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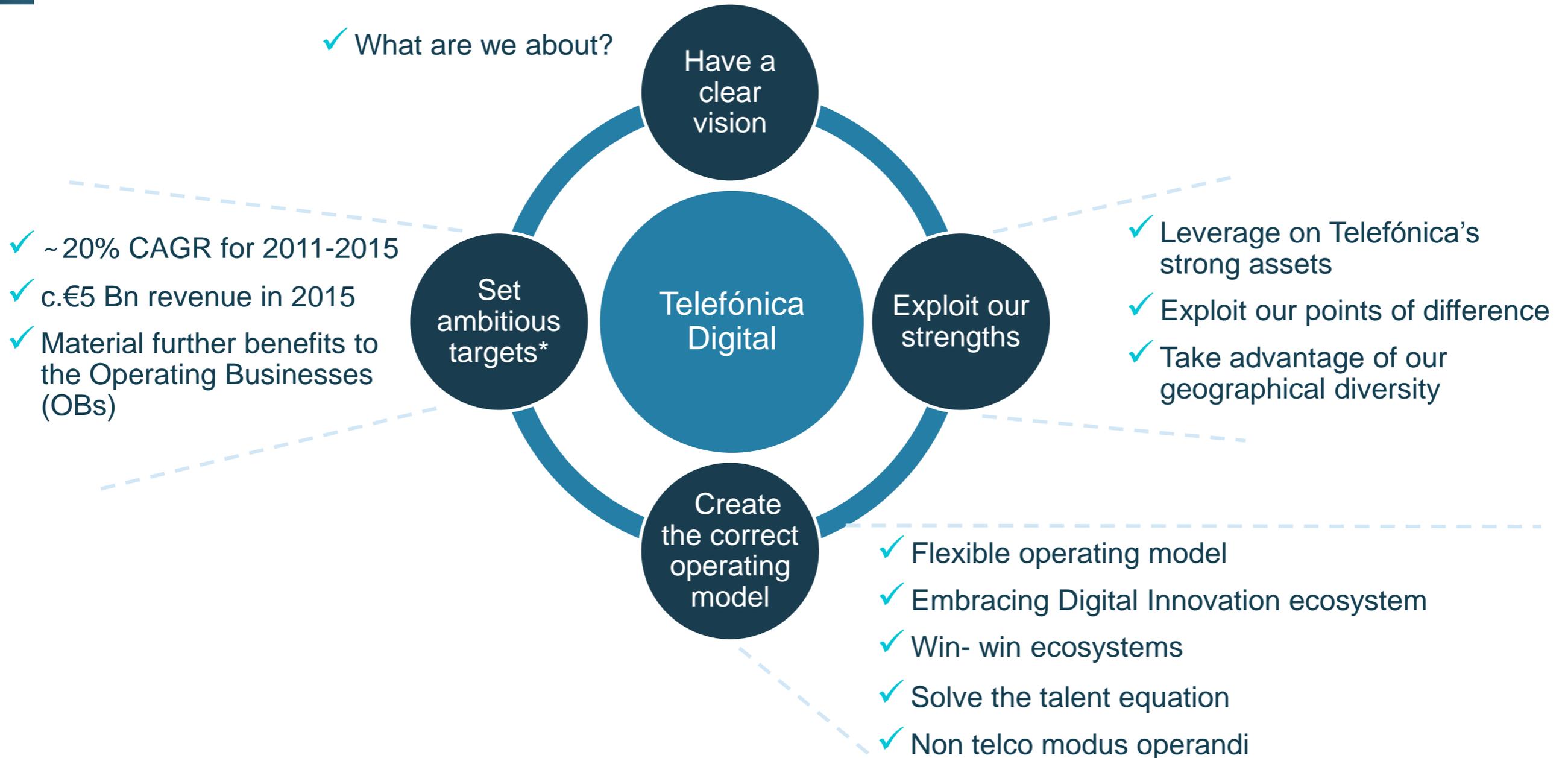
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How will we succeed?



* 2011 revenue base for calculation: € 2.4Bn. 2015 guidance assumes constant exchange rates as of 2011 (average FX as of 2011), excludes hyperinflation accounting in Venezuela and changes in the perimeter of consolidation. Revenues include Telefónica Digital Subsidiaries (Terra Networks, Media Networks, ATCO (Telefe), Telefónica Ingeniería de Seguridad, Telefónica Servicios Audiovisuales, Jajah, Tuenti, Telefónica Learning Services, On the Spot Services, Telefónica Investigación y Desarrollo, Telefónica Global Applications, Telefónica Producciones, Telefónica de Contenidos), Telefónica Digital Joint Ventures (revenues recognized based on the proportional basis of the participation in the JV, which currently are Rumbo (50%) and Mobile Financial Services (50%)) and Digital Services (revenues recognized in Telefónica Operating Businesses in Telefónica Europe and Telefónica Latinoamérica, comprises Contents (TV, Video OTT, CDN), eHealth, Security, M2M, Cloud, Financial Services, Advertising, Applications). Revenues from communications products not included (TU Me, TU Go,...)

