Results
January-June/2012

Telefónica

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H1 Highlights

OIBDA growth and margin expansion q-o-q	• **Improved OIBDA performance in Q2 across the board** • **Further OIBDA improvements in H2 12** • **Benefits from best-in class diversification**, different realities across countries • **Risk perception decoupled from business fundamentals** • **Positive revenue growth on strong top line performance in Latin America**
Further initiatives to enhance business model	• **Solid commercial momentum**, leveraging smartphone adoption and tariffs refreshment • **New approach to mobile handset subsidies** (no subsidies in acquisition in Spain, gradual reduction in the UK) • **Other actions to maximise efficiency** (network sharing with Vodafone in the UK, alliance in Mexico with Iusacell) • **Positive assessment on new stable regulatory framework for NGNs in Europe**
Decisive actions to improve balance sheet and defuse potential risks	• **Cancellation of 2012 dividend and share buyback program as one-time exceptional measure. Shareholder remuneration to be resumed in 2013 (€0.75 DPS)** • **Debt maturities covered till year end 2013** • **Full commitment to proactive portfolio management and asset divestment program announced, where substantial progress has been already made**
Transitioning from "Telco" to "Digital Telco" model	• **Significant growth opportunities for Telcos from the upcoming transformation of wider parts of the economy** • **We already started this journey with significant progress through T. Digital**

Key financials

€ in millions	Reported H1 12	Reported H1 12 y-o-y	Reported Q2 12 y-o-y	Underlying H1 12	Underlying H1 12 y-o-y	Underlying Q2 12 y-o-y
Revenues	30,980	+0.3%	+0.1%	30,980	+0.3%	+0.1%
OIBDA	10,431	(7.7%)	(6.6%)	10,431	(6.2%)	(5.1%)
OIBDA Margin	33.7%	(2.9 p.p.)	(2.5 p.p.)	33.7%	(2.3 p.p.)	(1.9 p.p.)
OI	5,300	(16.5%)	(15.3%)	5,792	(13.9%)	(12.2%)
Net income	2,075	(34.4%)	(13.7%)	2,818	(24.1%)	(21.9%)
EPS	0.46	(33.3%)	(12.1%)	0.62	(22.9%)	(20.3%)
OpCF (OIBDA-CapEx ex-spectrum)	6,780	(14.1%)	(11.9%)	6,780	(12.0%)	(9.8%)
CapEx(ex-spectrum)/sales	11.8%	+0.7 p.p.	+0.5 p.p.	11.8%	+0.7 p.p.	+0.5 p.p.

Exceptional items	H1 12	H1 11	Q2 12	Q2 11
OIBDA	**0**	**+183**	**0**	**+93**
OI	(492)	(382)	(230)	(146)
Net Income	**(743)**	**(552)**	**(207)**	**(426)**

Sale of stake in PT

Sale of stake in PT

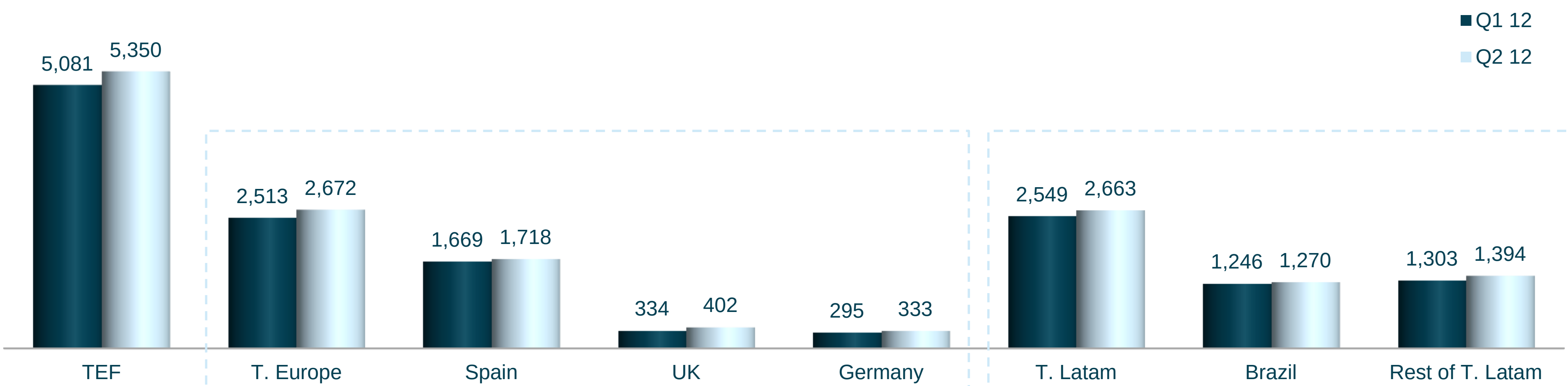
Reduction in the value of TI investment: €-358m

Reduction in the value of TI investment: €-353m

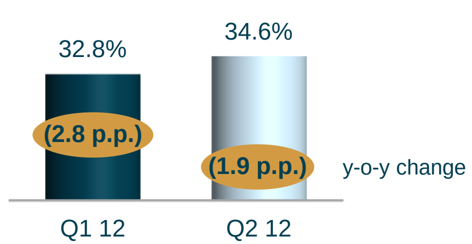
Underlying growth: Reported figures excluding major exceptional items and spectrum acquisition.
Organic growth: Constant exchange rates, excludes changes in the perimeter of consolidation and hyperinflation in VZ. It also excludes spectrum acquisition and exceptional items.

Enhanced profitability in Q2 12 across the board

Underlying OIBDA (€ in millions)

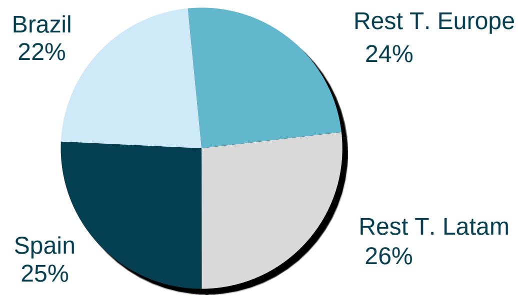


Underlying OIBDA Margin



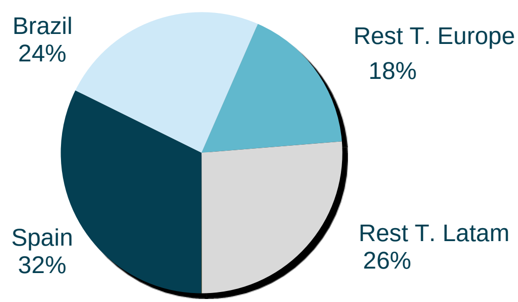
Risk perception decoupled from business fundamentals

Revenue (H1 12)



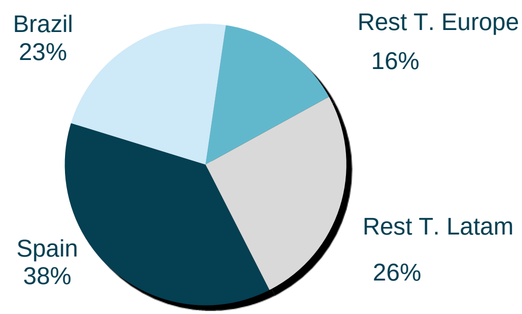
34% originated in euros

Underlying OIBDA (H1 12)



39% originated in euros

Underlying OpCF (H1 12)



44% originated in euros

Differences up to and over 100% are due to “Others & Eliminations”.
OpCF: OIBDA-CapEx ex-spectrum .

