

# Leading growth and profitability



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*Telefonica*

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



**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 ...

Through organic growth ...

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

... strategic & industrial alliances ...



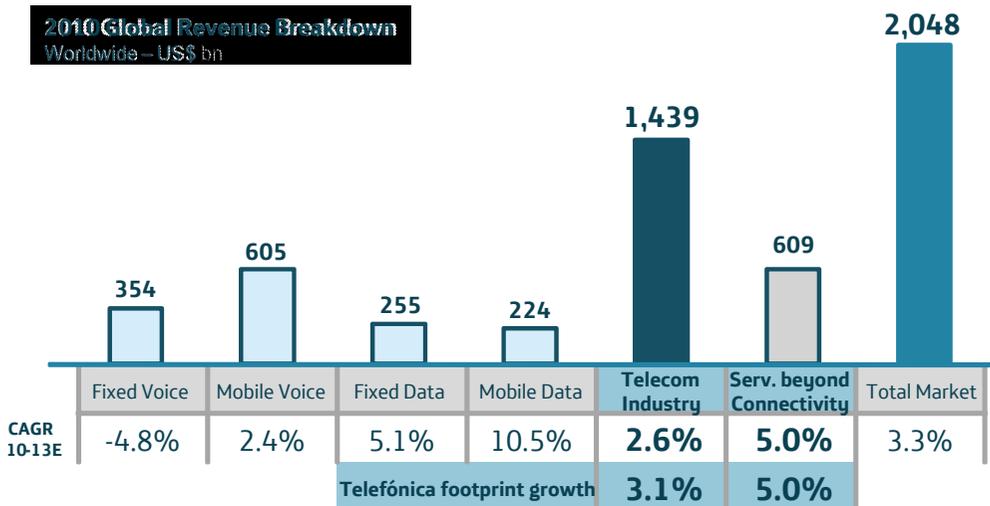
... selective M&A...

<b>In-market consolidation</b> 	<b>Spectrum auctions</b> 	<b>Increase shareholding in CU</b> <b>9.7%</b>
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... enhancing our capabilities...

<b>P&amp;S Global Units</b> 	<b>OTT Companies</b> 
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...capturing superior growth prospects in our footprint going forward



# 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



## Development of applications and new services

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



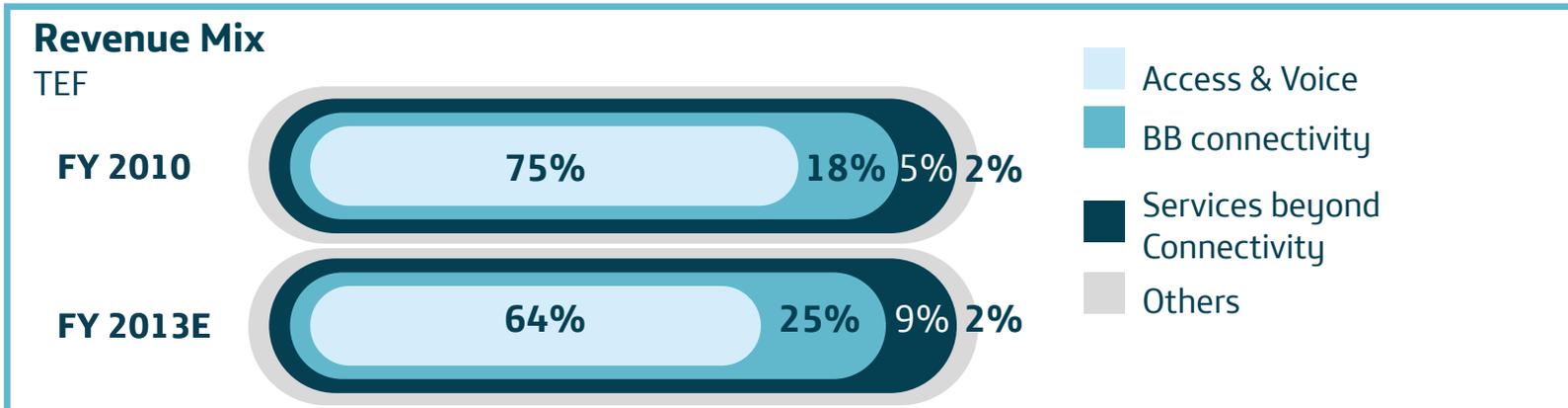
## Continue to enhance Fixed Broadband portfolio

- Full FBB proposals with increasingly higher bandwidth
- Full IP services from voice to video
- Full bundles



