to increase bundle penetration vs. “pay per use” existing scheme
  - Leverage convergence to “totalize” customers
  - Foster mobile data adoption leveraging voice + data tariffs
- Expand fiber (coverage & connections)
- New commercial model:
  - Handset subsidy elimination for new mobile customers from March
  - Focus on retention
- Optimize non-commercial costs:
  - 20% headcount reduction in the fixed business: 6,500 employees in 2011-13
  - Focus on simplicity to increase efficiency and reduce “time to market”
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Turnaround plan in Spain: results so far

- Fast penetration of new tariffs (consumer segment)
  - 57% customers repositioned in FBB in April-12
  - 42% in contract mobile in April-12

- Limited impact in ARPU
  - FBB ARPU affected by active migration of customers ending promotions to new portfolio
  - Positive elasticity in mobile low-end customers

- Churn reduction
  - -21% in FBB in Jan-April led to positive FBB net adds in April-May15th
  - -39% in portability churn in Jan-April. Positive contract portability in the first half of May

- Increased penetration of mobile data
  - 31% smartphone penetration (+14 p.p. y-o-y)
  - Minimum data plan at €15 (€10 in old portfolio)
  - Unlimited SMS to limit OTT cannibalization

- Gaining traction in fiber
  - 200 k connected households as of May 15th
  - 1.3 m homes passed by March (x3 y-o-y)
  - 3 m to be passed by year-end

Recover competitiveness

- Better access evolution along the year leveraging lower churn
- ARPU erosion from new tariffs to ease from Q4 12

Change industrial model to enhance efficiency and change market dynamics

- New commercial model
- A more rational mobile acquisition and portability environment: drastic reduction in subsidies in the market
- Lower gross adds (-21% y-o-y in Q1 12) but strong handset upgrades (+35% y-o-y in Q1 12)
- Slowdown in retention costs y-o-y growth from May (other players removed subsidies)
- MSR impacted by increased loyalty efforts

- Optimize non-commercial costs
- Successful execution of ERE:
  - 68% employees of total expected in 2011-2013 already joined the plan
  - €56 m savings in personnel costs in Q1
- Handset portfolio simplification on track
- Increase customer satisfaction on lower claims

- Net commercial costs savings in 2012E
- Benefits from ERE on fast execution: ≈ € 250 m in 2012E
Performance in the UK

The environment

- **Aggressive competition** with unlimited data offers: “Full Monty”, “The One Plan”
- **Usage optimisation** amid challenging economic environment

**Contract churn**

<table>
<thead>
<tr>
<th></th>
<th>TEF</th>
<th>VOD</th>
<th>EE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 11</td>
<td>1.1%</td>
<td>1.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Q4 11</td>
<td>1.2%</td>
<td>1.4%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Q1 12</td>
<td>1.5%</td>
<td>1.2%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

**Smartphone penetration**

- **TEF**: 41% (+8 p.p. y-o-y)
- Main competitor: 34%

Going forward

- **Regain commercial momentum**
- **Focus on existing customers, reduce churn:**
  - Higher loyalty efforts in high-value customers from Q4 11; bulk of renewals in Q1 12 at lower price points
- **Enhancing tiered data strategy:**
  - Increased data allowance on higher tariffs
  - “On&On” launched in April
- **Lower entry points**
- **Stabilisation of MSR trends ex-MTRs** leveraging better commercial momentum
- **Slowdown in commercial expenses driven by:**
  - Better churn, leading to higher efficiencies
  - Lower “out of contract” customers: -3.4 p.p. q-o-q
  - Gradually lowered handset subsidies in April
- **Further efficiencies** on the back of:
  - Q1 12 advertising expenses to phase out throughout the year
  - Higher savings in handsets leveraging global sourcing
  - MTRs will drag 3 p.p. to revenue growth and 4 p.p. to OIBDA growth

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Balancing growth and profitability in Brazil (i)

Focused commercial efforts to strengthen leadership

Widening OIBDA lead: 32% share

Leading the sector transformation

Mobile accesses growth (y-o-y)

<table>
<thead>
<tr>
<th></th>
<th>Mar-11</th>
<th>Mar-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>15.0%</td>
<td>20.5%</td>
<td></td>
</tr>
</tbody>
</table>

> x4 Smartphone

BB penetration

<table>
<thead>
<tr>
<th></th>
<th>Mar-11</th>
<th>Mar-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>11%</td>
<td></td>
</tr>
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</table>

Mobile market share (Mar-12)

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Contract</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>29.8%</td>
<td>36.5%</td>
<td>43.8%</td>
<td></td>
</tr>
</tbody>
</table>

y-o-y

+0.3p.p. +0.9p.p. +2.2p.p.