Transitioning from "Telco" to "Digital Telco" model

New opportunities from digitalisation

- **Traditional Internet models* not the answer for Telcos …**
  - Advertising-funded businesses taking their revenues from a 1% GDP pool shared with other big players
  - Reaching their own growth limitations (online penetration maturing and mobile advertising business models not yet defined properly)
- **… but opportunities for Telcos lay in the upcoming transformation of wider parts of the economy**
  - Security, Education, Public Administration, Heath, Financial Services: representing 35-40% of GDP
  - "Commission/ Revenue share" based business models (typically 3-6% of rev)
  - **Leading to an addressable market up to 2% of GDP for players** willing to play in these areas

"Digital Telco" well placed to capture them

- **Telcos have key assets …**
  - Customers and customer data
  - Go To Market capabilities (retail, brands, marketing…)
  - Network Infrastructure
  - Transaction capabilities (IT/Billing)
  - R&D resources
  - Scale and financial resources
- **… complementing those of other players** in the value chain **(e.g. software and hardware players) …**
- **… therefore creating many opportunities for partnership models, innovative business propositions where Telco can play a major role**

* Providing social communication and information&entertainment services (excluding Internet as a sales channel for traditional businesses).

We already kick started this journey

Telefónica: extracting value from Digitalisation

3 As digital service providers

- Develop and market selected digital services

eHealth

eSecurity

2 As an enabler/retailer of digital services

- Commission models based on distribution and targeting capabilities for 3rd party services

- Partnerships

M2M Alliance

Operator Billing

Distribution

- Devices: supporting Firefox OS

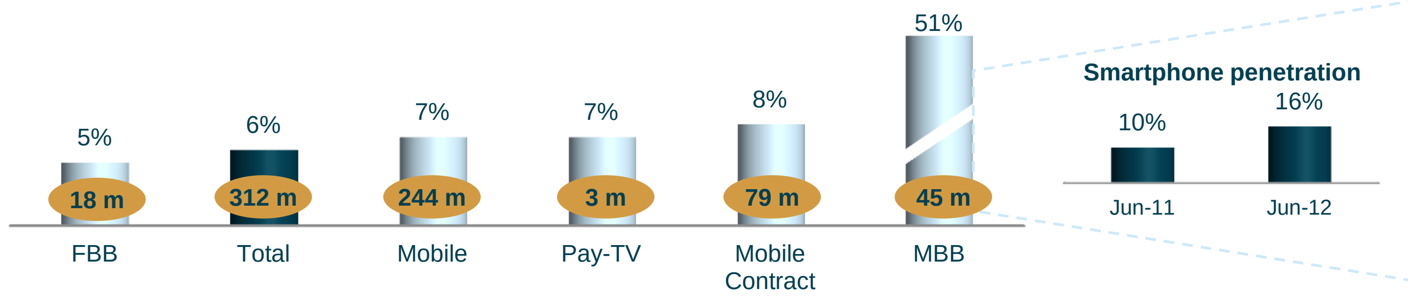
1 As smart connectivity provider

- Digital services are "complements" to our core "connectivity" business
- The more digital services, the more commoditised they are, the more traffic and access we sell

- **Network sharing deals announced in UK and Mexico**
- **Fibre/LTE deployment programmes**
- **Restructuring tariffs** (voice to data, handset subsidies)

Regaining commercial momentum

Sustained accesses growth (y-o-y)



Mobile expansion as major growth driver

- **Total commercial activity up 6%** y-o-y in H1 12
- **Net adds rose 18**% vs. H1 11
- **Smartphone net adds increased by 1.4x** vs. H1 11:
  - + 2.0x vs. H1 11 in Latam
  - > 80% of handset shipments in Europe in H1 12

Sustained growth in FBB

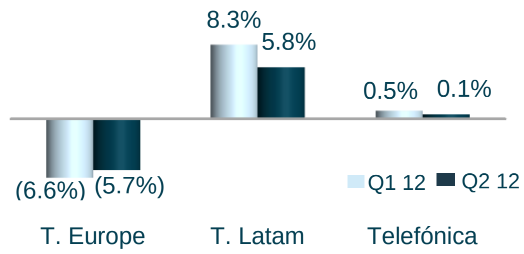
- **Selective UBB deployment in key markets**:
  - ~ 24% of fixed accesses passed as of Jun-12
  - ~ 7% connection rate
- **Stabilizing fixed access base:** -1.6% y-o-y in Jun-12 vs. -3.0% in Dec-11

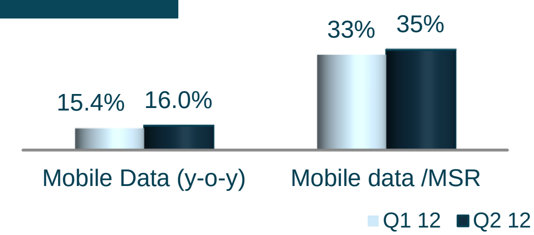
Mobile net additions exclude 3.6 m disconnections in Spain and Brazil in H1 12.
Accesses passed include homes and corporate premises passed.

Positive top line growth, improved margin sequentially

T. Latam and mobile data monetisation driving revenue expansion

Revenue (y-o-y)

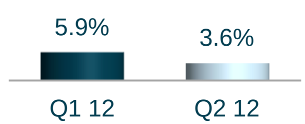




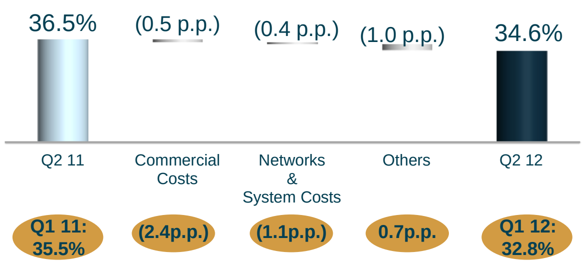
- **Revenue up 1.5% y-o-y ex-MTRs** up to June
- **Fast growth in Latam**, contributing 3.2 p.p. to H1 12 y-o-y growth
- **Non-SMS data revenues are 57% of mobile data in Q2 12**

Cost containment driving sequential improvement in profitability

OpEx growth (y-o-y)



Underlying OIBDA Margin evolution (y-o-y)

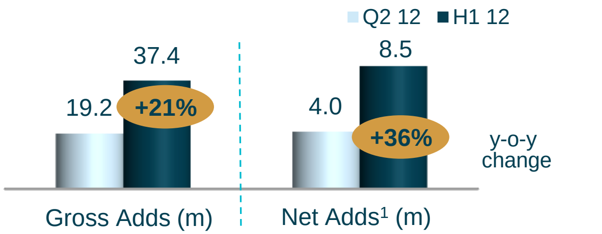


- **Higher activity focused on smartphone adoption drove commercial expenses up** 6.9% y-o-y in H1; **notable deceleration in Q2** (+2.4% y-o-y) mainly due to new handset policy in Spain
- **Increased network & systems costs** (+6.3% y-o-y in H1) on the back of expanded networks
- **Lower interconnection costs** due to MTRs cuts (-8.3% y-o-y in H1)
- **Higher efficiencies** through redundancy programs, scale benefits, simplification of processes and overhead costs

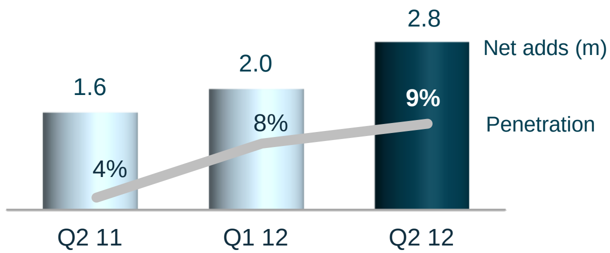
Latam: Solid revenue growth driven by mobile