## Capturing remaining mobile and fixed voice opportunities

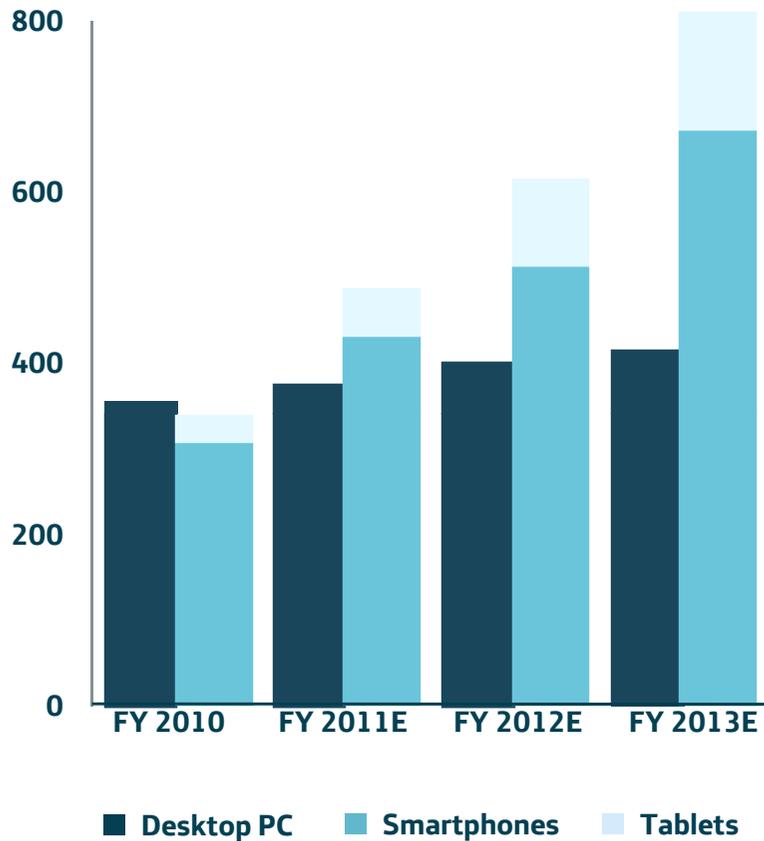
- Increase penetration and usage in mobile
- Defend ARPU through additional services in fixed
- Reinforce position in SME and MNC



