Leading growth and profitability

New York/Boston

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Telefónica

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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 …

Through organic growth …

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

… strategic & industrial alliances …

China unicom中国联通 · TELECOM ITALIA

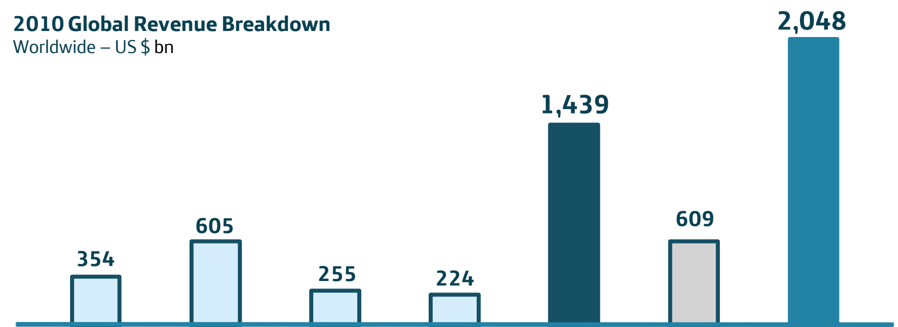
… selective M&A…

In-market consolidation	Spectrum auctions	Increase shareholding in CU
vivo · HanseNet		9.7%

… enhancing our capabilities…

P&S Global Units	OTT Companies
Financial services Video & DH	terra jajah tuenti

…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%
			Telefónica footprint growth		**3.1%**	**5.0%**	

OTT: Over the Top
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

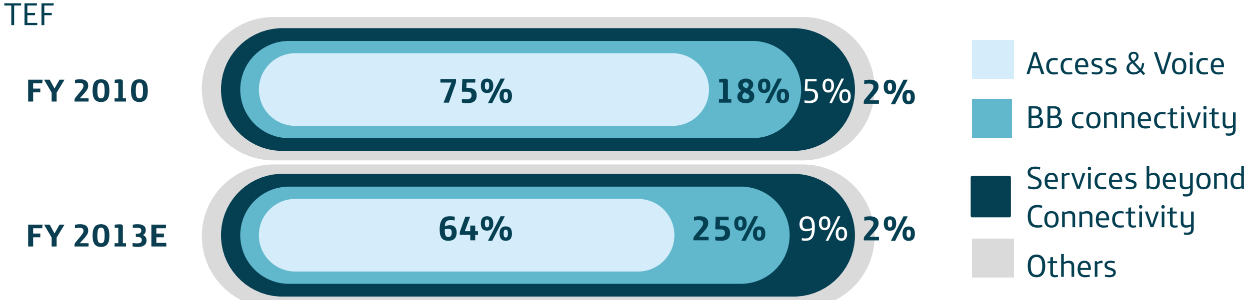
FBB Revenues
CAGR 10-13E:
+4/7%

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
TEF



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

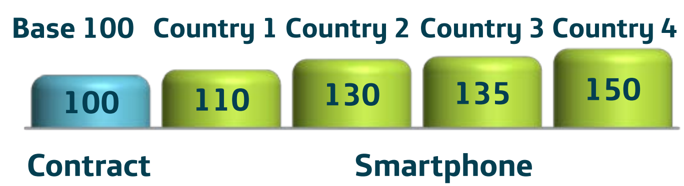
Short term:
- **Significant ARPU uplift** due to higher data usage from **early adopters**
- **Higher profit** than non smartphones

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

Illustrative



Beyond connectivity we are reinforcing our service ecosystem

7 Verticals
Video & DH
Applications
Financial services
eHealth
Security
M2M
Cloud

7 Companies		
jajah	**Jajah**	Unified communications
tuenti	**Tuenti**	Social network
terra	**Terra**	Media content and services
Rumbo	**Rumbo**	eTravel
Telefónica Ingeniería de Seguridad	**TIS**	Security
Telefónica	**TLS**	eLearning
Telefónica Telefónica Soluciones	**T Solutions**	Enterprise solutions

