

Leading growth and profitability

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Telefonica

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01 Seizing the digital opportunity

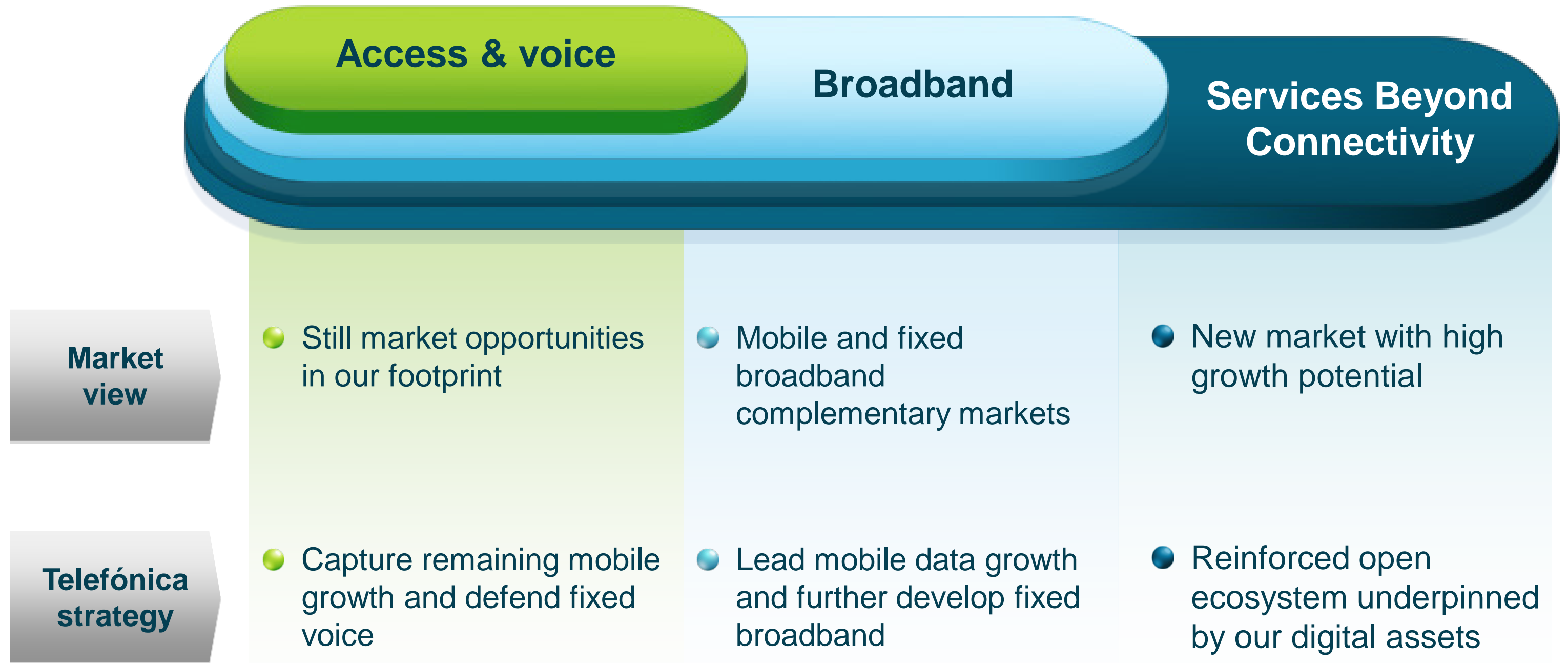