# Mobile broadband is the biggest market growth opportunity today

## Sales<sup>1</sup>

Worldwide. Millions cumulative units shipped



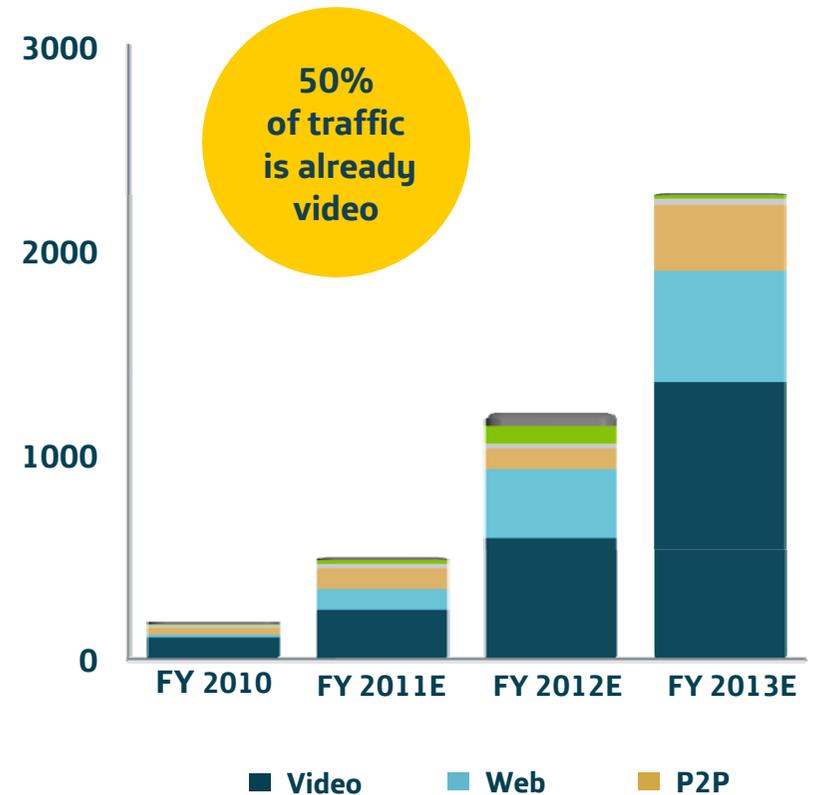
## Time spent<sup>2</sup>

/day

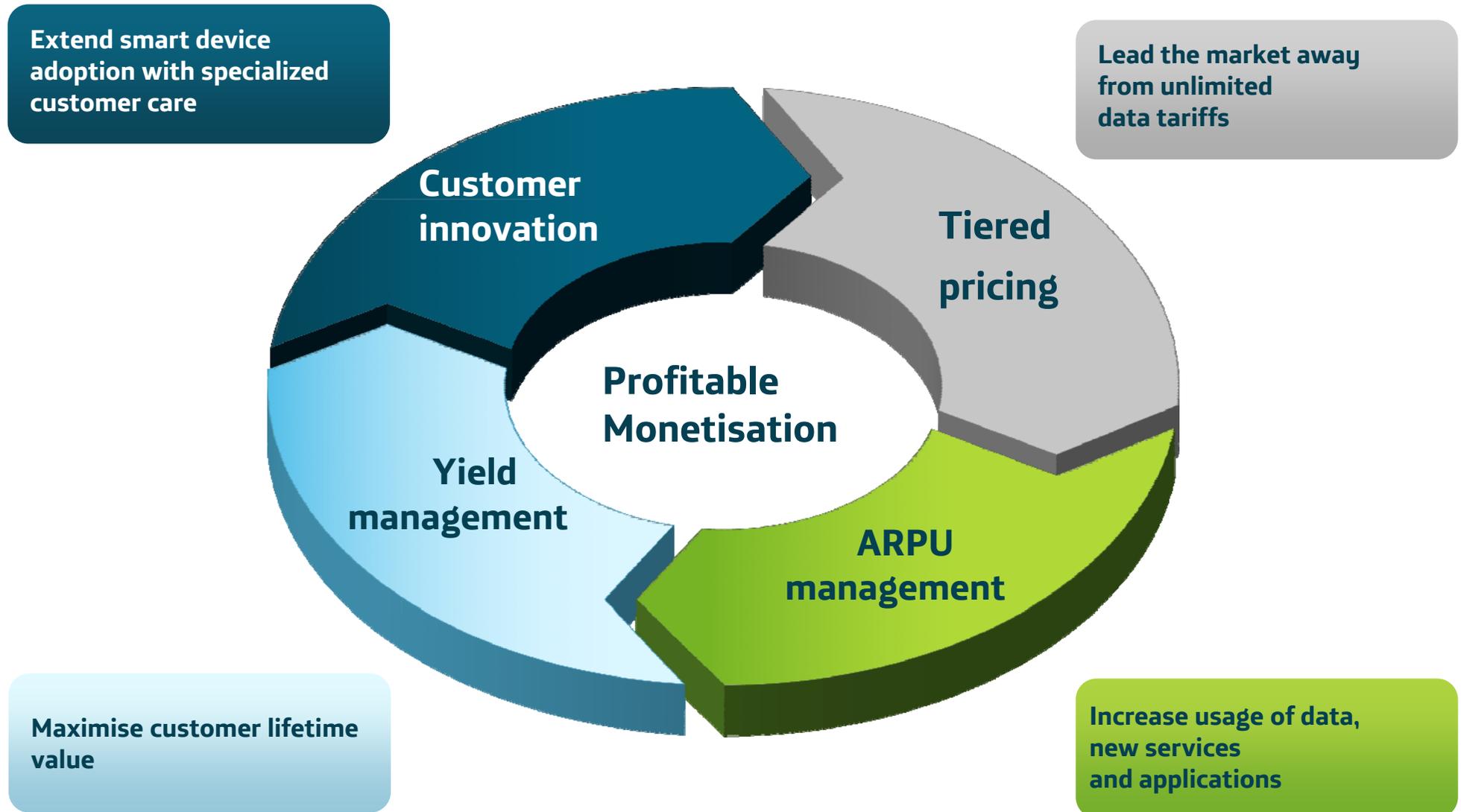


## Mobile data traffic growth<sup>3</sup>

Worldwide. Pbps/Month



# Profitable mobile data monetisation is our key strategic priority



# Tiered pricing is based on segmentation and customer needs

## Offers based on data caps

## Examples of execution

**Type of service and use**

**Service specific tariffs** for email, chat, social networks, browse...

**Limited volume with additional bolt-ons**

**Limited volume tariffs** for 100 MB, 500 MB, 1GB

**Maximum speed**

**Speed offers** for 2, 7, 14 Mbps

**Time of the day**

**MB accounted half** if used in off peak hours

**Type of device**

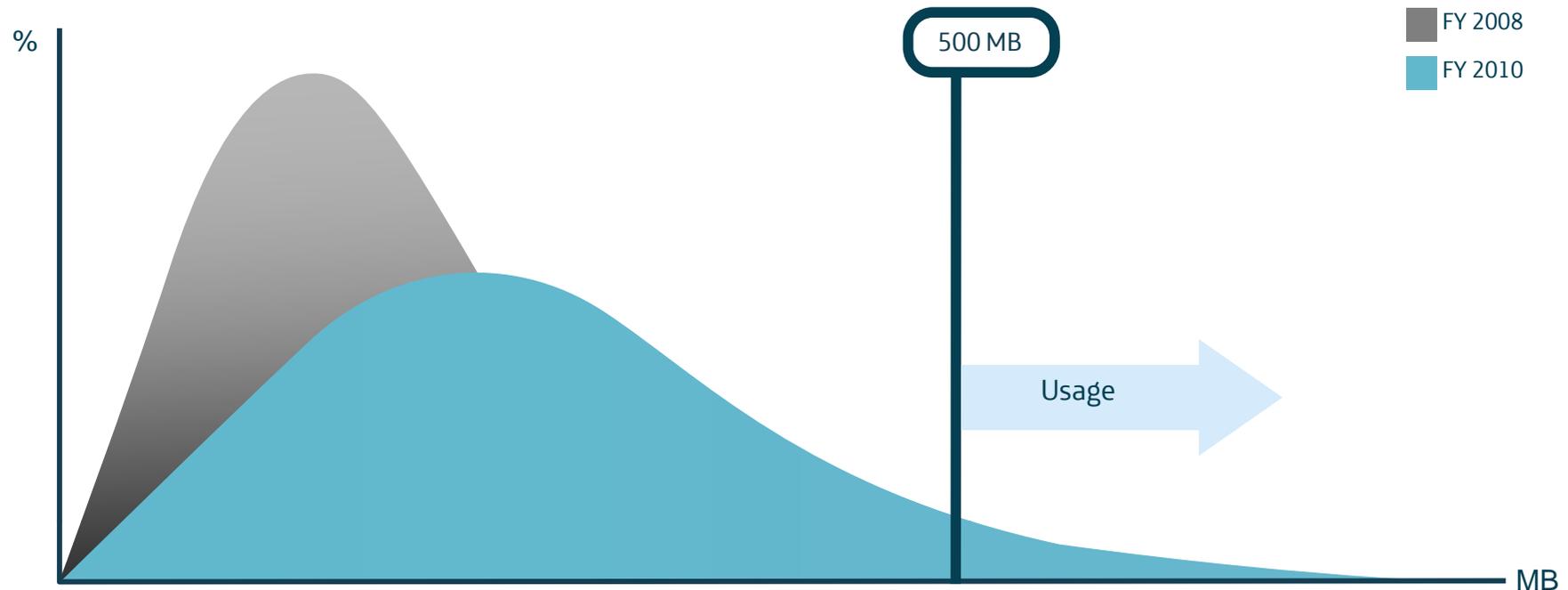
**Seamless access** from screen of choice