ONE **PLATFORM** - ONE **SERVICE**

DH: Digital Home
M2M: Machine to Machine
TIS: Telefónica Ingeniería de Seguridad
TLS: Telefónica Learning Services

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) — **> 340**

CAGR 10-13E — **~+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

According to guidance criteria

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

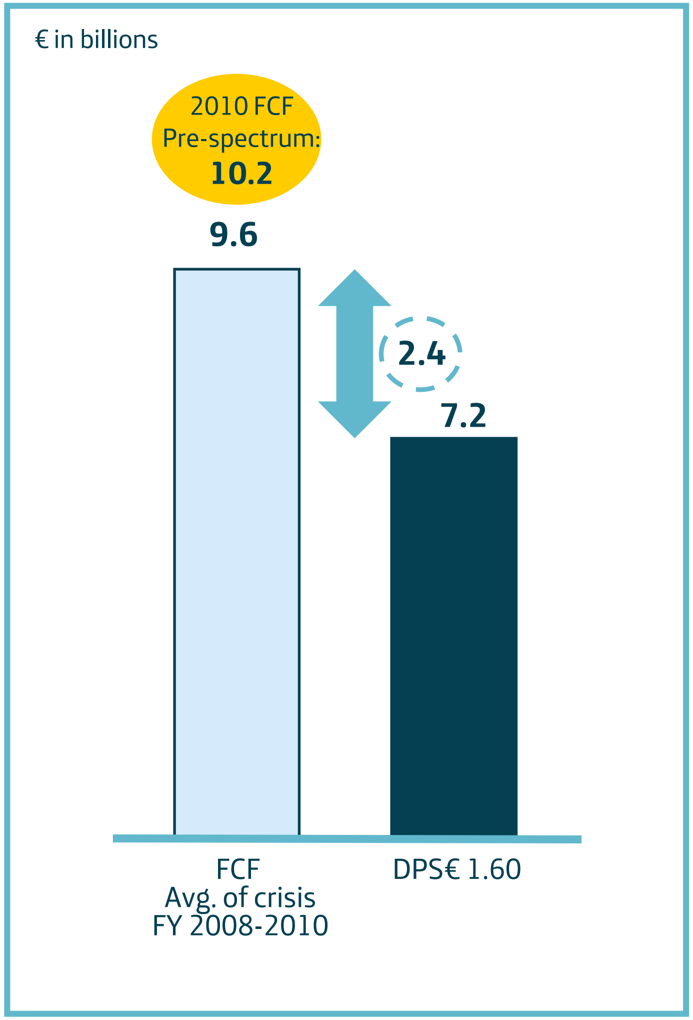
Solvency Protection

- 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[1]

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

[1] Proportional FY 2010 Vivo's FCF acquired less annualised interest expenses after taxes

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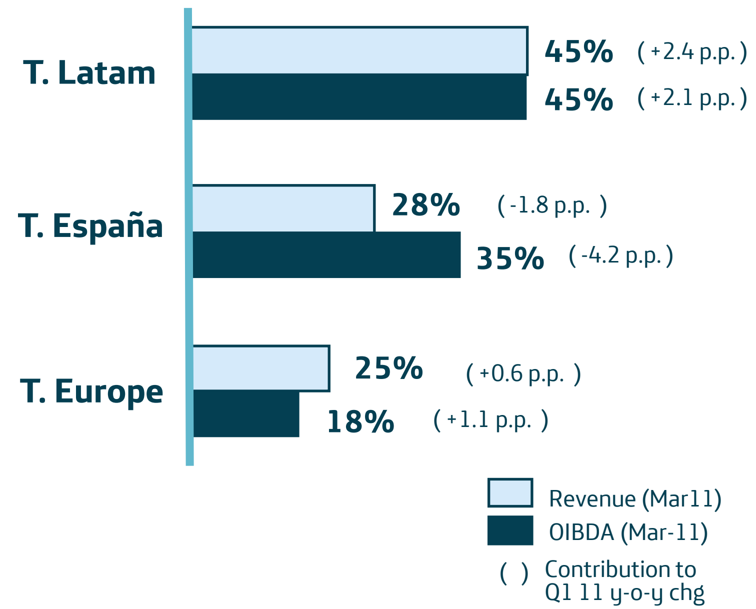
Financial Summary