Sustaining commercial momentum

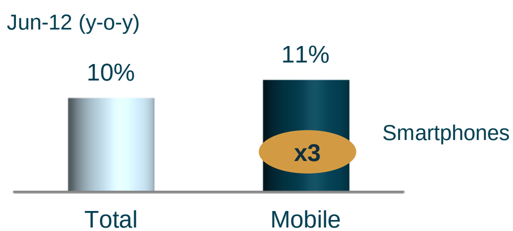
Strong mobile commercial activity



Focus on fast smartphone adoption

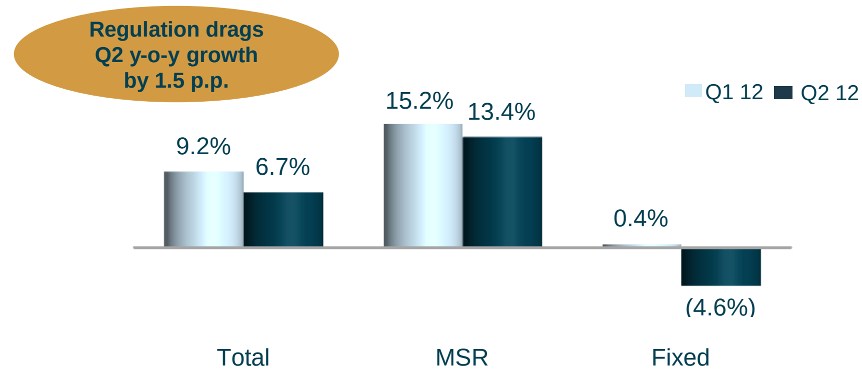


Double digit growth in accesses

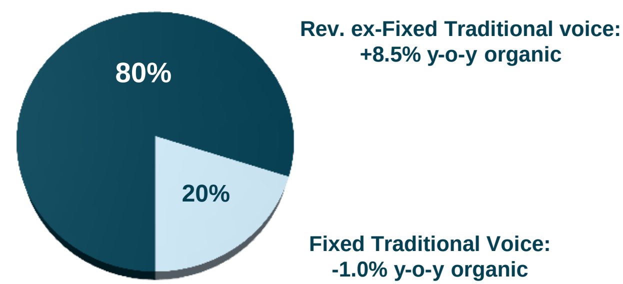


Sustained double digit mobile revenue growth

Revenue increase ex-regulation (organic y-o-y)



Revenue breakdown by service (H1 12)

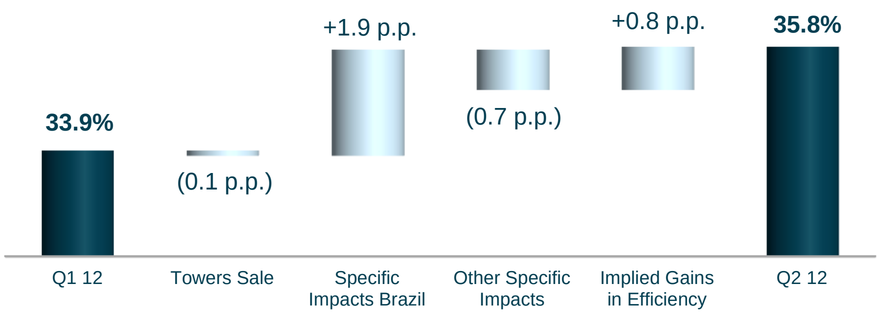


1. Excludes the disconnection of 1,600k inactive prepay mobile accesses in Brazil in Q2 12.

Latam: Improved margin quarter-on-quarter

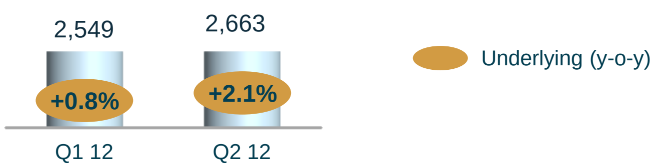
Sequential OIBDA margin expansion on efficiency gains

OIBDA margin (underlying q-o-q)



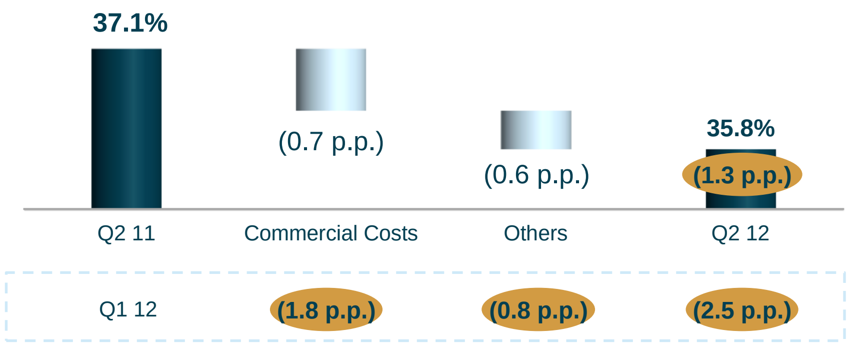
- **Quarterly margin expansion from efficiency gains and specific impacts:**
  - Reversal of provision (+) and integration costs (-) in Brazil
  - Service interruption in Argentina (-), new labor law in Venezuela (-) and others
- **Sequential OIBDA growth, improved trends y-o-y**

Underlying OIBDA (€ millions)



Commercial costs driving OIBDA performance

OIBDA margin (underlying y-o-y)

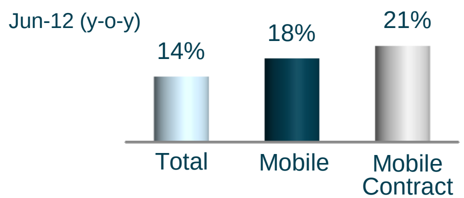


- **Strong commercial activity focus on MBB dragging OIBDA y-o-y; lower impact in Q2**
- **Network & system costs driven by expanded coverage and capacity:**
  - 3G base stations up 63% y-o-y in H1 12
  - 27,000 Kms of fiber for backbone in progress in Brazil

Brazil: Leading service quality & investing in future growth

Clear competitive advantages in mobile network

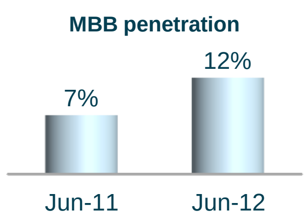
Strong growth in accesses driven by mobile

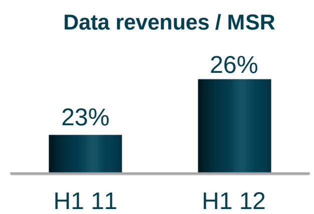


- **Q2 12 mobile net adds[1]** up 28% y-o-y to 2.5 m

Non-replicable 3G coverage and best-in class quality driving data expansion

- **> 2.8k municipalities covered**; >3x closest player





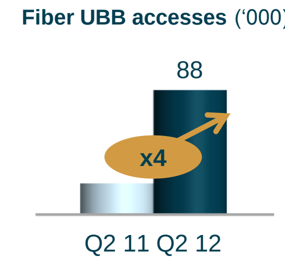
Best 4G slot recently acquired

- National 20+20 Mhz slot for 4G with rural obligations in wealthier regions
- Aiming to maintain our best-in class quality proposal with LTE

Transforming the fixed business under the VIVO brand

Accelerating UBB uptake

- **Fiber uptake acceleration:** 1.0 m homes passed (Jun-12)
- **New IPTV proposition in H2 12** based on new platform



Extracting the benefits of an integrated offer

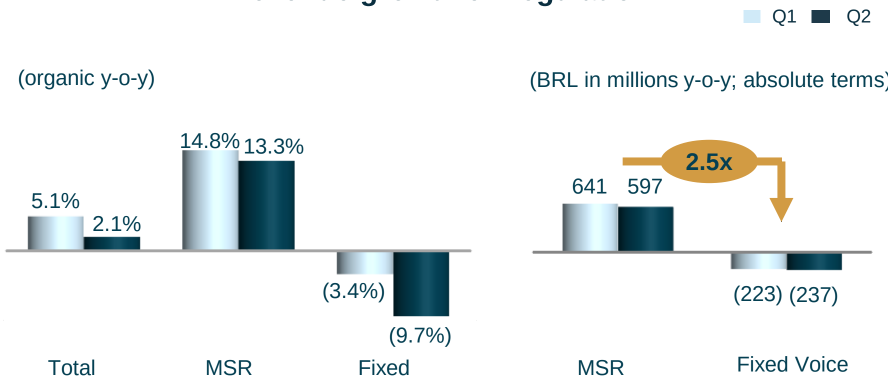
- **Becoming #1 in fixed IDA[2] and satisfaction only one month after the rebranding**
- **Maintaining superior quality in mobile**
- **Continued development of convergent services:** FW expansion, cross offers…

1. Excludes the disconnection of 1,600k inactive prepay mobile accesses in Q2 12.
2. IDA = Service Performance Index released by Anatel.