**Tiered pricing in place in each of our markets**

# We are focused on profitable mobile data growth



Distribution of iPhone + Android Usage



## We have improved the data experience for all

- Heavy-user<sup>1</sup> management freed up 7% of bandwidth<sup>2</sup>
- Data experience has improved for the profitable majority

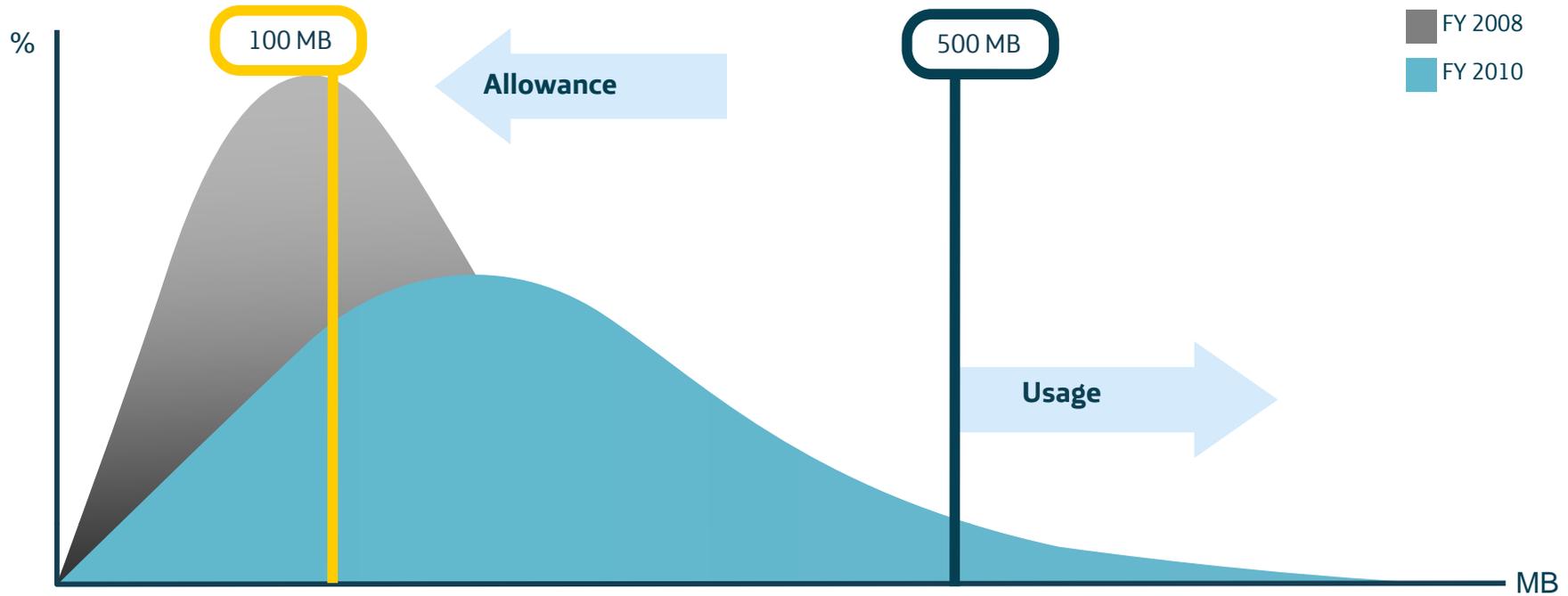
## Customers already pay for data usage

- Almost 50% of smartphone users<sup>3</sup> are on capped tariffs
- 3% reach the threshold where we contact them
- Of these customers c. 25% are buying an additional bolt-on