Telefónica Digital was set up 9 months ago...



Digital Services (Former Verticals)



Advertising



Financial
Serv.



Cloud



Security



M2M



eHealth



Digital Content
Distribution

Digital OBs*



terra



media
networks

* Most relevant digital Operating Businesses

Best in-house digital product development capabilities

Telefónica

Telefónica I+D

jajah



Corporate
VC

Access to external innovation

...with a clear vision of what we are about



What are we about?

- A global unit of Telefónica
- We develop and sell products beyond connectivity:
 - ✓ products to solve social needs
 - ✓ to be a catalyst for change in business value chains
- Build ecosystems around families of services
- Leverage Telefónica's Operating Businesses as our main commercial channel

Some boundaries...

- We don't want to be (can't be!) the next Facebook or Google
- We don't want to enter the hardware space
- We don't want to be a solely financial investor in digital companies

Telefónica's core strengths and assets are an important foundation for launching digital services



LATAM

Europe

Direct relationship with a large customer base

206 M Accesses
~100 M Unique users in Terra Portal

103 M Accesses

Distribution network

30 K stores

11 K stores

Smartphone sales per quarter*

2 M smartphone sales

3 M smartphone sales

Great position in B2B market place



* Figures as of march 2012, smartphone sales relate to Q112

We will exploit Telefónica's points of difference to build our digital services value proposition



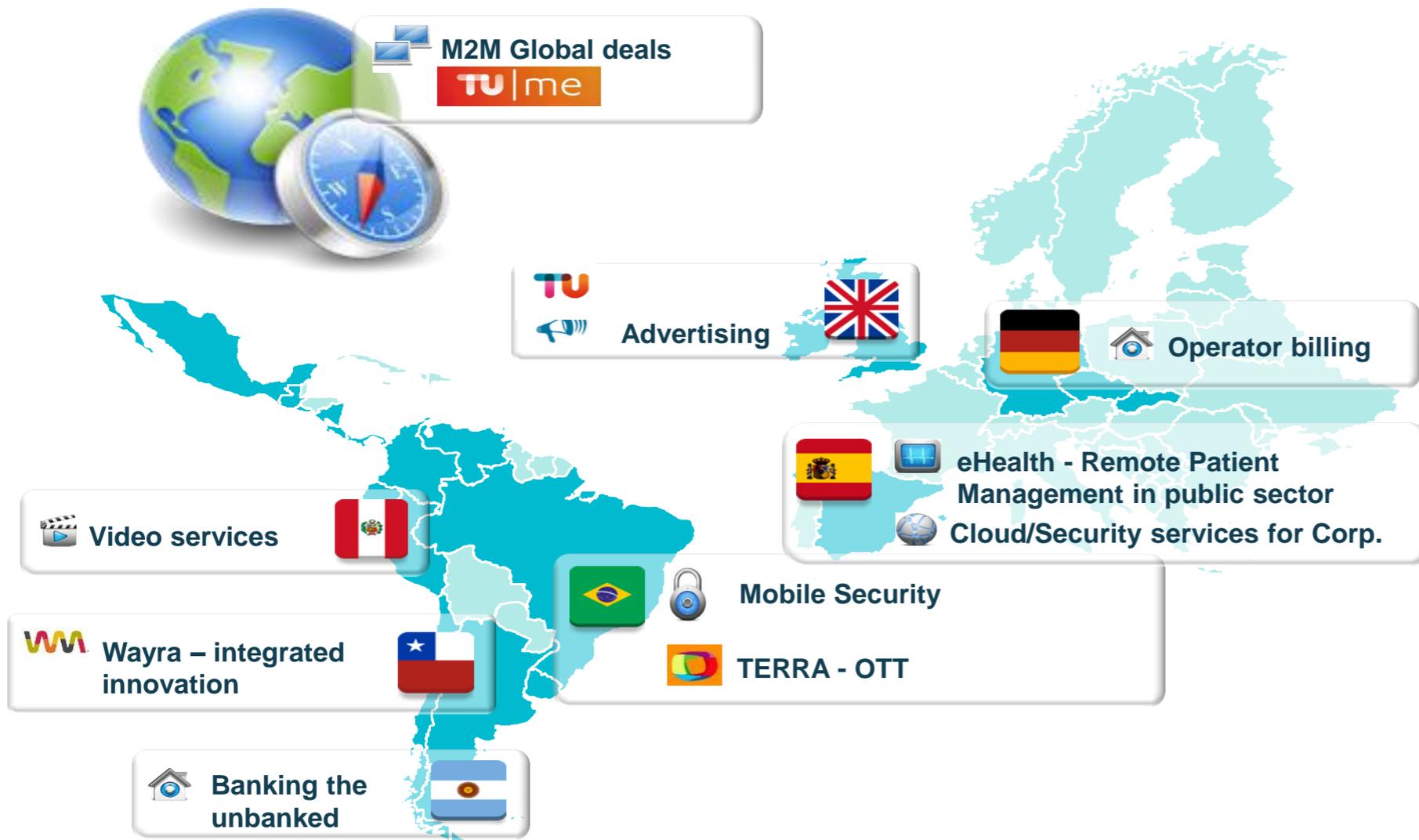
	Global Network	Market Strength		Product differentiation beyond connectivity	Distribution Network	Service provisioning capability	Leading OBs	TEF revenue target by 2015 (€Bn)*
		Consumer	Corporate / Government					
M2M	✓		✓	✓				0.5-0.8
FS LATAM		✓			✓			0.8-1.1
Advertising		✓		✓		✓		
FS Europe		✓		✓				
eHealth		✓	✓	✓		✓		0.3-0.6
Content	✓	✓		✓	✓	✓		1.2 - 1.5
Security		✓	✓			✓		0.5- 0.7
Cloud			✓			✓		