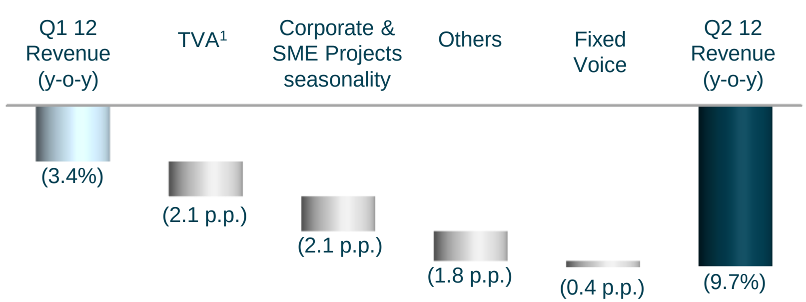
Brazil: Keeping growth on a balanced & diversified structure

Double digit growth in MSR drives top line increase

Revenue growth ex-regulation



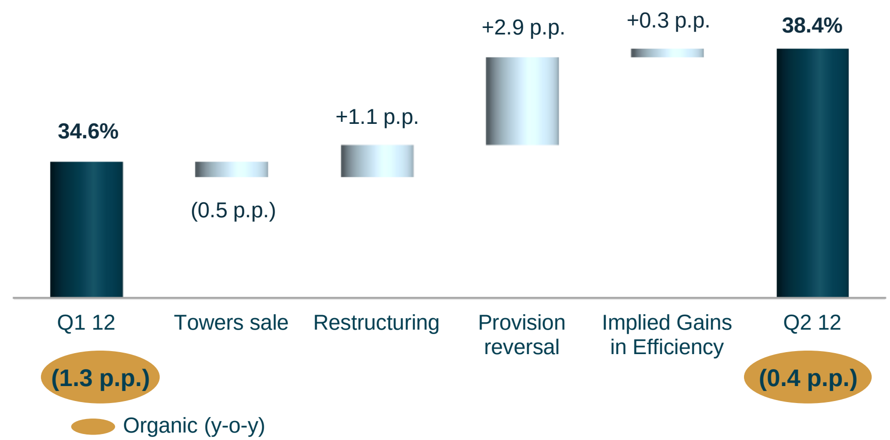
- **Weaker fixed revenue q-o-q mainly driven by non-recurrent items**



1. Consolidation of TVA through global consolidation in Q2 11 with retroactive effects to January 2011.

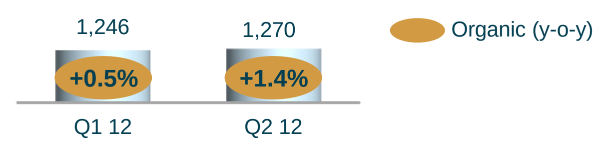
Improved profitability in Q2

OIBDA margin (organic q-o-q)



- **Better trends in OIBDA y-o-y growth; despite drag from regulation** (-2.2 p.p. in Q2 12; -0.8 p.p. in Q1 12)

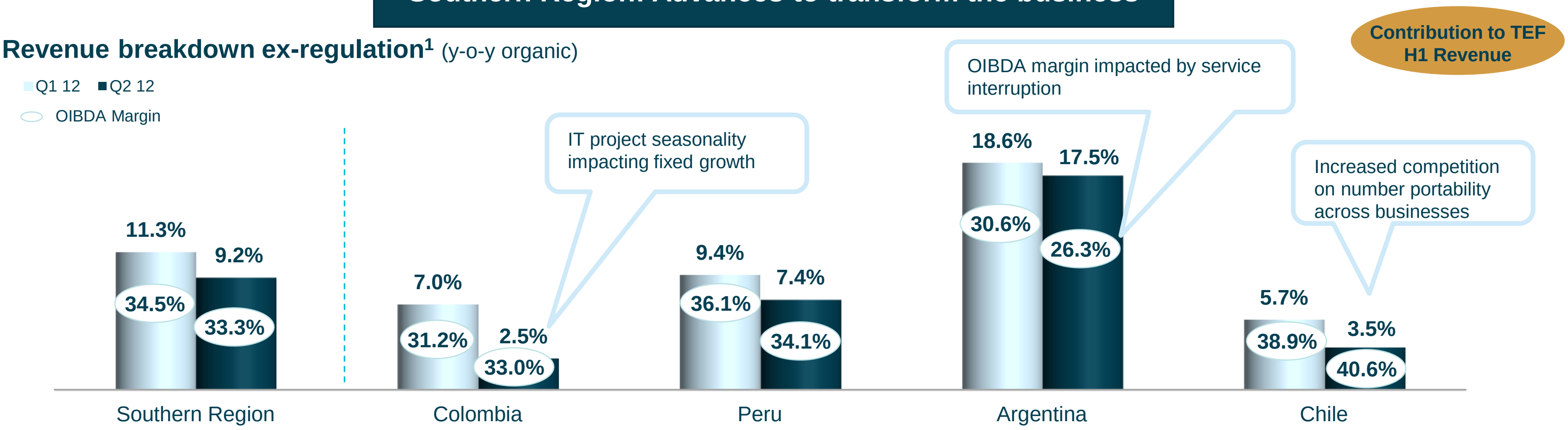
OIBDA (€ millions)



Latam: Diversified growth, revenue growth in all countries (i)

Southern Region: Advances to transform the business

Revenue breakdown ex-regulation[1] (y-o-y organic)



2.8%

COLOMBIA:

- **Restructuring process closed, rebranding completed, further efficiencies to come**
- Access growth acceleration to +20% y-o-y reflecting improved market positioning

3.7%

PERU:

- **Sustained commercial momentum y-o-y:** Mobile accesses +14%, MBB x3, FBB +25%, Pay-TV +16%
- **Healthy revenue&OIBDA growth**

5.7%

ARGENTINA:

- **Solid double digit top line growth:** mobile data revenues at 43% of MSR; 45% broadband+new services in wireline in H1

4.0%

CHILE:

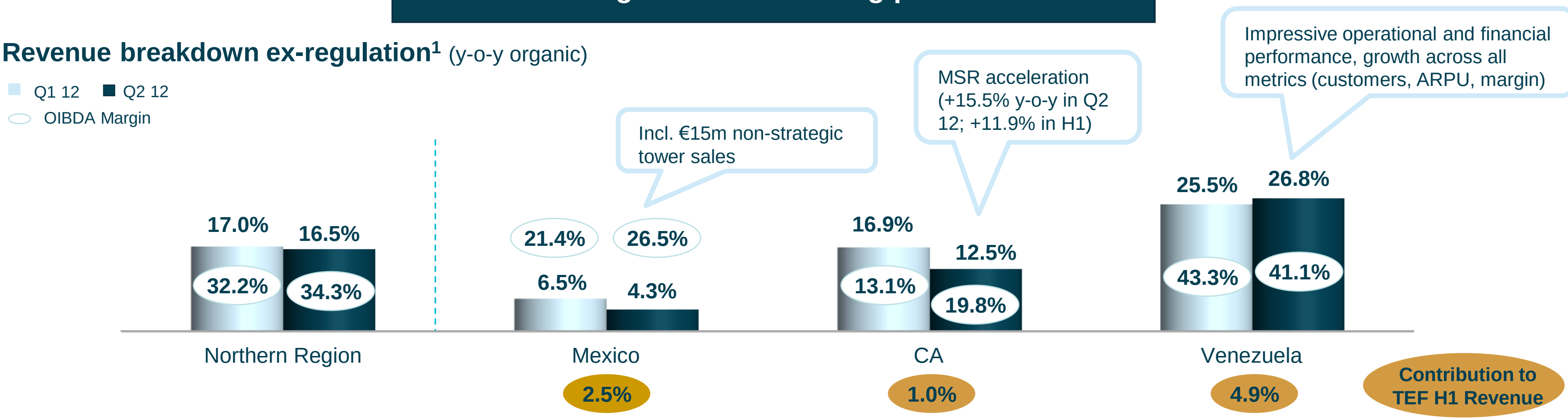
- **Strong commercial activity y-o-y:** MBB x2, FBB up 7%; Pay-TV rose by 9%
- **Robust profitability** (OIBDA margin 40.6% in Q2) despite fierce competition