€ in millions	Jan-Mar 2011	Change y-o-y	Organic change
Revenues	15,435	**+10.8%**	**+1.4%**
OIBDA	5,574	**+9.0%**	**-1.0%**
OIBDA Margin	36.1%	**-0.6 p.p.**	**-0.9 p.p.**
Operating Income (OI)	3,057	**+4.3%**	**-1.3%**
Net income	1,624	**-1.9%**	
OpCF (OIBDA-CapEx)	4,022	**+2.5%**	**-4.9%**

Higher D&A, taxes, fin. expenses and minorities

Q1 11 EPS: € 0.36 (€ 0.41ex PPAs)

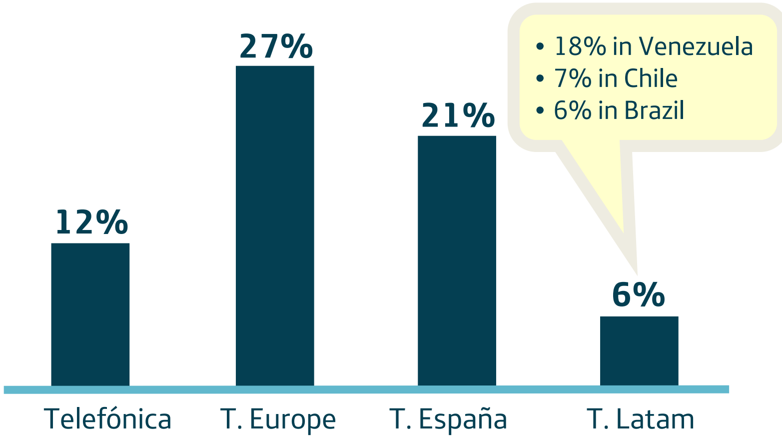
Broad diversification



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.

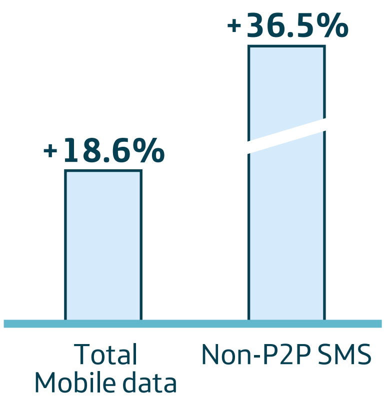
Smartphone adoption driving mobile data growth

MBB penetration in our mobile base (Mar-11)



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

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



- **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**

MBB penetration: MBB accesses with data attached rate/Total mobile customer base.
Aggregate figures for Group mobile service revenue, mobile data revenue, P2P SMS and non-P2P SMS data revenue.

Q1 11 performance in-line with year-end targets

	2011 Guidance	Q1 11
Revenues	Up to 2%	1.4% ✓
OIBDA Margin	Upper 30s Limited erosion y-o-y	35.6% (-0.9 p.p) ✓
CapEx	~ 9,000	1,412 ✓

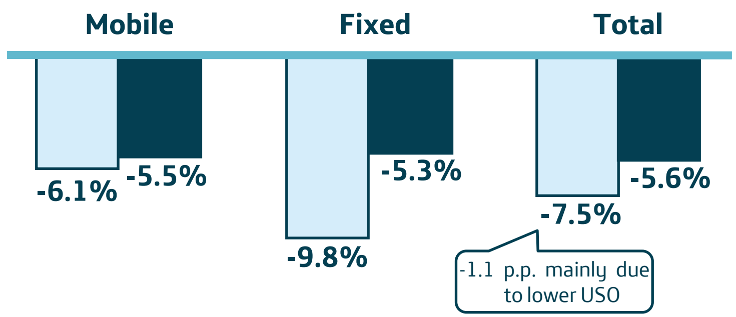
Growth to accelerate throughout the year

Figures according to guidance criteria.