* According to guidance criteria indicated in page 20

We will exploit Telefónica's points of difference to build our digital services value proposition



A global footprint is a major advantage



High OB engagement
Key to accelerate the deployment of new services

Testing the products in one leading country and spreading them selectively through TEF footprint

Unique position in LATAM, combined with great expertise coming from European markets

We are also leveraging our global reach and the OTT approach to launch global services

We are in a unique position for making the market in LATAM, accelerated by our know-how built in Europe



1 Advertising



Market established 2 years ago



Replicate in Brazil – a nascent mobile advertising market

2 eHealth



Help at Hand – developed for Europe



Exporting the product to LATAM and extending the concept to security

3 Security



Service provision company in Corporate



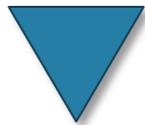
Export modus operandi to LATAM corporates

The digital economy can transform society in LATAM - we are uniquely positioned



Financial Services

c.65% of the population in LATAM don't have a bank account*



Health

2 Beds/ 1000 inhabitants, vs. 7 in Europe**
c.13-14 professionals per 10.000 people**. WHO considers 25 as a minimum



vivo LIGUE SAÚDE

Security

Between 40 to 55 % of people feel insecure, vs. c.20% in the US***



* IMF; ** PAHO – Pan American Health Organization; ***United Nations, Index of Human Development

We have defined a flexible operating model - capturing innovation at multiple levels



Develop our own platforms in the areas in which our core capabilities are differential

Develop



Find opportunities alongside the innovation chain that can complement our current capabilities

Buy / Invest



Partner with category leaders to provide E2E solutions for our customers – go beyond reselling (from product to service)

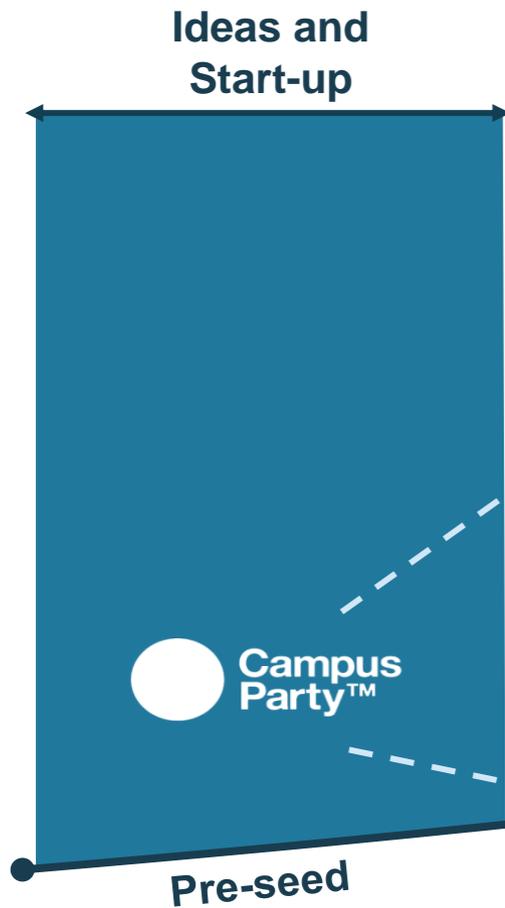
Partner

Our diverse footprint brings new thinking & differential capabilities to our product development



- A widespread team – presence in 5 of the most innovative hubs in the world
- High qualified development team – 10% PhDs, prestigious fellowships (3 Marie Curie & 2 Torres Quevedo)
- 122 patents filed in 2011-2012 YTD