1. Excludes MTRs cuts and changes on F-M retail tariffs and other regulatory changes in Peru.

Latam: Diversified growth, revenue growth in all countries (ii)

Northern Region: Consolidating positive trends

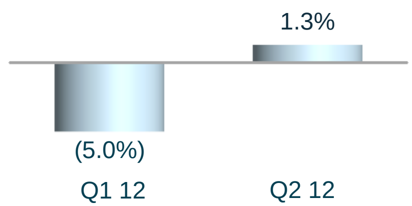
Revenue breakdown ex-regulation[1] (y-o-y organic)



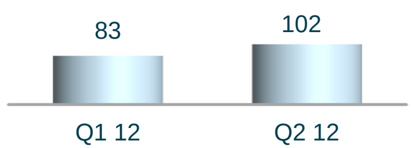
MEXICO

- **Visible results from turnaround actions:**
  - Negative regulatory impacts progressively easing
  - MSR and ARPU are back to growth : +1.3% and +6.7% y-o-y in Q2, respectively
- **New commercial propositions to further improve positioning:**
  - New plans billed by second and innovation in roaming
  - "Movistar Total", a unique market proposal
- **Agreement with Iusacell to drive further benefits**

MSR growth (y-o-y local currency)



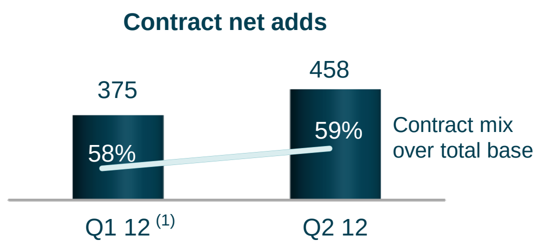
Underlying OIBDA (€ millions)



Organic growth: assumes average constant exchange rates and excludes changes in the consolidation perimeter and hyperinflation accounting in Venezuela in both years.
1. Excludes MTRs cuts and changes on F-M retail tariffs.

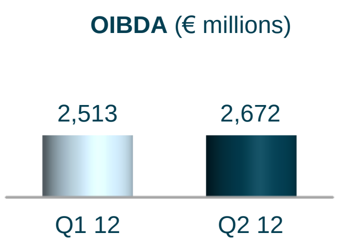
T.Europe: Improved commercial performance, growing OIBDA in the quarter

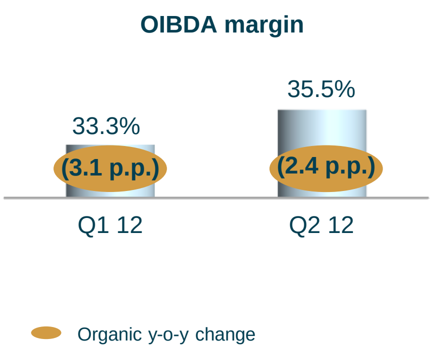
Regaining trading momentum across footprint

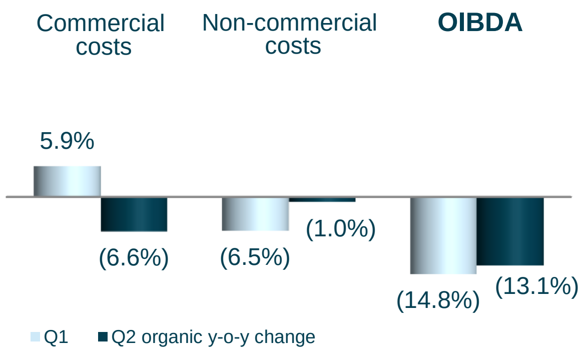


- **Focus on high value customers and better prepay** evolution
- **Churn reduction** on successful tariff refreshment
- Further expansion of **smartphones to 32%** of the mobile base

OIBDA and margin expansion q-o-q on cost efficiency gains







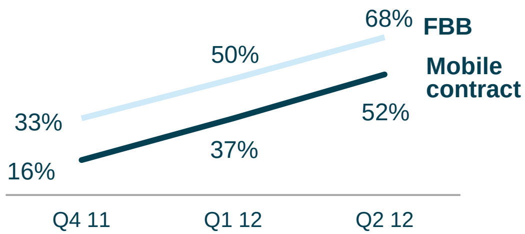
- **Cost savings already flowing into P&L:**
  - Handset subsidy removal in Spain and gradual reduction in the UK
  - Strong focus on quality increases satisfaction and lower customer-care costs
  - Network sharing agreement with Vodafone in the UK to drive further benefits in the mid term
- **Top line** impacted by lower usage, prices and MTRs cut: -7.3% y-o-y in Q2 vs. -6.9% y-o-y in Q1, both in organic terms

1. Excluding disconnections in Spain in Q1 12.

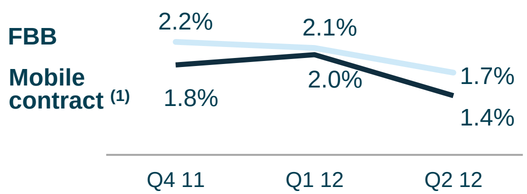
Spain: Gradual progress in our turnaround plan

Recovering competitiveness

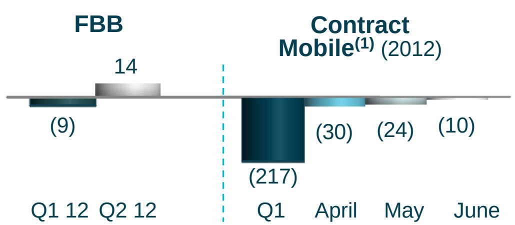
Fast penetration of new tariffs
(consumer segment)



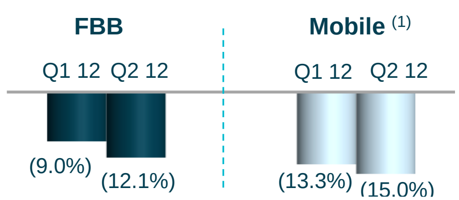
Sharp churn reduction



Progressive improvement in net adds
('000)



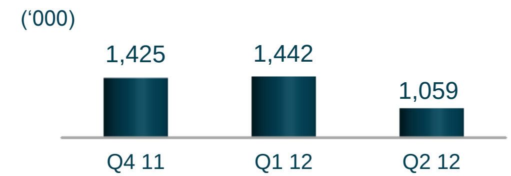
ARPU erosion driven by proactive migration to new tariffs



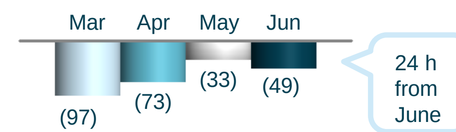
Change industrial model to enhance efficiency and change market dynamics

New commercial model: removal of subsidies, focus on retention

- **Significant drop in mobile number portability activity in the market** on drastic reduction in subsidies



- **Improved TEF portability net adds** (2012)



- **Net savings in commercial costs with positive impact in OIBDA**
- **Further efficiencies on enhanced customer experience and increased satisfaction:** -35% Jun-12 vs. Dec-11 in customer claims
- **Handset portfolio simplification:** -65% y-o-y in Jun-12

Successful completion of Redundancy Program

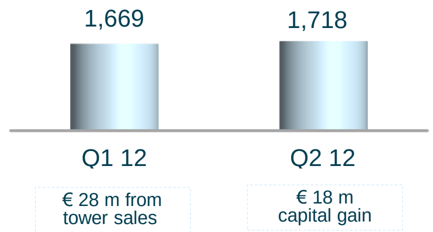
- **Plan already fully executed**: 6,500 employees have already joined it
- **Significant savings in personnel costs:** €61 m in Q2 12; €117 m in H1