# New tariffs position us to accelerate penetration and monetisation

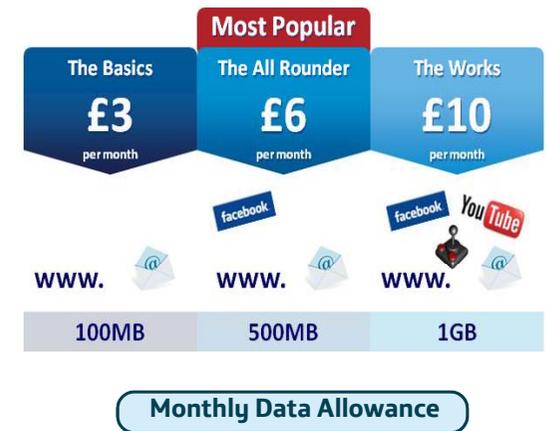


Distribution of iPhone + Android Usage

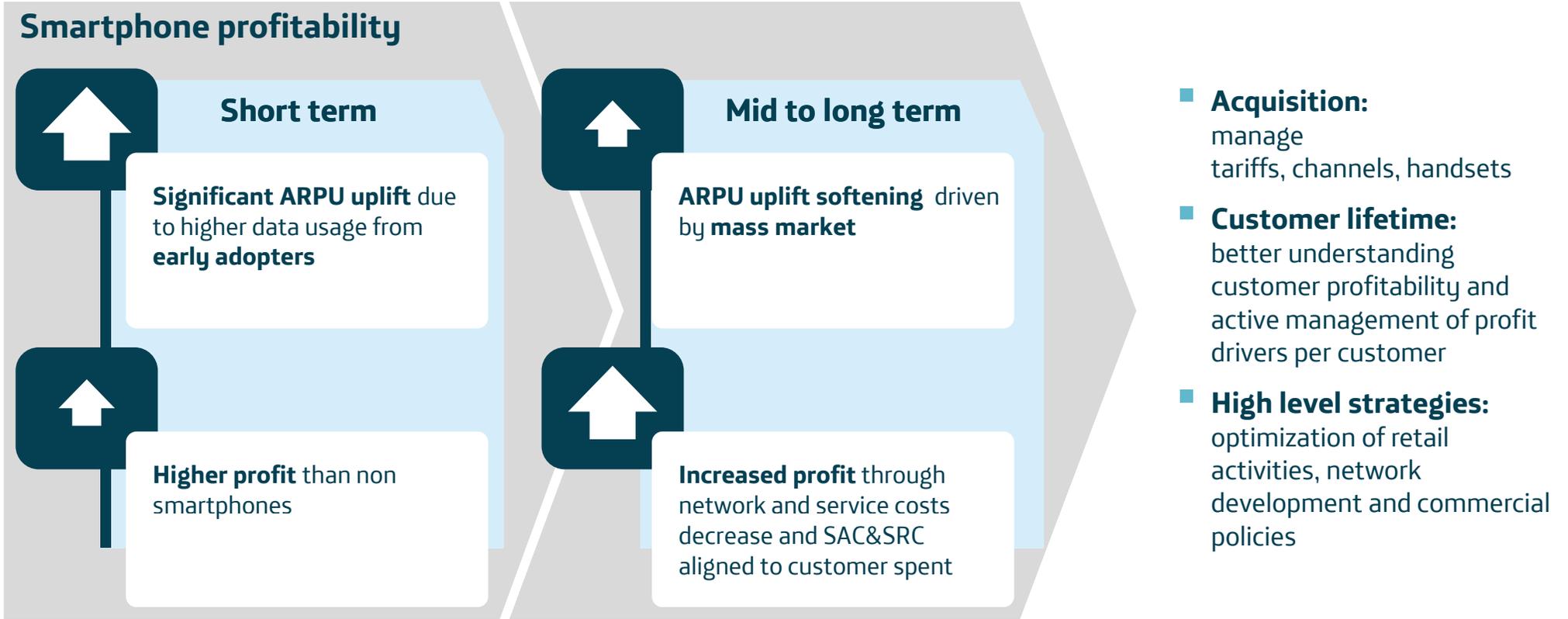


## New tariffs

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



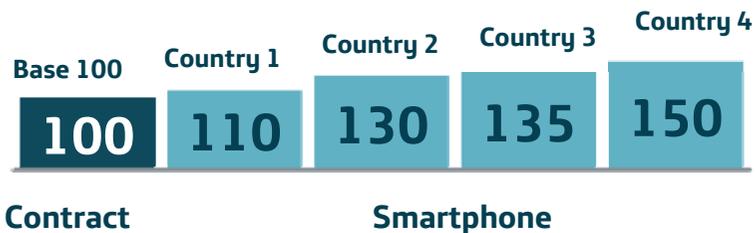
# Yield management to reinforce customer profitability