We understand and embrace the Digital Innovation Ecosystem



Campus Party

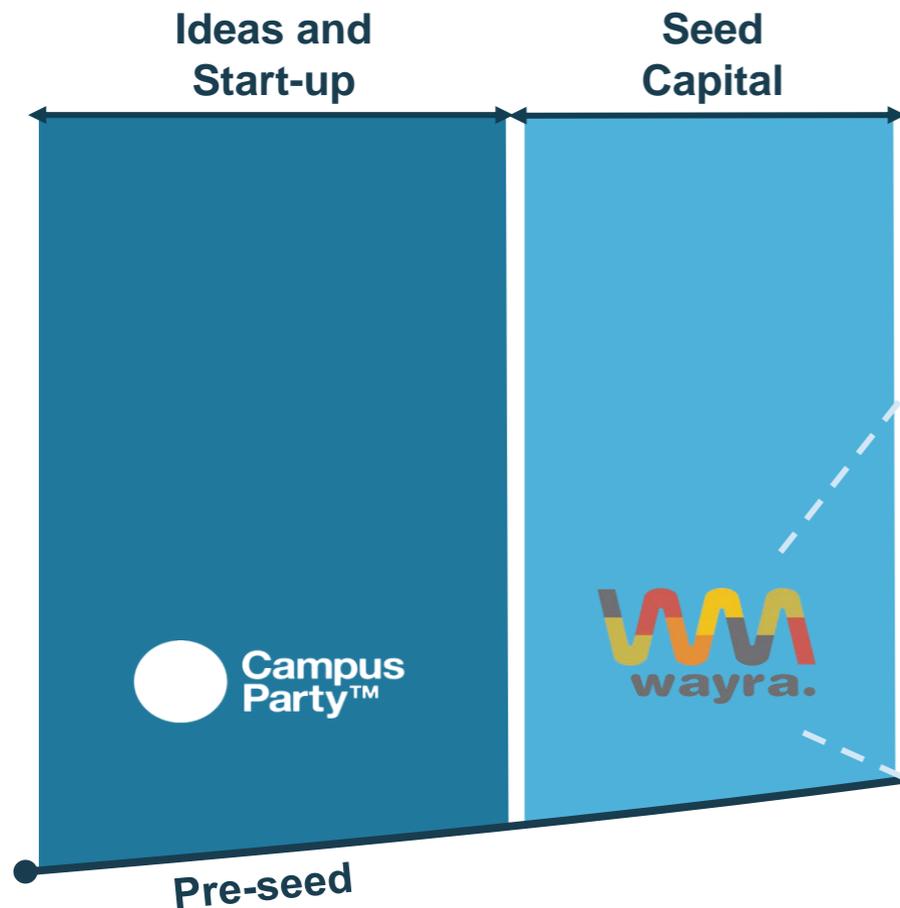


- A social network with more than 180K developers

- A powerful source of innovation



We understand and embrace the Digital Innovation Ecosystem



Wayra

- 140 businesses in 11 countries* – supporting entrepreneurs to develop innovative businesses
- Investing in businesses to help our core:

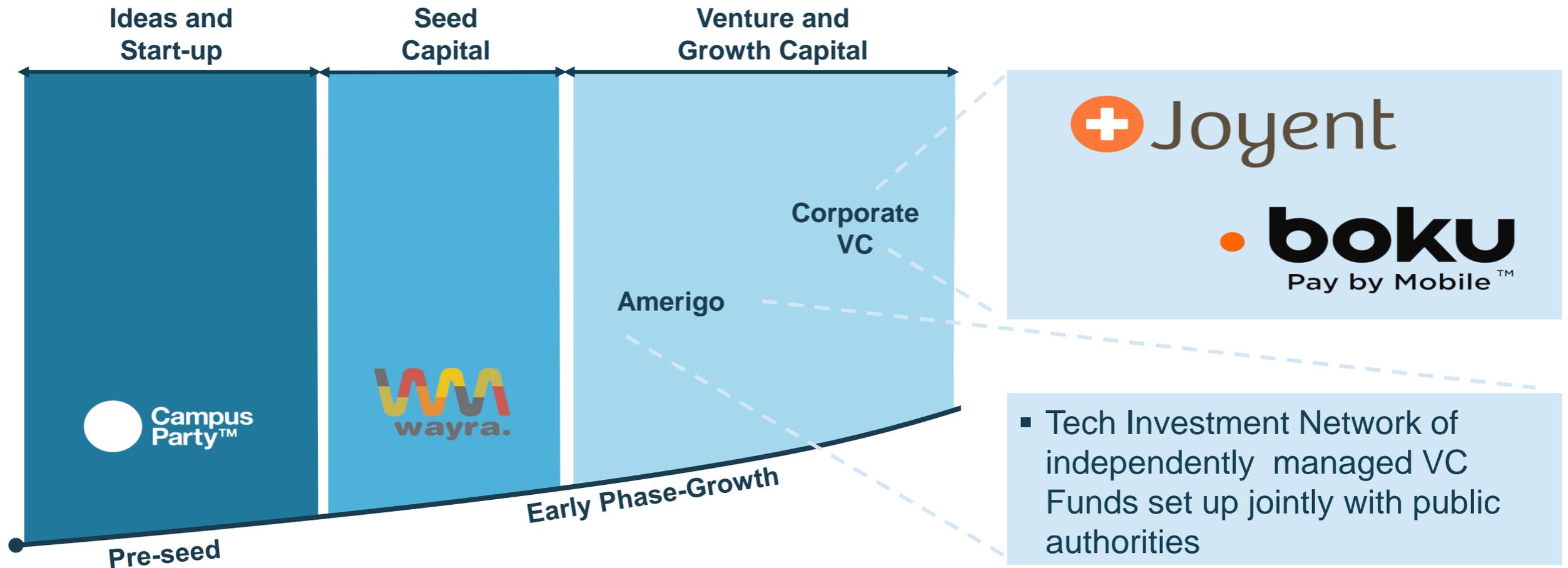


Automated complaint resolution – TEspaña piloting the service

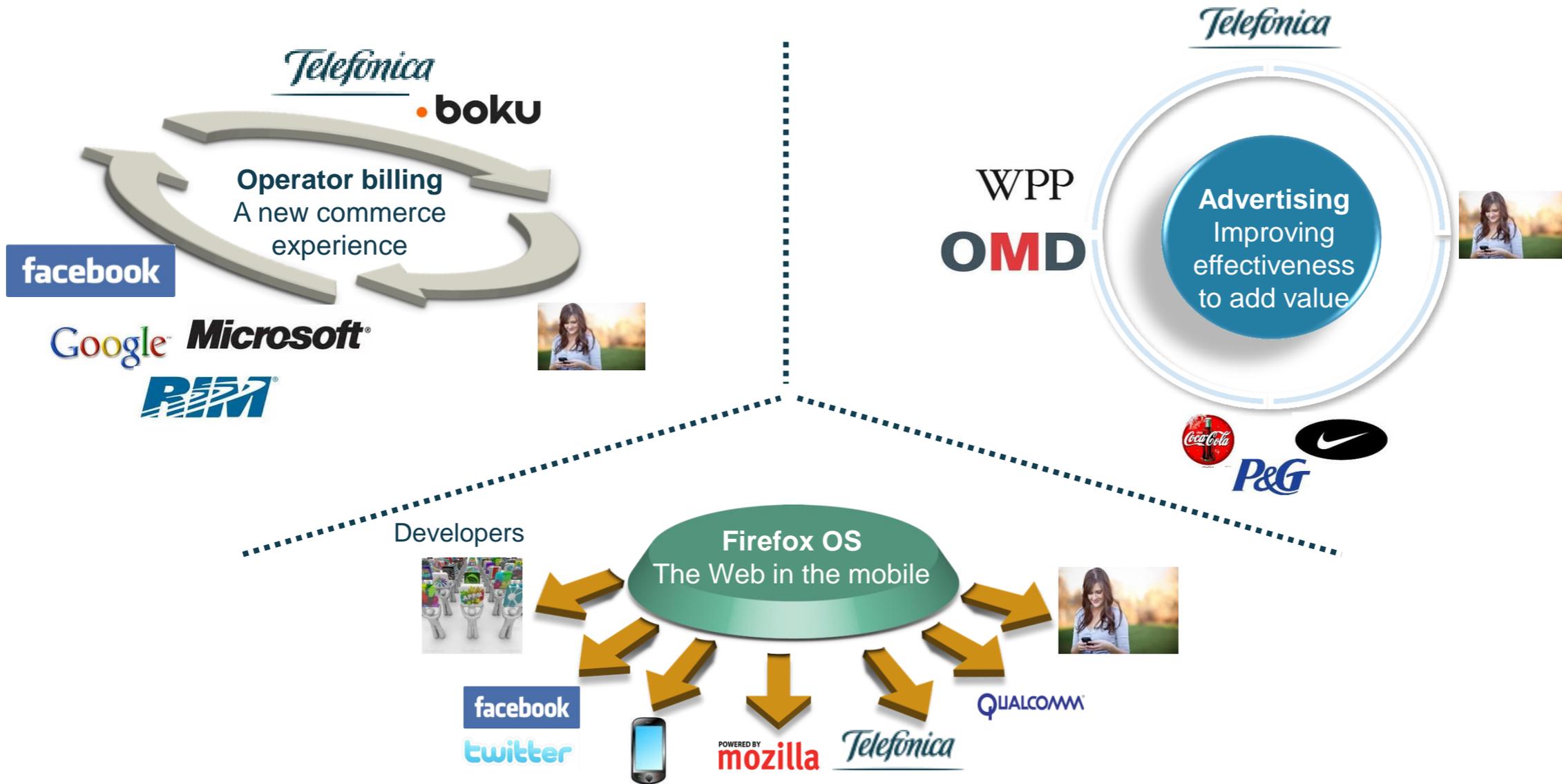


Collaborative social network for SME

We understand and embrace the Digital Innovation Ecosystem



Building win-win ecosystems is vital in the digital space