02 Accelerating transformation

03 Recap

01

Seizing the digital opportunity

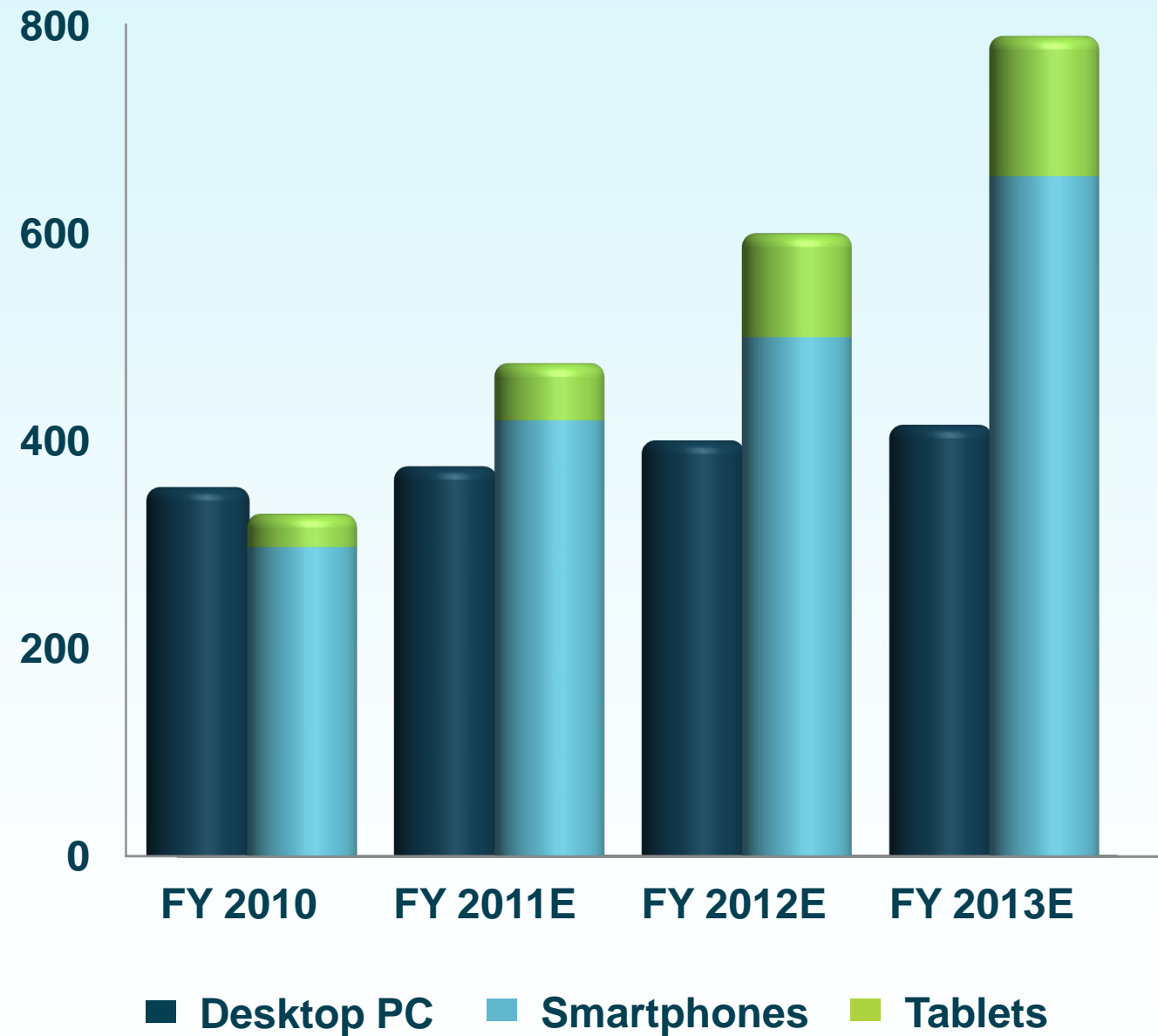
Capturing the digital growth leveraging on broadband and new services