T. España: Continued weakness, slightly better top line performance

Revenues

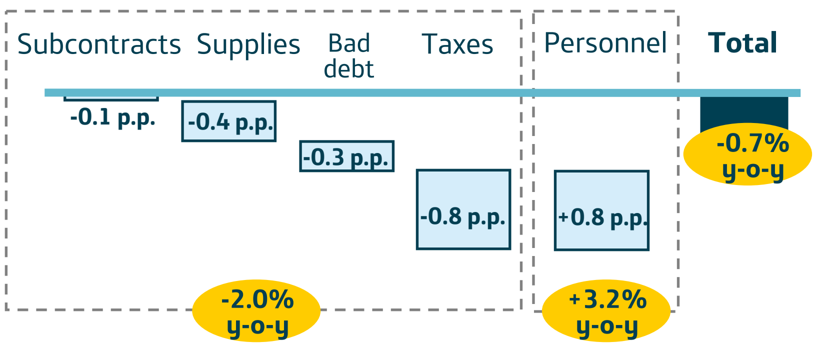
(y-o-y change)



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

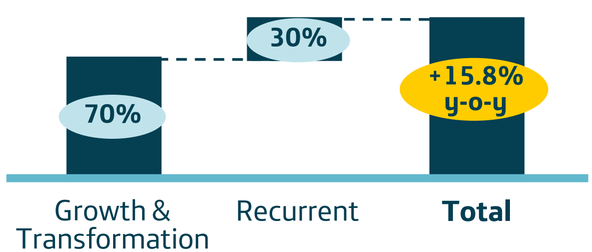
Q1 11 OpEx breakdown

(y-o-y change)



- **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**

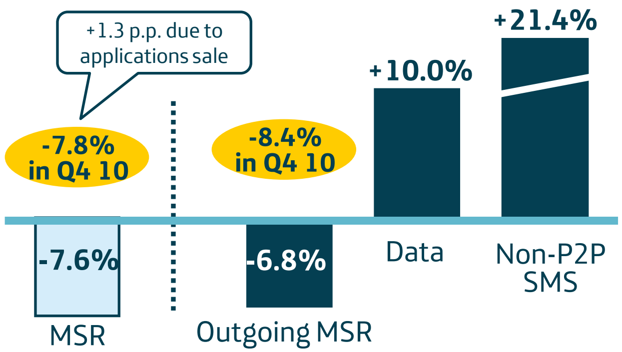
Q1 11 CapEx



- **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

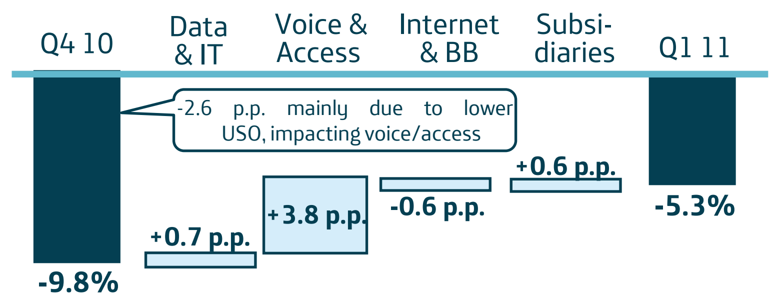
Solid momentum on data across businesses

MSR (Q1 11 y-o-y)