3G sites

<table>
<thead>
<tr>
<th></th>
<th>Dec-10</th>
<th>Dec-11</th>
<th>Mar-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vivo</td>
<td>1,206</td>
<td>2,516</td>
<td>2,727</td>
</tr>
<tr>
<td>Claro+TIM+Oi</td>
<td>808</td>
<td>1,395</td>
<td>1,686</td>
</tr>
</tbody>
</table>

Reinforced mobile data lead:
- Widening coverage gap vs. competitors
- Best quality in the market

Selective fiber roll out for a superior FBB experience:
- 1.7m homes passed with UBB; 70k fiber connections as of Mar-12
- Further push to connect homes along the year
- 11,000 km of fiber (FTTH) in SP State

Sources: Anatel for market shares, Teleco for 3G coverage
Balancing growth and profitability in Brazil (ii)

Revenue growth (organic y-o-y)

Revenue +5.1%
organic ex-regulation

Revenue breakdown (organic y-o-y)

<table>
<thead>
<tr>
<th>Q1 11</th>
<th>Q1 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
</tr>
<tr>
<td>12%</td>
<td>13%</td>
</tr>
<tr>
<td>Fixed</td>
<td></td>
</tr>
<tr>
<td>58%</td>
<td>61%</td>
</tr>
<tr>
<td>MSR</td>
<td></td>
</tr>
<tr>
<td>29%</td>
<td>25%</td>
</tr>
</tbody>
</table>

OIBDA Margin Breakdown

OIBDA +0.5%
organic

FCF Breakdown (€ in millions)

<table>
<thead>
<tr>
<th>FCF 2011</th>
<th>OIBDA</th>
<th>CapEx</th>
<th>WC</th>
<th>Net interest payment</th>
<th>Income tax payment</th>
<th>FCF 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>203</td>
<td>-199</td>
<td>+254</td>
<td>-17</td>
<td>n.m.</td>
<td>-29%</td>
<td>291</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>y-o-y</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1%</td>
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</table>

- 10% headcount reduction, with a payback < 1 year
- Short term efforts on advertising and network and systems for future growth
- Robust FCF growth despite higher investments
- Optimized WC management and integration synergies below OIBDA driving FCF generation

74% of sales growing by +10.3% y-o-y
Group profitability: improvement expected in H2

### T. LATAM

**Q1 y-o-y change in reported terms. € in millions**

<table>
<thead>
<tr>
<th></th>
<th>Revenues</th>
<th>Commercial activity</th>
<th>Network &amp; syst. Costs</th>
<th>Others</th>
<th>OIBDA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>577</strong></td>
<td>-250</td>
<td>-190</td>
<td>-117</td>
<td></td>
<td><strong>21</strong></td>
</tr>
</tbody>
</table>

- **Stronger commercial momentum, increased focus on MBB sales from Q3 11:**
  - Total net adds x2 y-o-y in Q1 12
  - Leading mobile net adds in the region

- **Network & system costs driven by expanded networks:**
  - 3G base stations up 60% y-o-y in Q1
  - +27,000 Kms of fiber for backbone in progress in Brazil

- **Others:**
  - Restructuring costs, partially offset by non-strategic tower sales
  - Further overhead costs reductions

### T. EUROPE

**Q1 y-o-y change in reported terms. € in millions**

<table>
<thead>
<tr>
<th></th>
<th>Revenues</th>
<th>Commercial Costs</th>
<th>Network &amp; syst. Costs</th>
<th>Others</th>
<th>OIBDA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>-534</strong></td>
<td>-128</td>
<td><strong>+16</strong></td>
<td><strong>+212</strong></td>
<td></td>
<td><strong>-434</strong></td>
</tr>
</tbody>
</table>

- **Top line pressure partially mitigated by non-commercial cost cutting:**
  - Headcount reduction in Spain, Czech Republic and Ireland
  - Optimizing resources, TGR generating additional savings
  - Lower interconnection costs on MTR cuts
  - Further overhead costs reductions

- **Higher commercial activity to reduce churn and increase smartphone adoption:**
  - Smartphones were 81% of handset sales
  - Focus on upgrades in UK
  - Limited impact from new commercial model in Spain in Q1

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Fully committed to enhance financial flexibility

Reduce leverage via portfolio management

- Already achieved: €1.6bn
  - Colombia restructuring, Hispasat, non-strategic towers, Zon

- In progress: ≥€1.5bn
  - Atento, PT, Rumbo, non-strategic towers

Portfolio management next actions:

- Launching preparations for IPO of TEF Germany
- Analyzing potential listing alternatives for Latin American businesses
- Monitoring market conditions to make selective asset monetisations

Shareholder remuneration mix

- 2012 total shareholder remuneration maintained at €1.50/share, including €1.30/share dividend:
  - €0.40/share in cash dividend to be paid in November 2012
  - €0.90/share in scrip dividend to be paid in May 2013
  - €0.20/share buyback, to be completed by May 2013. Treasury shares acquired will be cancelled

- 2013 total shareholder remuneration maintained at €1.50/share:
  - Dividend/SBB mix to be decided considering market conditions and investor preferences at that time

Early proactive refinancing, enhanced liquidity

- Balanced accesses to credit markets
  - €7.5 bn financing in Q1 12
  - € 0.4 bn of 2013-15 bonds repurchased YTD

- All 2012 maturities refinanced

- >40% of 2013 maturities prefinanced

- € 6.3 bn cash position ex-VZ

- € 11.4 bn undrawn credit lines:
  - + €1.3 bn since Dec-11
  - € 9.7 bn long term

- Net financial debt / OIBDA < 2.35x by YE
• We benefit from a strong diversification, with an increased exposure to the growing Latin American markets (>50% of OIBDA)

• Our efforts to become more competitive and regain momentum in Spain and the UK are on track. Benefits to become more visible throughout the year

• Vivo will deliver profitable growth, while continuing to lead the market

• We are determined to increase financial flexibility and will accelerate portfolio management actions

• 2012 guidance reiterated, including shareholder remuneration commitments