Mobile broadband is the biggest market growth opportunity today

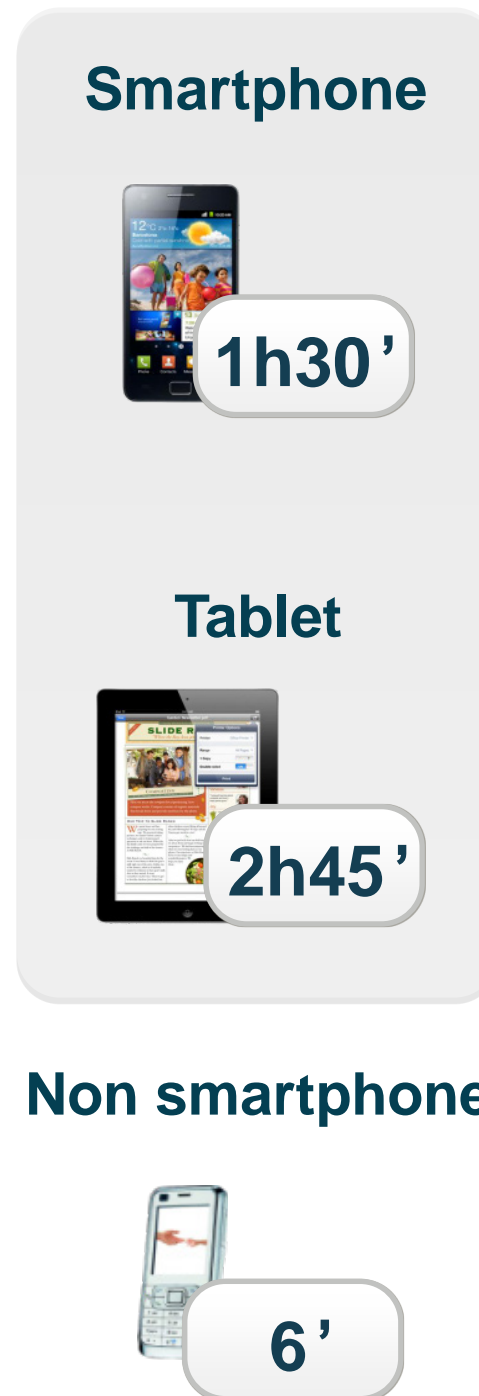
Sales¹

Worldwide. Millions cumulative units shipped



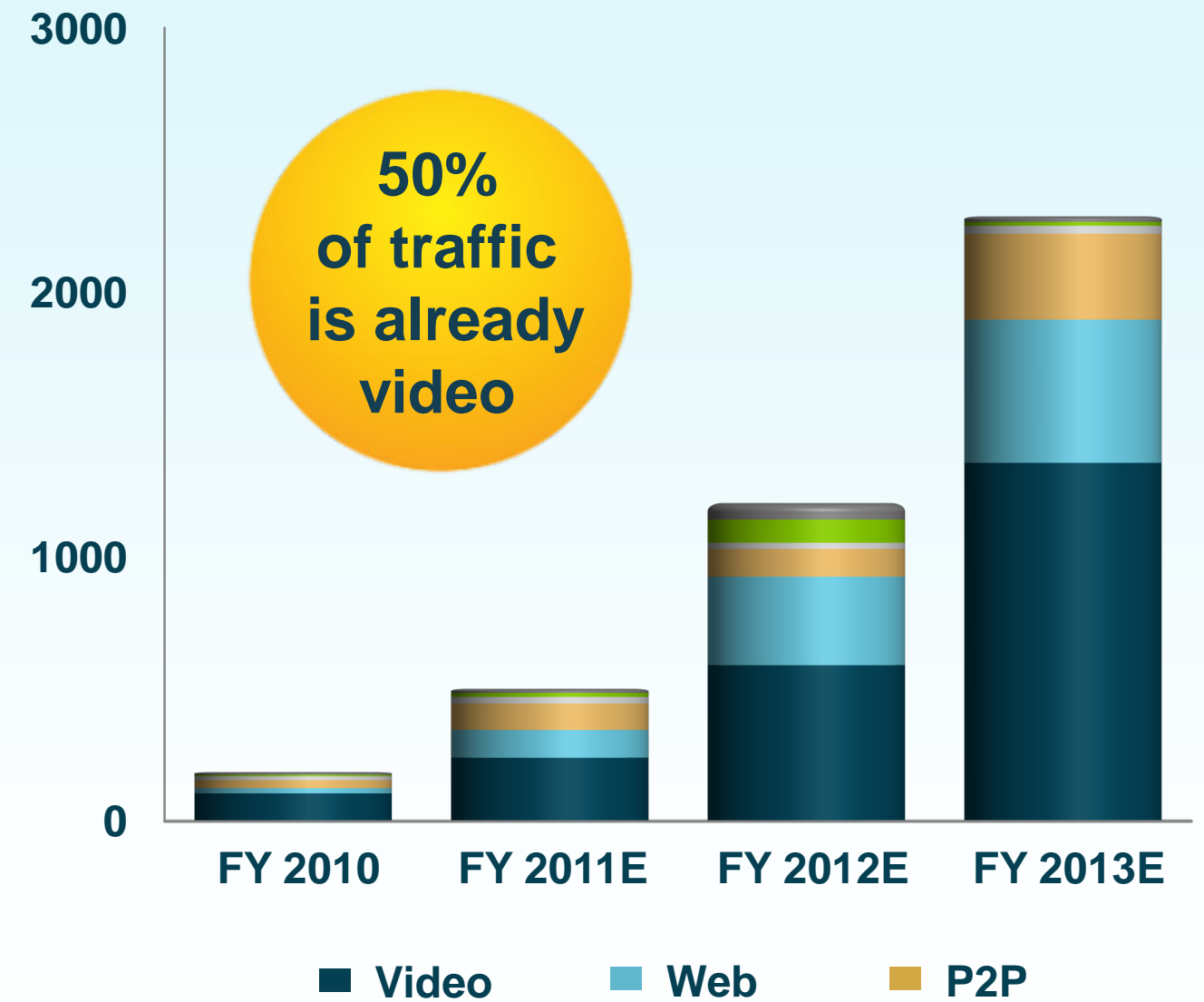
Time spent²

/day



Mobile data traffic growth³

Worldwide. Pbps/Month

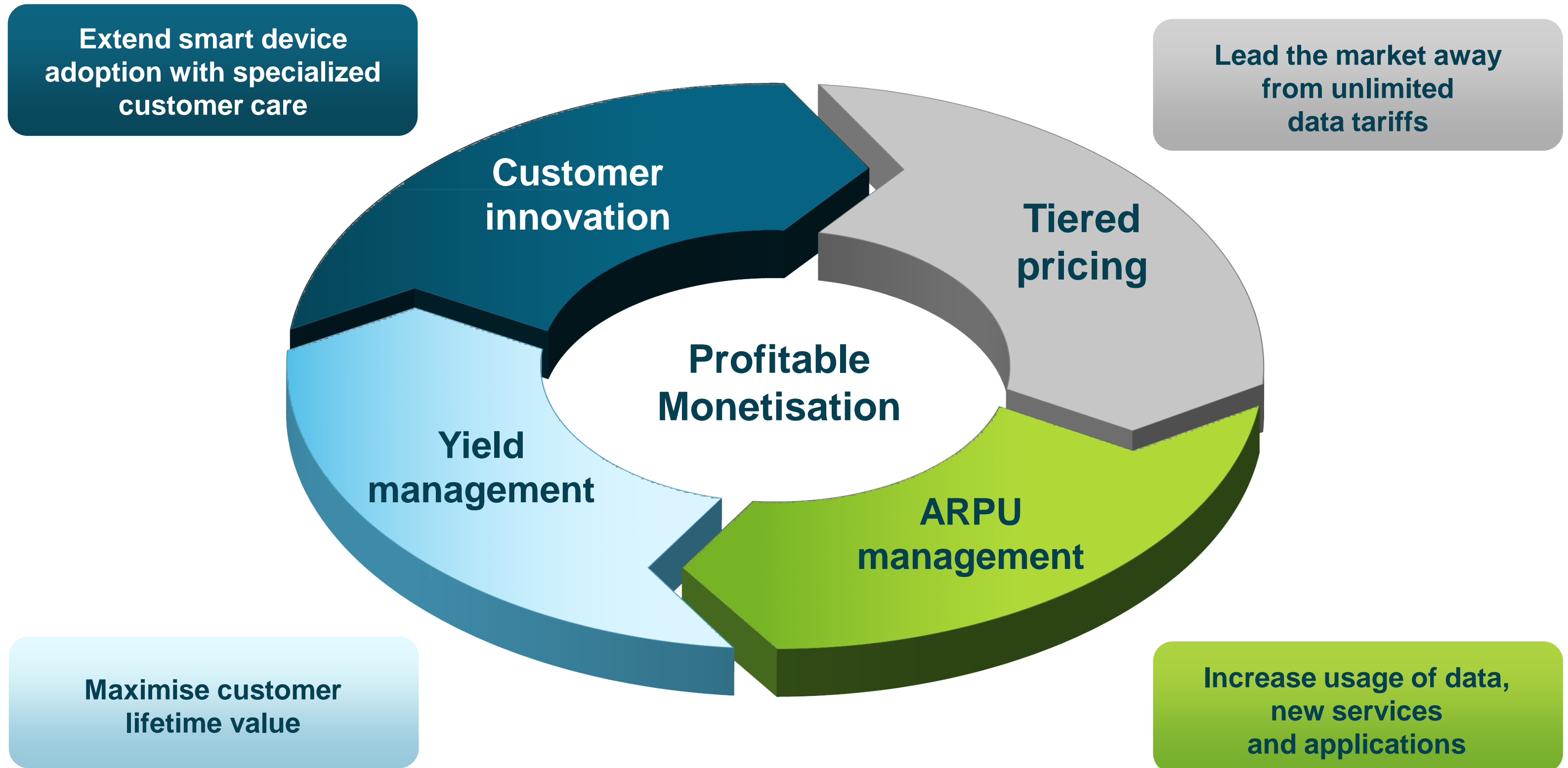


¹Morgan Stanley 2010

²Merril Lynch. Matrix Wireless Q4; AppsFire. January 2011; Morgan Stanley Blue Paper, February 2011

³Cisco VNI 2010-2014. June 2010

Profitable mobile data monetisation is our key strategic priority



Innovation focus on customer experience



RCS: Rich Communications Suite
 NFC: Near Field Communications
 CDN: Content Delivery Networks

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

ARPU management is increasingly important

ARPU management







Bundles

- **Connectivity**
 - § MBB, FBB, WiFi
- **Services**
 - § m-payment
 - § storage
 - § security

Shared services

- **M2M – Jasper**
- **Financial services – Mastercard, VISA**
- **Security services**