1. Excluding the impact of the mobile accesses disconnection in Spain in Q1 12.

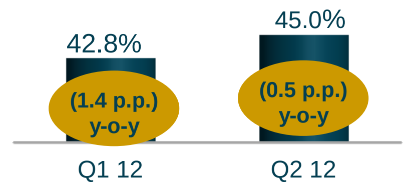
Spain: Improved profitability on strong cost savings

OIBDA growth and margin expansion q-o-q

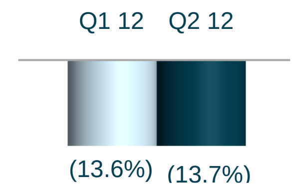
OIBDA
(€ millions)



OIBDA margin



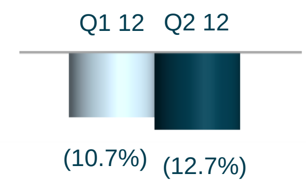
OIBDA
(y-o-y)



Tight cost management to contain increased top line pressure

- **Ongoing usage optimization and lower tariffs** across businesses
- **Contained drag in MSR ex-MTR** sequentially: -0.6 p.p. vs. Q1 12 (-16.8% y-o-y in Q2 12)
- Fixed revenue (-10.8% y-o-y in Q2 12) impacted by traffic optimization and FBB ARPU erosion
- **Better access evolution in H2 and easing of ARPU erosion** from new tariffs from Q4 12

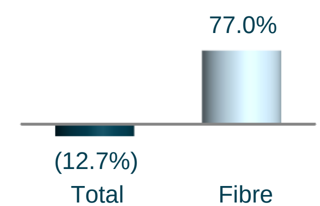
Revenue
(y-o-y)



Improved trends in OpCF, strong investments in future growth

- **Prioritizing CapEx in key areas: fiber and MBB**
  - **213 k connected households (Jun-12);** 1.7 m homes passed ready to market (2.4x y-o-y)
  - CapEx in fiber in FY 12 E >20% y-o-y
  - Improving MBB capacity
- **Enhanced quality and lower churn allows sustainable overall CapEx y-o-y decline**
- **Improved OpCF y-o-y performance along the year**

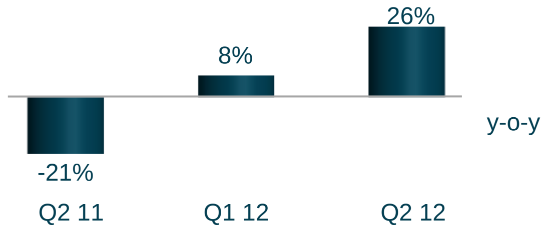
CapEx
(H1 12 y-o-y)



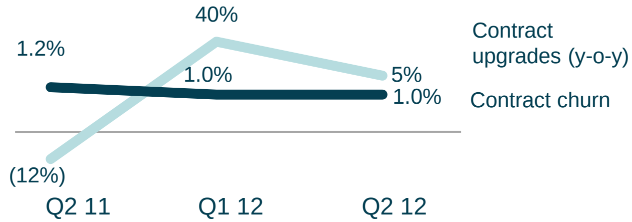
UK: Sequentially improving performance

Consolidating enhanced commercial momentum

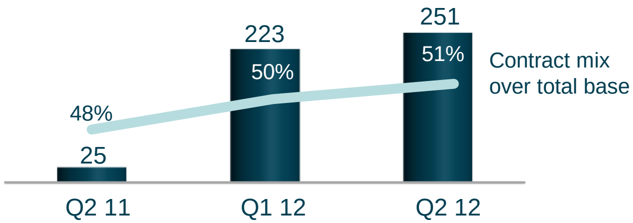
Better contract gross adds on refreshed commercial portfolio



Consistent low contract churn level

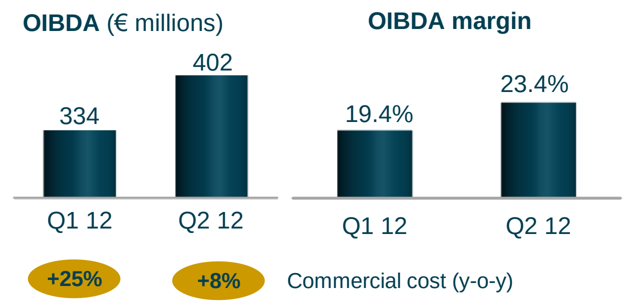


Sustained improvement in contract net adds ('000)



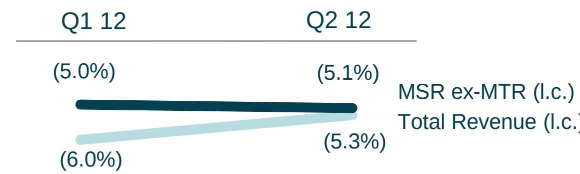
OIBDA expansion q-o-q, improved revenue trend

Sequential OIBDA and margin improvement



- Strong deceleration in commercial costs driven by **low churn and lower upgrades** q-o-q on fewer "out of contract" customers
- Gradually lowered handset subsidies

Revenue trends stabilisation driven by commercial traction and data monetisation strategy



- **Sustained revenue y-o-y trends improvement** (from -6.8% in Q4 11 to -5.3% in Q2 12)
- **Non-SMS data revenue acceleration** in Q2 12 (+19.5% y-o-y vs. +17.3% y-o-y in Q1 12)
- **ARPU pressure** (-5.3% y-o-y in H1 12 ex-MTRs) **driven by intense competition**

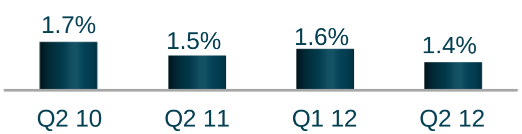
Germany: Growth across the board, basis set for the future

Solid trading momentum

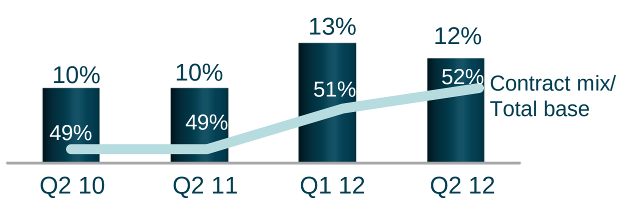
Successful commercial portfolio

- **Adapted contract portfolio mix in Q2 12**
- **New regional value led offers**
- **Reinforced value for money proposition** with the launch of LTE in July

Consistent contract churn improvement

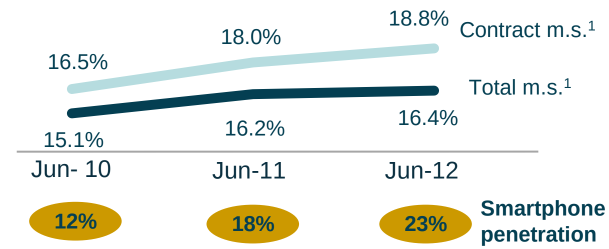


Sustained contract mobile base expansion (y-o-y)



Well positioned to further expand market share

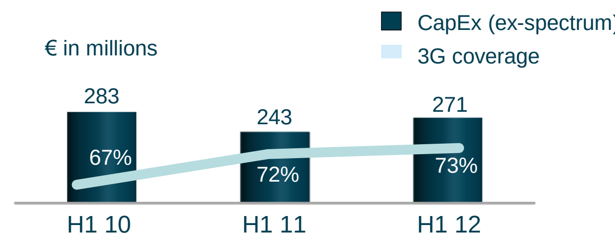
Increasing market share



Wide distribution channel

- More than **1,000 PoS**
- Significantly **increased Online and Telesales** transactions (20% of the total)
- Strong **cooperation with strategic partners** for indirect sales