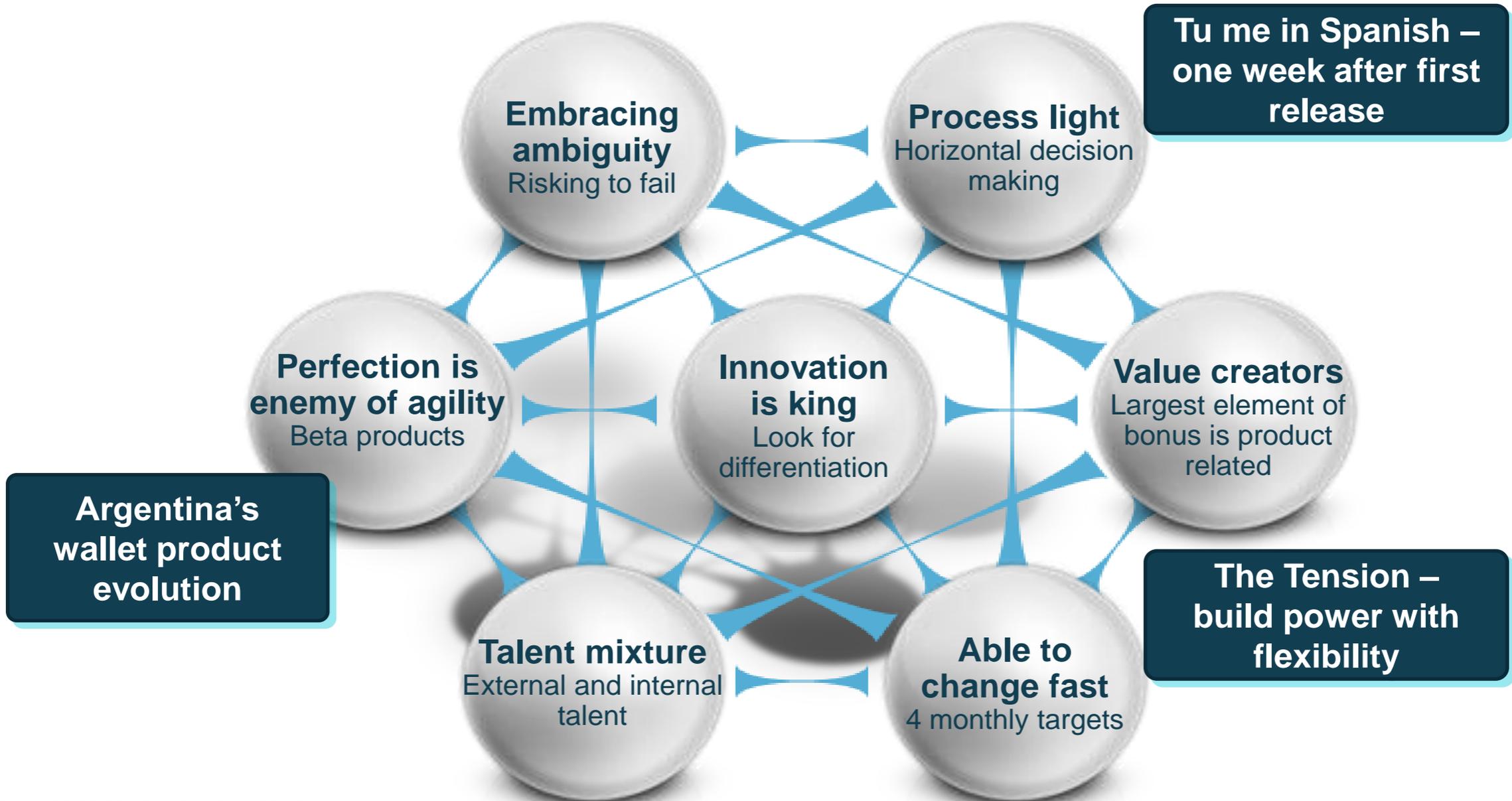


People - building capability by complementing existing internal skills with new external hires



VIDEO

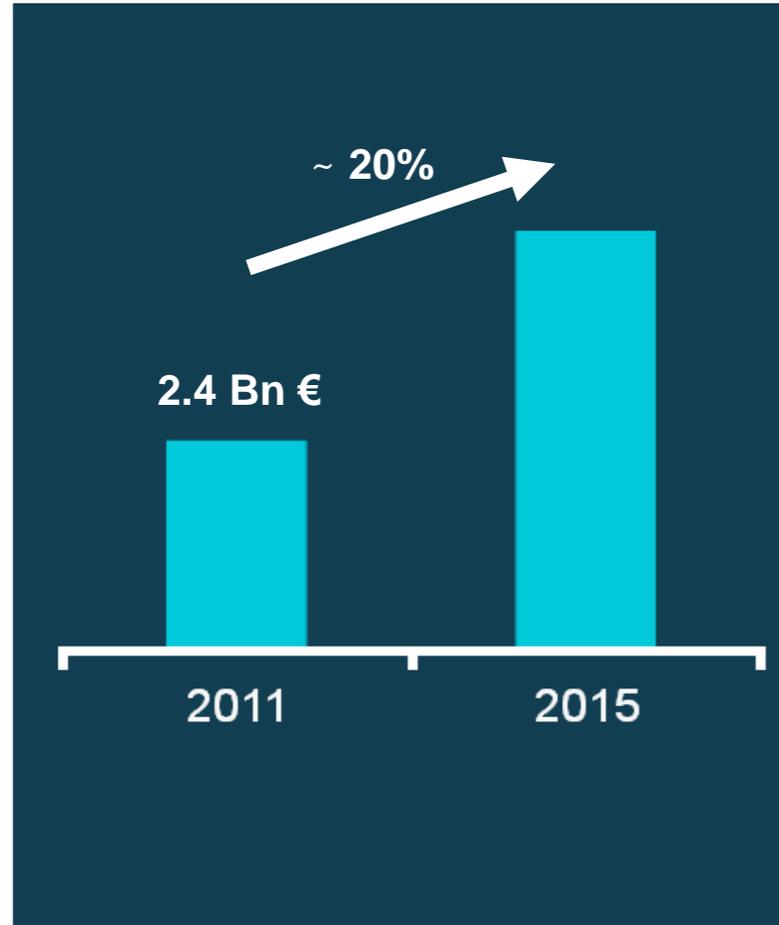
We are developing a distinct, entrepreneurial culture - evolving the telco operating model