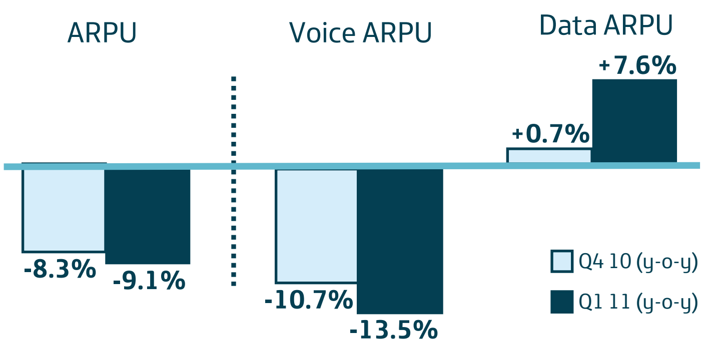
- **Sound data growth** leveraging higher MBB base (x1.6 y-o-y)

Wireline Revenues



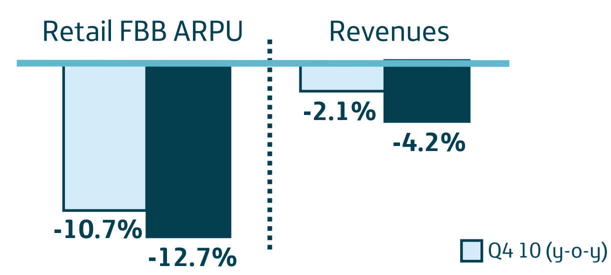
- **Improvement driven by data & IT revenue**
- **Further erosion on Internet & BB driven by ARPU erosion**

Mobile ARPU



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

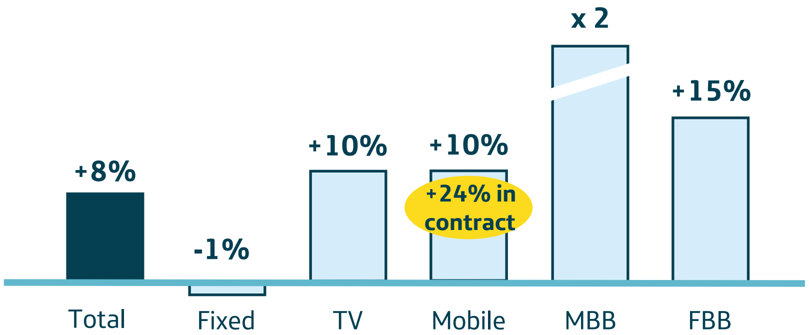
Internet & FBB business



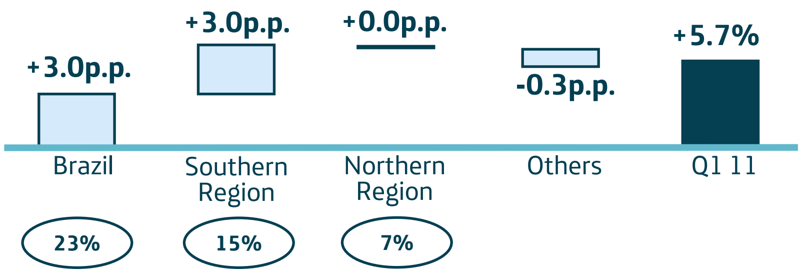
- **No change in market dynamics:** Strong price competition

T.Latam: Strong growth, sustained healthy profitability

Accesses
(Mar-11 organic y-o-y growth)

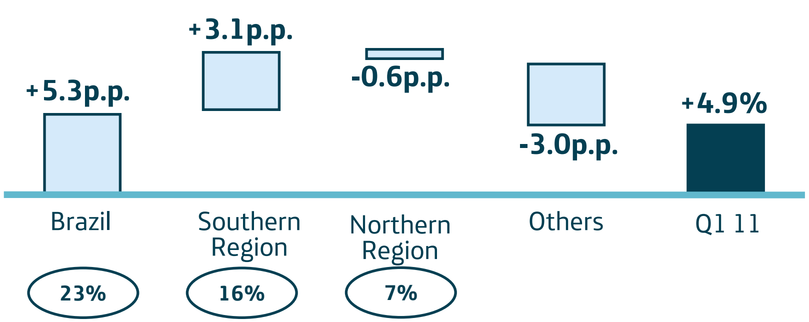


Revenue
(Q1 11 organic y-o-y growth)