Solid network



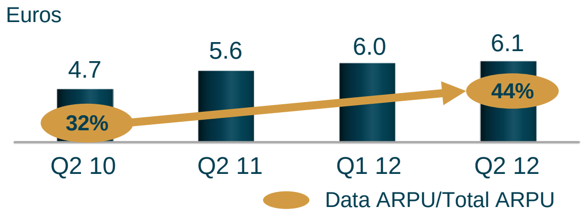
- **LTE spectrum**: €1.4 bn in 2010 to capture mobile data opportunity
- Nationwide network with over 18k GSM and 12k 3G base stations; LTE roll-out in 9 cities by YE
- **Agreement with DT to use fiber network**

1. Market shares: Jun-12 data points correspond to Mar-12 shares. Based on Q1 12 reported figures by operators.

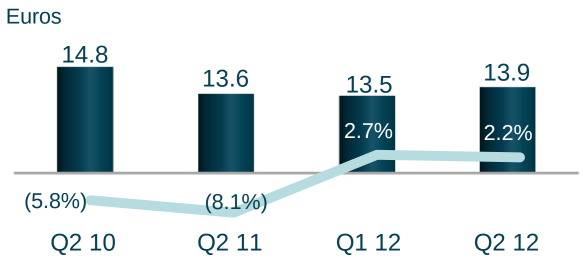
Germany: Strong operating performance flowing into financials

Solid revenue performance

Data ARPU growth on successful data monetisation

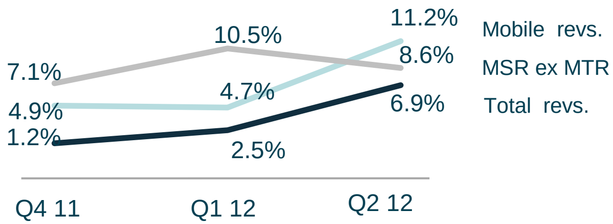


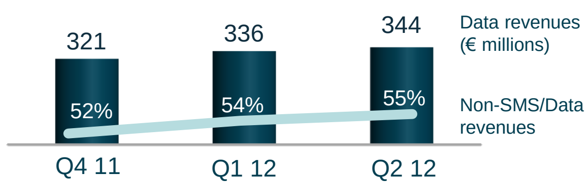
Consolidating ARPU growth



Solid top line growth in H1 12 driven by mobile expansion

+4.7%
(y-o-y in H1 12)

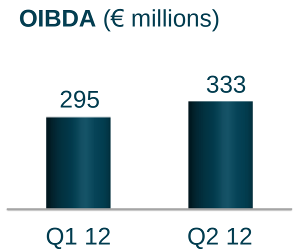


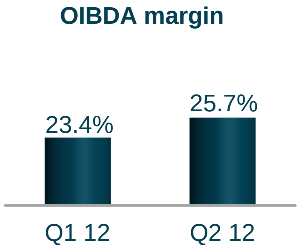


Enhanced profitability on efficiency measures

Sustained OIBDA and margin expansion

+12.5%
(y-o-y in H1 12)

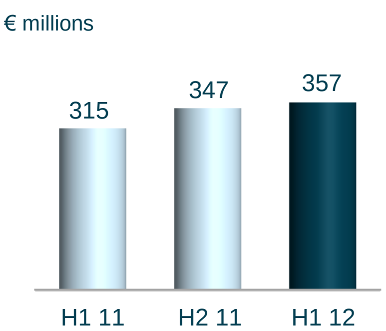




- **Efficiency measures drive margin expansion** (+1.7 p.p. y-o-y in H1 12)

Strong OpCF

+13.4%
(y-o-y in H1 12)



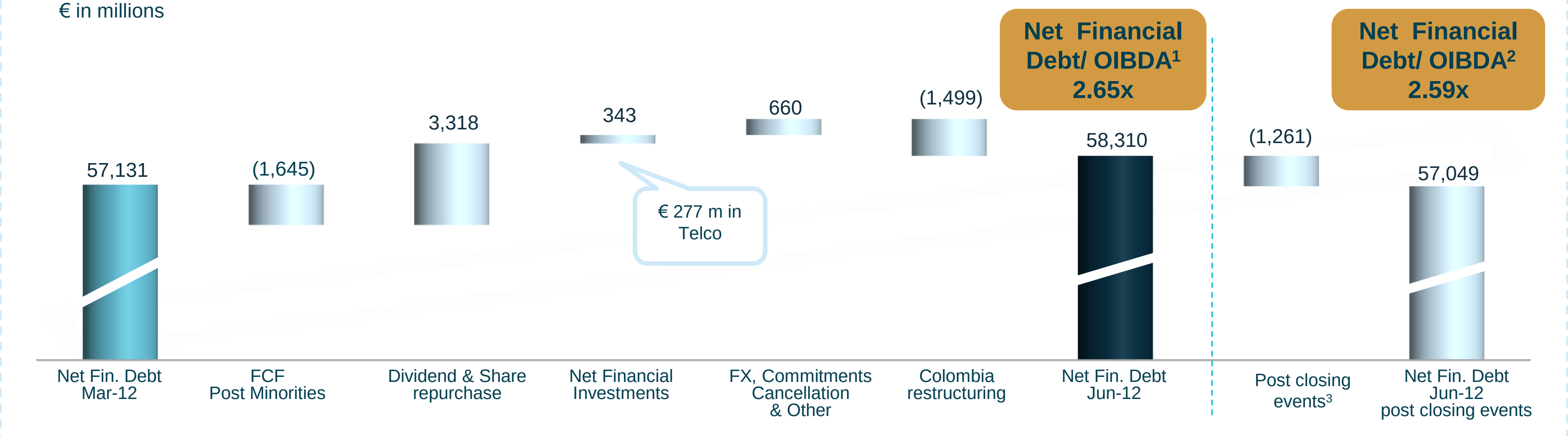
Updated revenue outlook, OIBDA margin and CapEx/sales targets unchanged

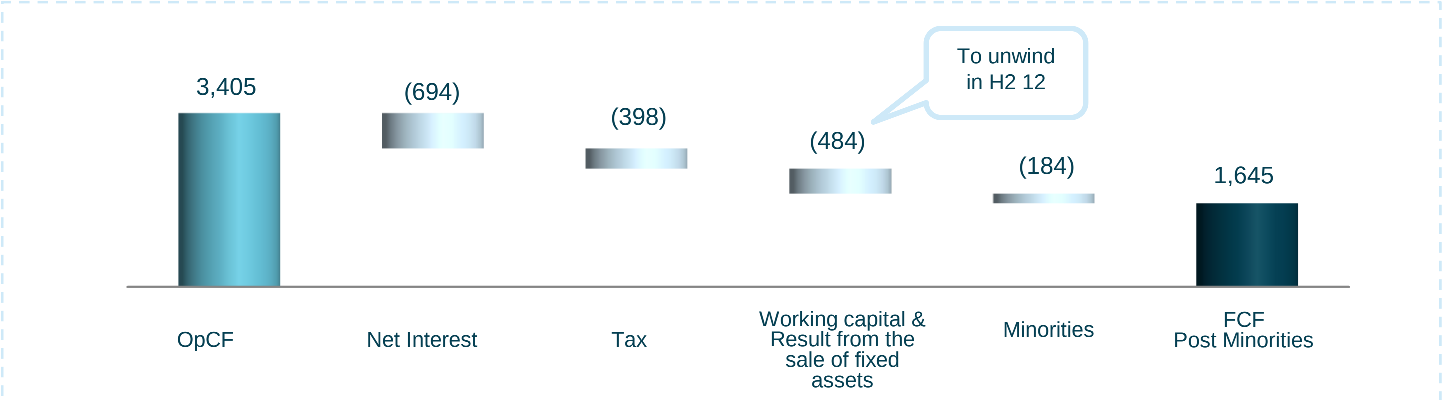
	FY 12 Outlook	H2 12
Revenue Growth	Flat to positive in current euros (previously >1%)	• More challenging than anticipated performance driven by a weaker macro environment and further negative impacts from regulation
OIBDA Margin	Lower y-o-y decline than in 2011 (unchanged)	• Y-o-y erosion to ease, driven by better y-o-y comparisons in commercial activity, net savings in commercial costs in Spain and further cost efficiencies across countries. Operating synergies in Brazil becoming visible
CapEx/Sales(ex-spectrum)	Similar than in 2012 (unchanged)	• Reallocation of resources within the Group to accelerate UBB connections, leveraging CapEx efficiencies from lower churn

Operating guidance considers constant perimeter. 2011 base for guidance purposes: Revenue (€ 62,837 m), OIBDA margin (36.1%), CapEx/Sales ex spectrum 14.2%. Assumes average FX for 2012 of €1: US$1.32; €1: BRL2.30; €1: £0.85.