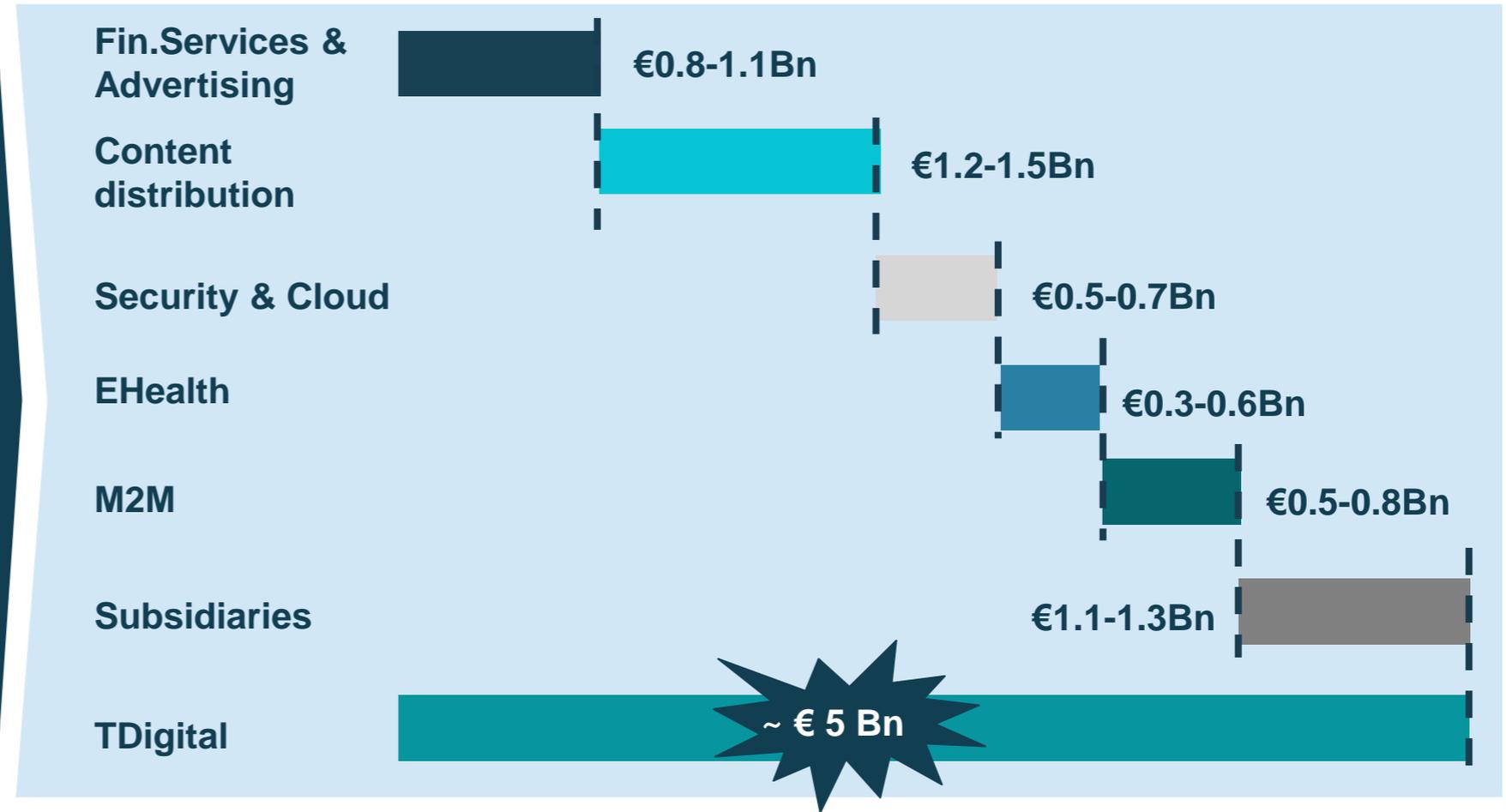
We aim to generate € 5 Bn of revenue by 2015 utilising portfolio management...



We will grow ~20% CAGR in 2011-2015...