Multiscreen / multiplatform

			
VoD			
Music			
RCS			
Apps			

ARPU Uplift¹

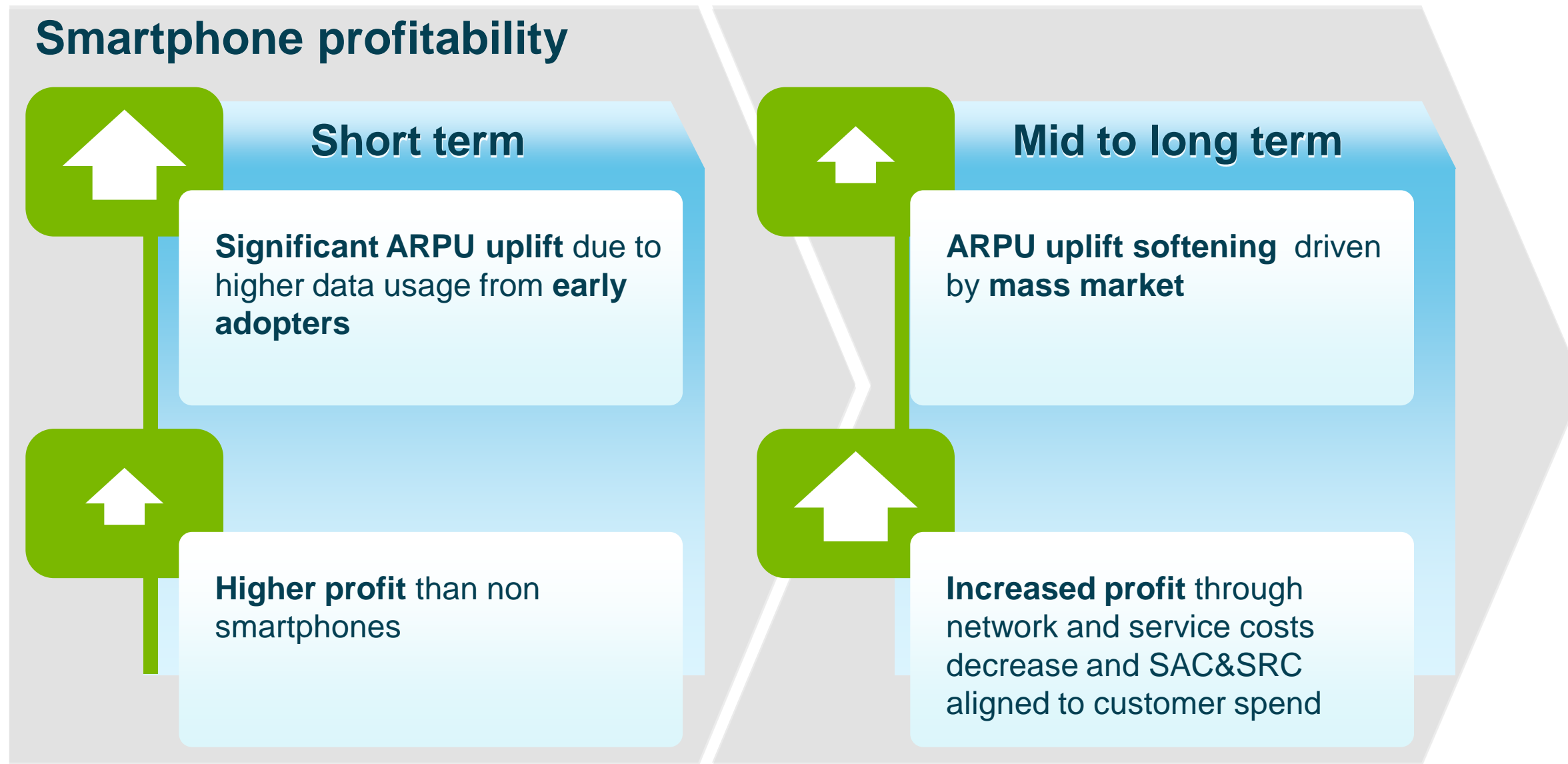
TEF. FY 2010

 VAR



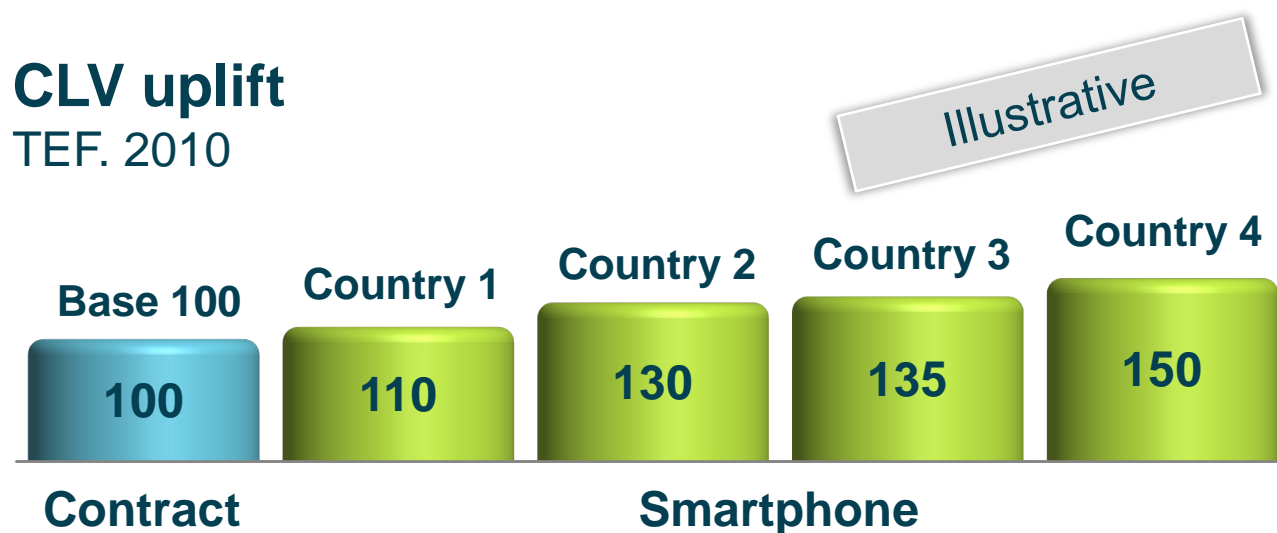
¹Average contract (feature phone) and smartphone data attached rate customers across footprint