Contribution to Telefónica revenue

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



Contribution to Telefónica OIBDA

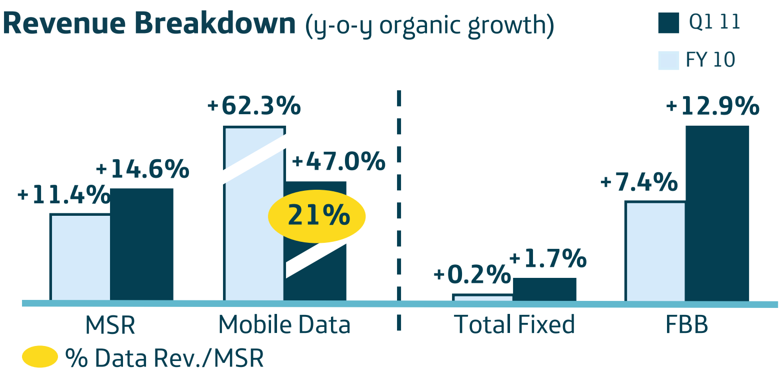
- **Solid commercial momentum**
- **Healthy revenue & OIBDA growth:**
  - Outstanding performance in Brazil
  - Consistent growth in the Southern Region
  - Weak results in Mexico flattening contribution from the Northern Region
  - Lower contribution from regional initiatives dragging y-o-y growth
-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

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.

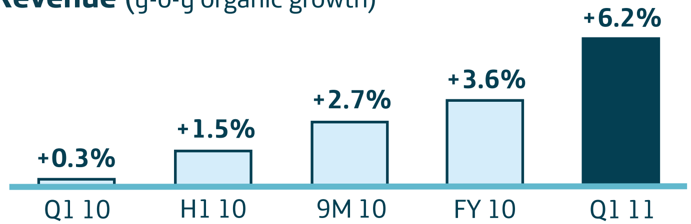
Brazil: Outperforming market peers

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

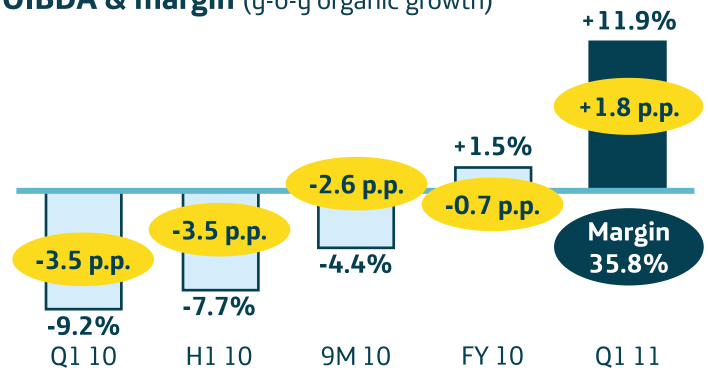
Revenue Breakdown (y-o-y organic growth)



Revenue (y-o-y organic growth)