## CLV uplift

TEF. 2010

Illustrative

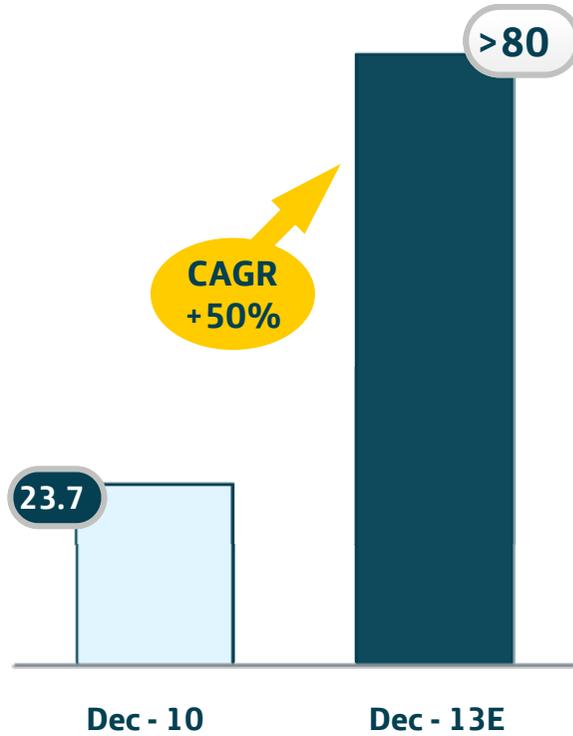


CLV: Customer Lifetime Value

# Mobile broadband is the major growth driver for Telefónica revenues

## MBB Accesses

TEF. Millions



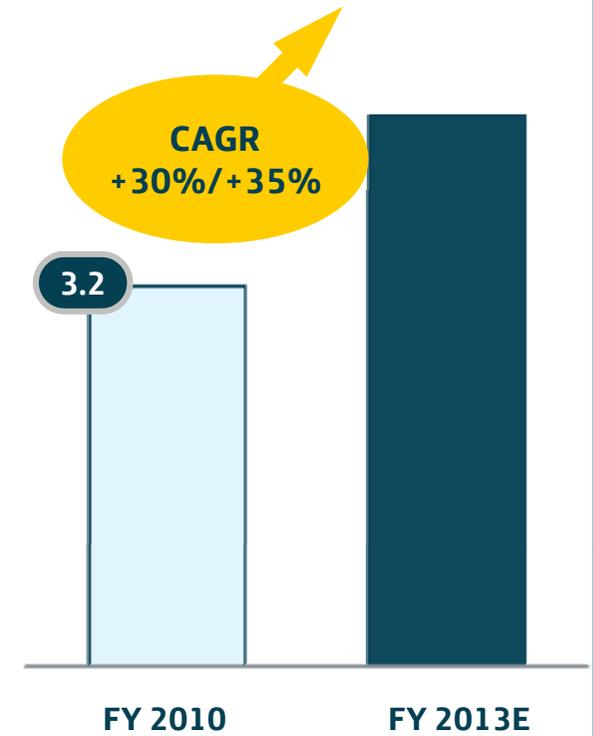
## MBB Penetration

TEF.



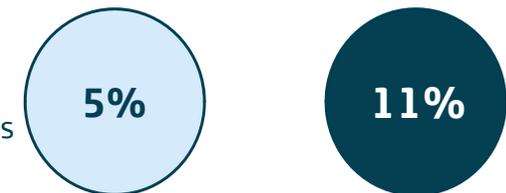
## MBB Revenues<sup>1</sup>

TEF. €bn



## MBB Revenues

TEF. % / Total Revenues



# 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

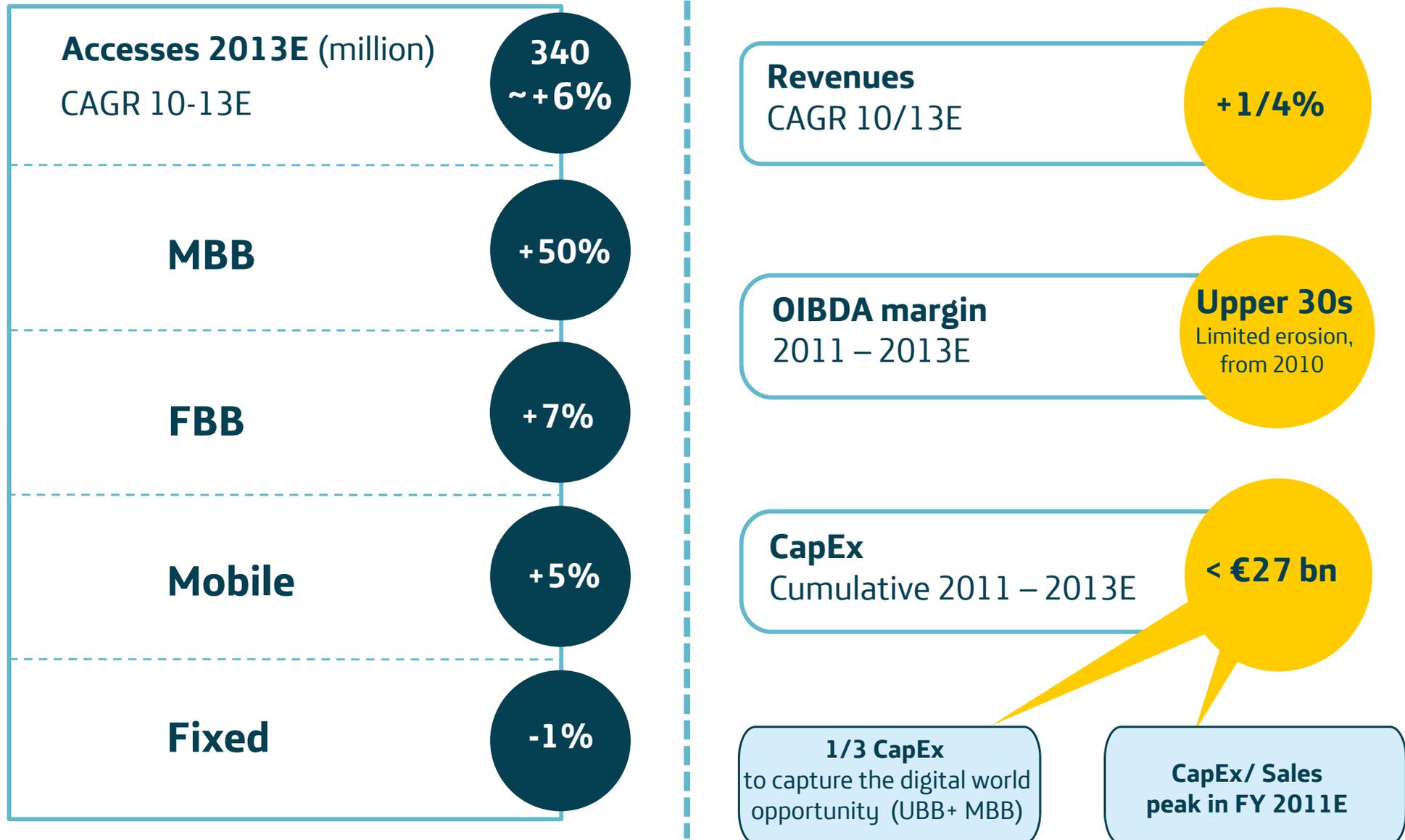
(P&S development, R&D, Finance & Global procurement, IT & Technology)