Net debt evolution impacted by timing of dividend payment

Net Financial Debt evolution

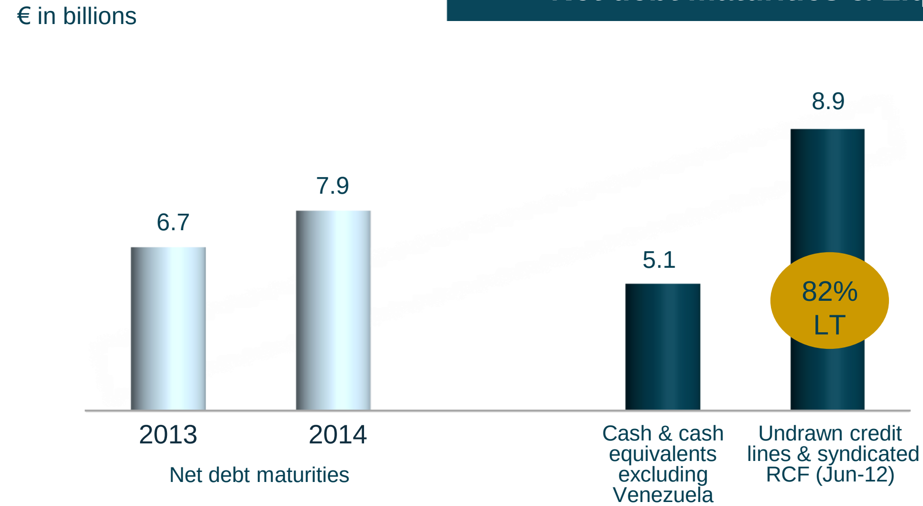




1. OIBDA 12 months rolling ex-Redundancy Program in Spain in 2011.
2. Net Financial Debt ex-Redundancy Program in Spain and adjusted by post Closing events.
3. Post closing events (pending regulatory approval) include disposals of China Unicom & other minority stakes (Hispasat)..

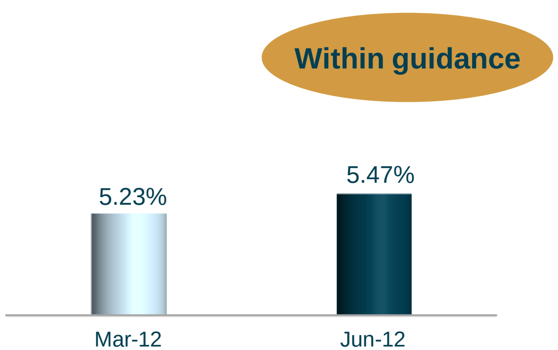
2012-13 debt maturities covered

Net debt maturities & Liquidity position (Jun-12)

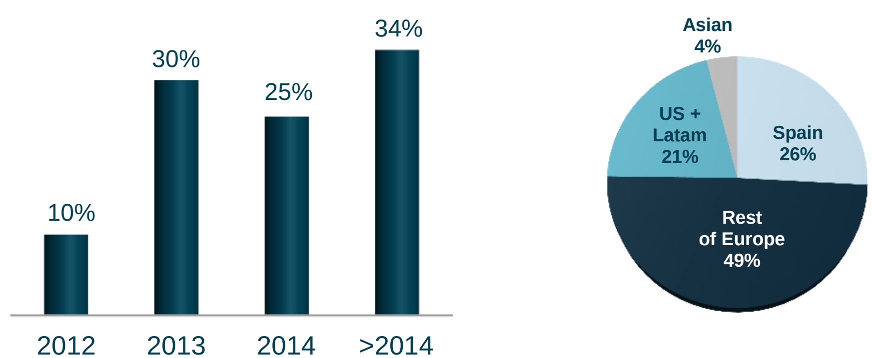


- **2013 net debt maturities reduced by € 0.9bn** in the quarter
- **€ 2.4 billion credit line maturities extension**
- **Ample geographic diversification**

Effective Interest Cost[1] (ex-FX)



Undrawn Credit Lines Maturities and Geographical Split



1. Last twelve months (rolling basis)
2. RCF: Revolving credit facility

Fully committed to increase financial flexibility, improve liquidity and defuse potential risks

Adjustment of shareholder remuneration policy improves liquidity immediately and reduces refinancing risk

- **Cancellation of 2012 dividend** (Nov-12 cash+May-13 scrip) **and share buyback program as one-time exceptional measure**
- **Shareholder remuneration to be resumed in 2013 by paying a dividend of €0.75/share** (intention two tranches: Q4 13 and Q2 14)
- **Rationale:**
  - Further strengthen Balance Sheet (retained earnings, deleverage, shareholder value)
  - Accelerate debt reduction in the short term
  - Decouple from exogenous macro factors affecting our country of domicile
  - Immunize from debt markets liquidity conditions
  - De-risk the execution of portfolio management and asset divestment program
  - Continued investment in profitable growth in our operations

- **Cash savings up to Q2 13:**
  - € 2.7 Bn in 2012
  - Up to € 4.1 Bn in Q2 13
- **Further savings from H2 13 onwards**
- **Debt maturities covered till year-end 2013**
- **Net Debt/OIBDA <2.35x by 2012 YE**
- **Enhanced credit and liquidity metrics**

Fully committed with announced portfolio management and asset divestment program

- **Already achieved: € 3.1 Bn**
  - Colombia restructuring, China Unicom, Hispasat, non-strategic towers, Zon
- **In progress ≥ € 1.5 Bn**
  - Atento, PT, Rumbo, non-strategic towers
- **Next actions:**
  - Launching preparations for IPO of T. Germany
  - Analyzing potential listing alternatives for Latin American businesses
  - Monitoring market conditions to make selective asset monetisations

- **≥ 4.6 Bn in 2012**
- **Additional proceeds in 2013**

Conclusions

- **Improved performance in Q2 12 from OIBDA to net income in underlying terms:**
  - **Benefits from best-in class diversification**
  - **Risk perception decoupled from business fundamentals**
  - **Positive revenue growth on strong top line performance in Latin America**
  - **OIBDA growth and margin expansion q-o-q**
  - **H1 OIBDA margin performance consistent with 2012 guidance, further improvements in H2 12**
- **Further initiatives to enhance business model**
- **Decisive actions to improve balance sheet and defuse potential risks**
- **On track with our transition towards a “Digital Telco”**

Organic growth: In financial terms, it assumes constant average exchange rates as of January-June 2011, and excludes hyperinflation accounting in Venezuela. Therefore, in OIBDA and OI terms, the first half-year of 2011 excludes the positive impact of the partial sale of our stake in Portugal Telecom (+183 million euros). Telefónica's CapEx excludes spectrum investment and, in 2011, Real Estate commitments in relation to the new Telefónica headquarters in Barcelona.

Underlying growth: Reported figures, excluding exceptional impacts and spectrum acquisition. First half of 2012 also excludes the reduction in the value of Telecom Italia investment and operating synergies achieved (-512 million euros; -358 million euros net of taxes), and also PPAs (-492 million euros; -363 million euros net of tax and minority interests) and difference in market value of BBVA stake (-30 million euros; -21 million euros net of tax and minority interests). Figures for the first half of 2011 exclude value adjustments in relation to the stake in Telecom Italia (-505 million euros; -353 million euros net of tax), the positive impact arising from a partial reduction of Telefónica's economic exposure to Portugal Telecom (+183 million euros) and also PPAs (-564 million euros; -381 million euros net of taxes and minority interests).