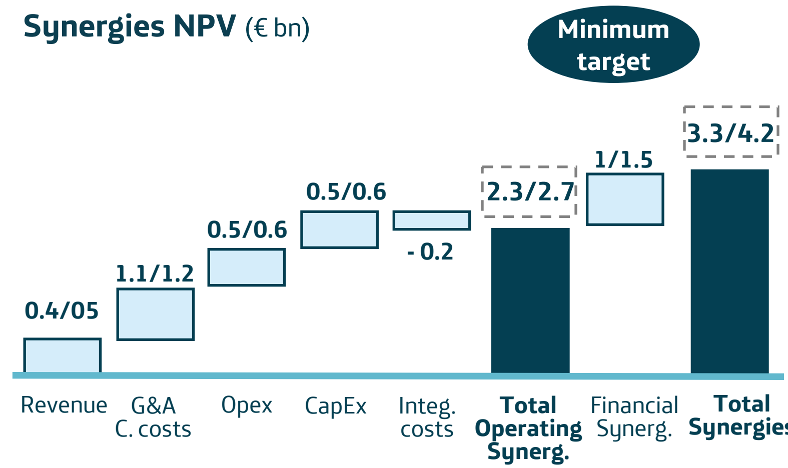


OIBDA & margin (y-o-y organic growth)



Synergies on track

Synergies NPV (€ bn)



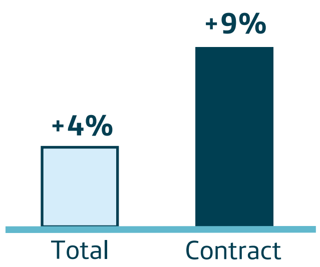
Already progressing:

- **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

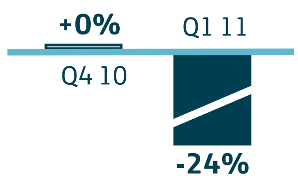
T. UK: value growth, benchmark financial performance

Mobile customer KPIs (y-o-y growth)

Customers (Mar-11 y-o-y)

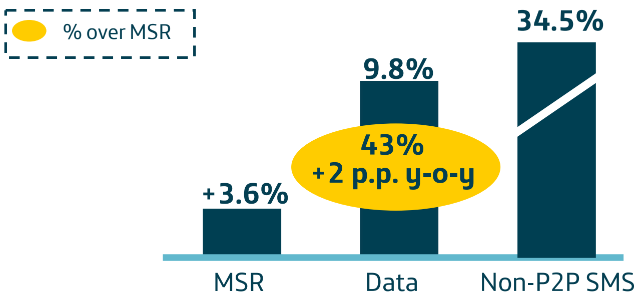


Contract upgrades



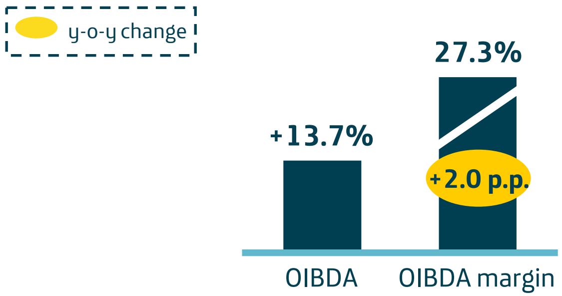
- **Selective approach to a competitive market:**
  - Best in class contract churn at 1.1%
  - Contract base is 48% over total (+2 p.p. y-o-y)
  - 82% of contract handsets sold in Q1 11 were smartphones
  - Smartphone penetration[1] at 33% (+4 p.p. vs. Dec-10)

Revenue Q1 11 (y-o-y growth)



- **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

Profitability Q1 11 (y-o-y growth)



- **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

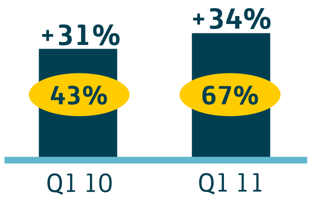
[1] Smartphones with data attached rate/total mobile base excluding dongles and M2M.
Growth rates in financials are given in local currency.