## Strategic and Industrial Alliances

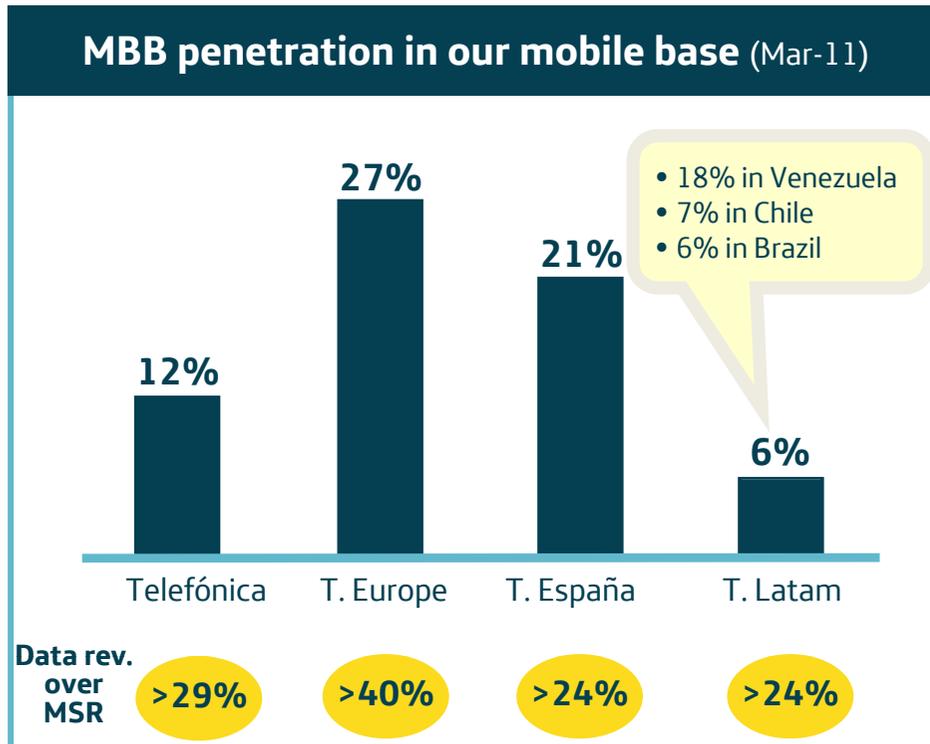
Continuous focus on efficiency improvement

Further leveraging our scale

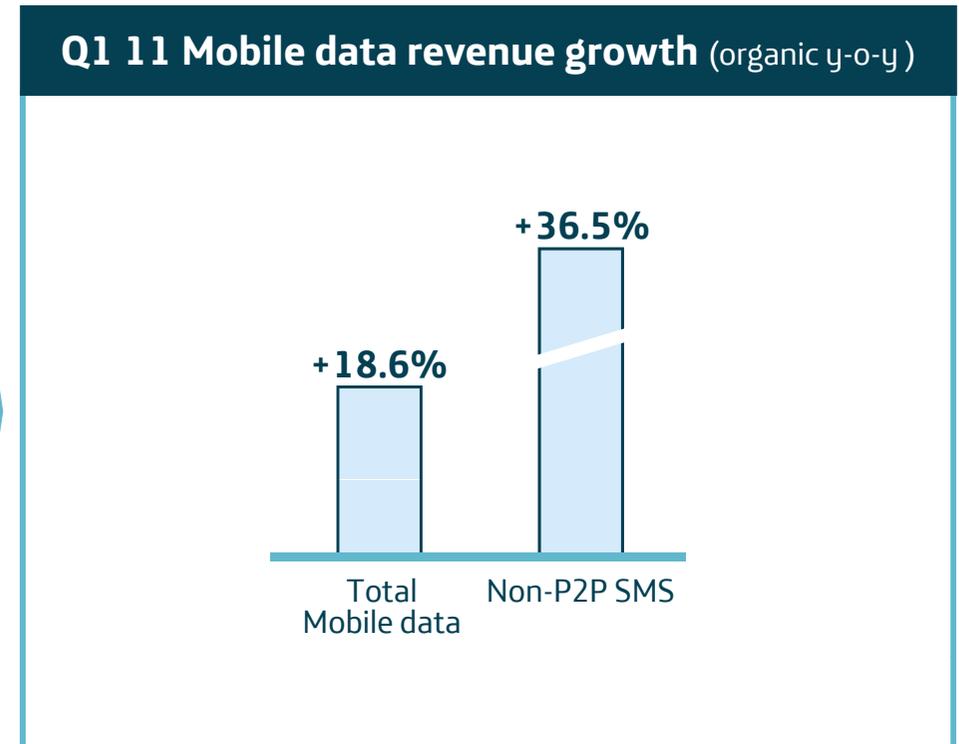
# We are expanding our value oriented customer base to deliver a solid long term guidance