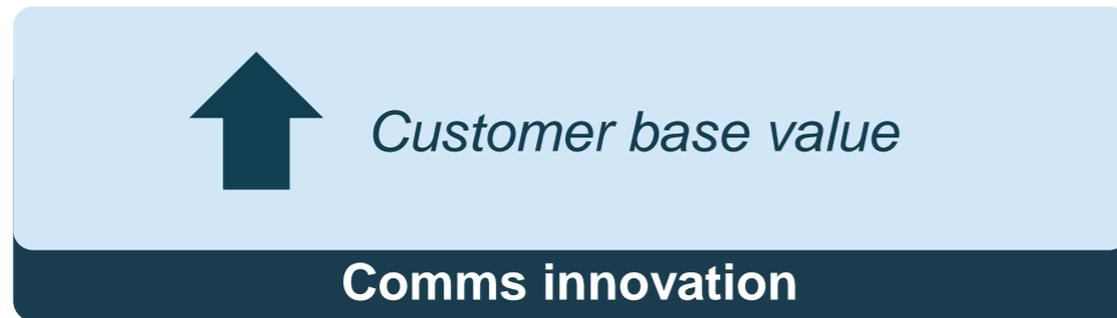


...generating ~ € 5 Bn revenue in 2015* (constant 2011 FX)

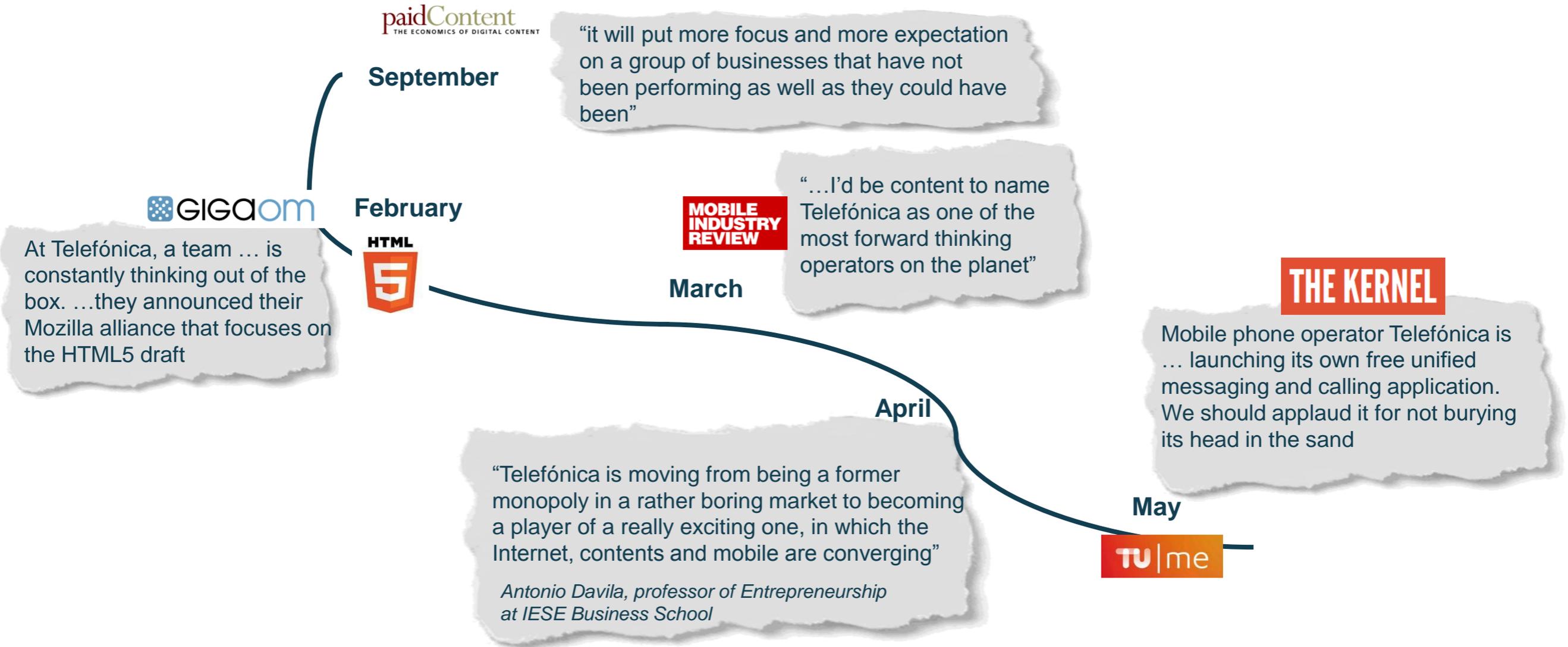


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...while strengthening Telefónica's core business



It's early days, but momentum is being built, and external recognition of progress has started



Conclusions

- ✓ We are creating something that exploits core telco strengths in new areas through a new operating model
- ✓ It's a journey that started 2 years ago and has accelerated with Telefónica Digital
- ✓ We have been set up to succeed creating interdependence with other operating units
- ✓ Our global footprint is a key strength in the digital world and gives us a unique position to make the market in LATAM
- ✓ Our flexible operating model is already delivering – creating win-win relationships with established digital players
- ✓ We have already established positions of power in some key markets
- ✓ We are showing you ~70% of our products today, the rest will be unveiled when they are more mature (or when we have discovered them!)
- ✓ Our growth is rapidly becoming material to Telefónica – our broader impact will continue to increase over the coming years