T. Germany: Growth acceleration, leveraging integration

Customer KPIs (y-o-y growth)

% Contract net adds

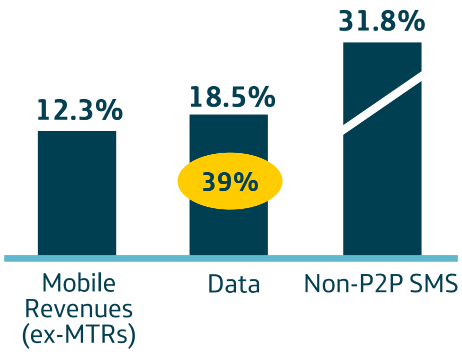
Contract Mobile Net Adds (y-o-y)



- 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

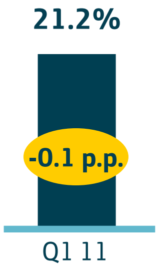
Revenue (Q1 11 y-o-y organic growth)

% over MSR



- **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**

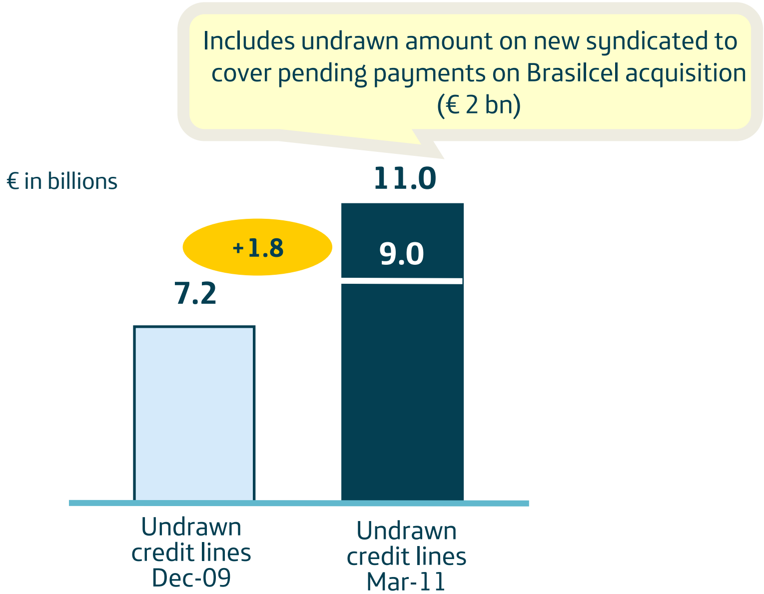
OIBDA margin (y-o-y organic change)



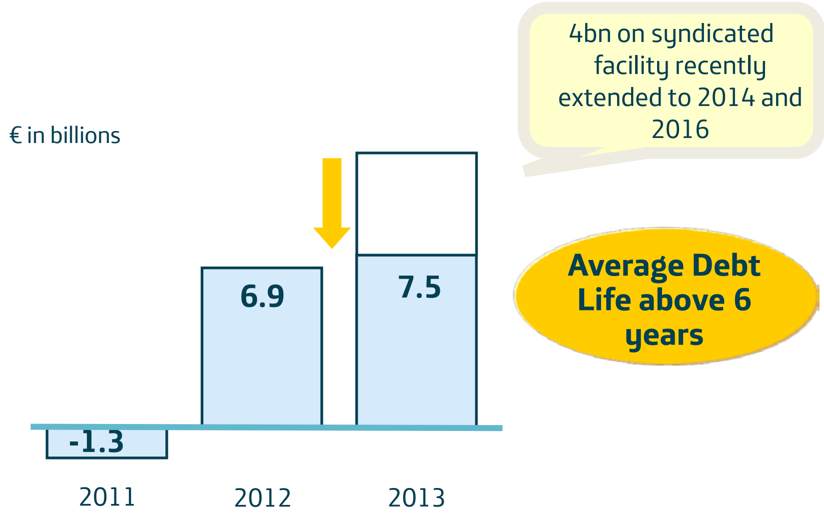
- **Stable margins y-o-y despite strong push in contract & MBB**
- **Progress in restructuring to deliver more efficiency gains from Q2**
- **LTE roll-out in line with strategy**

Solid liquidity position to manage debt maturities

Unused committed lines (Mar-11)



Maturity profile (Mar-11)



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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**

Telefonica