# Smartphone adoption driving mobile data growth



- 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

**Not to be paid with debt**

## 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

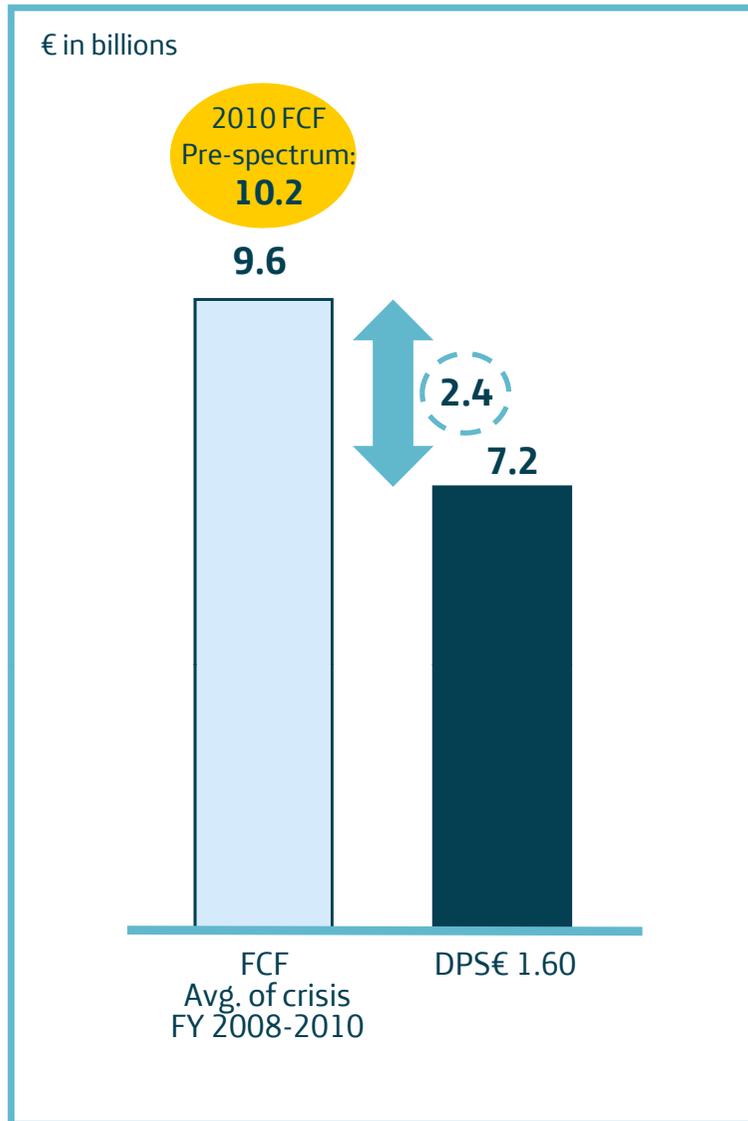
## Solvency Protection

- 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

# 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<sup>1</sup>

## 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

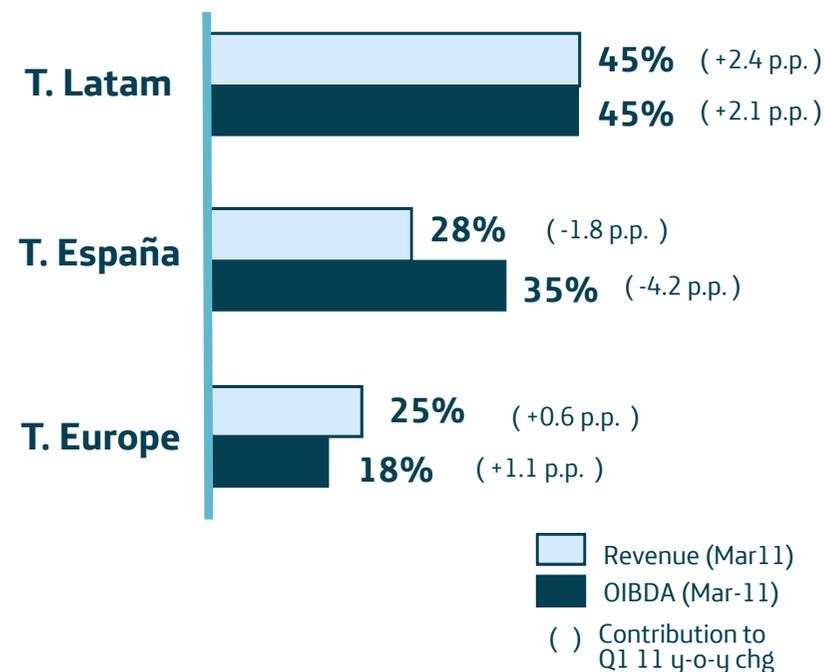
- FY 2011E organic maximum CapEx increase: € 0.5 bn
- Spectrum acquisition

# Solid start to 2011

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

**Q1 11 EPS: € 0.36 (€ 0.41ex PPAs)**

## Broad diversification



# Q1 11 performance in-line with year-end targets

	2011 Guidance	Q1 11
Revenues	Up to 2%	1.4% <input checked="" type="checkbox"/>
OIBDA Margin	Upper 30s Limited erosion y-o-y	35.6% (-0.9 p.p) <input checked="" type="checkbox"/>
CapEx	~ 9,000	1,412 <input checked="" type="checkbox"/>

**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**

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