Yield management to reinforce customer profitability



- **Acquisition:**
manage tariffs, channels, handsets
- **Customer lifetime:**
better understanding customer profitability and active management of profit drivers per customer
- **High level strategies:**
optimization of retail activities, network development and commercial policies

CLV uplift TEF. 2010

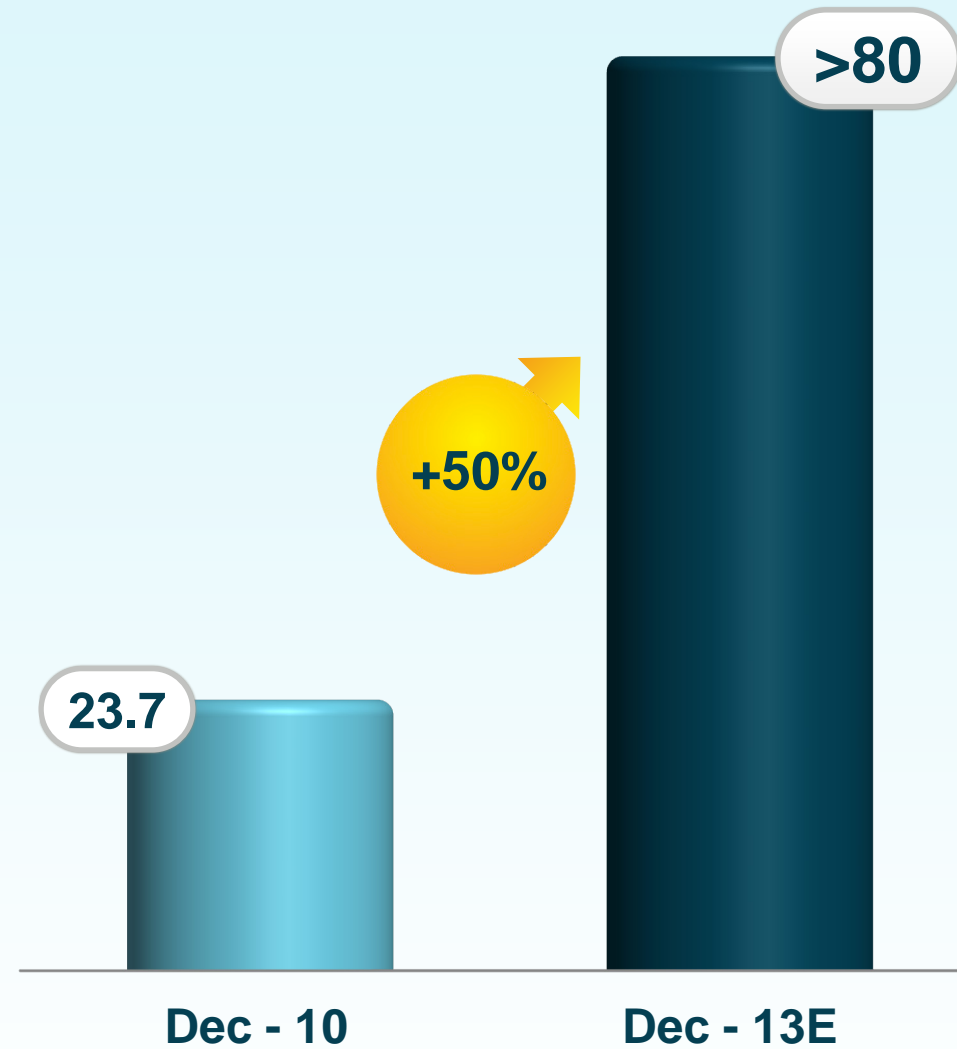


CLV: Customer Lifetime Value

Mobile broadband is the major growth driver for Telefónica revenues

MBB Accesses

TEF. Millions



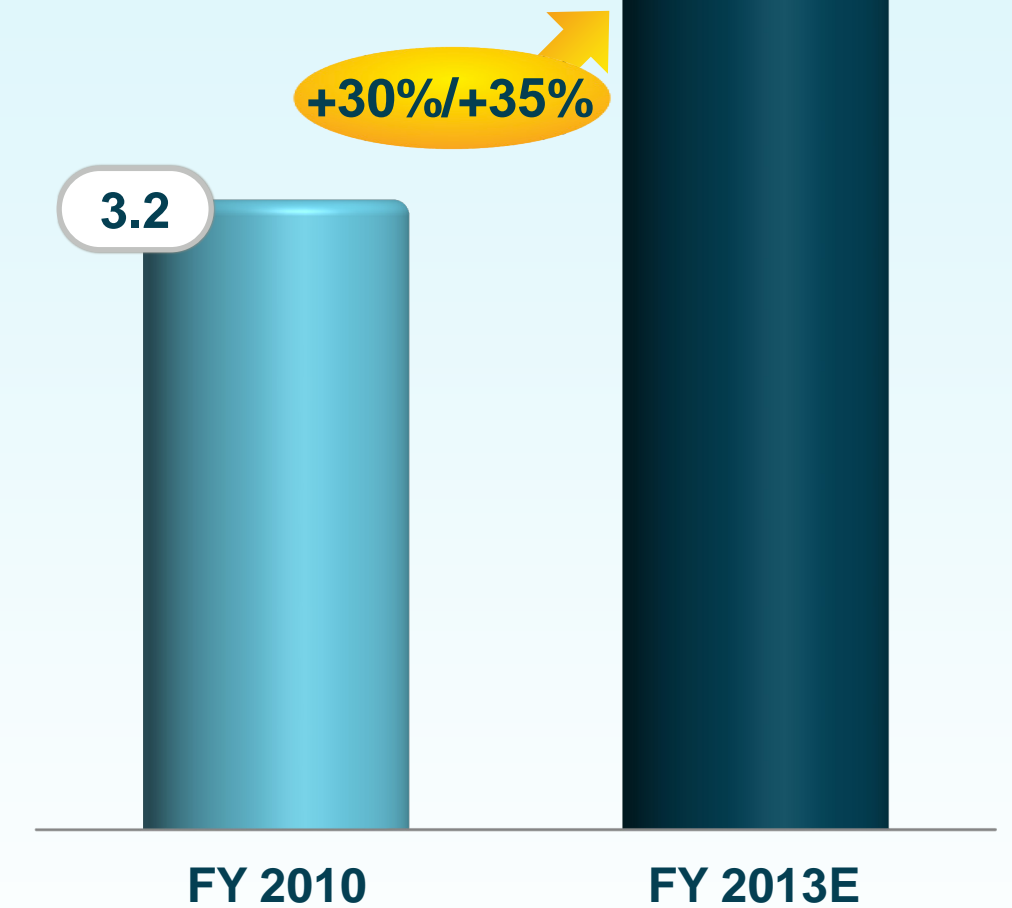
MBB Penetration

TEF.



MBB Revenues¹

TEF. €bn



MBB Revenues

TEF. % /Total Revenues



¹Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela and changes in consolidation perimeter

MBB Penetration: MBB accesses with data attached rate/Total mobile customer base

MBB Revenues from smartphones, smart devices and connectivity MBB, mobile mail, MBB equipment (PCMCIA's, Dongles), roaming and WAP browsing. SMS and M2M excluded

We maintain our FBB strategy with a higher complementary approach

FBB

- Evolve our fixed offer towards **full FBB** proposals with increasingly higher bandwidth
- Reinforce our platforms to deliver **full IP services** from voice to video
- Deliver **full bundles** (multiscreen, multimedia and integrated full home networking)

FBB
leverages
mobile
services

ADSL <25 Mbps

- **Massive** deployment across footprint
- **3P standard quality** offer providing TV and VoD plus **full interactivity** services:
 - § OTT video
 - § Online gaming
 - § Videoconference
 - § PVR
- Pricing schemes for **entry level** and **medium level users**

UBB ≥25 Mbps

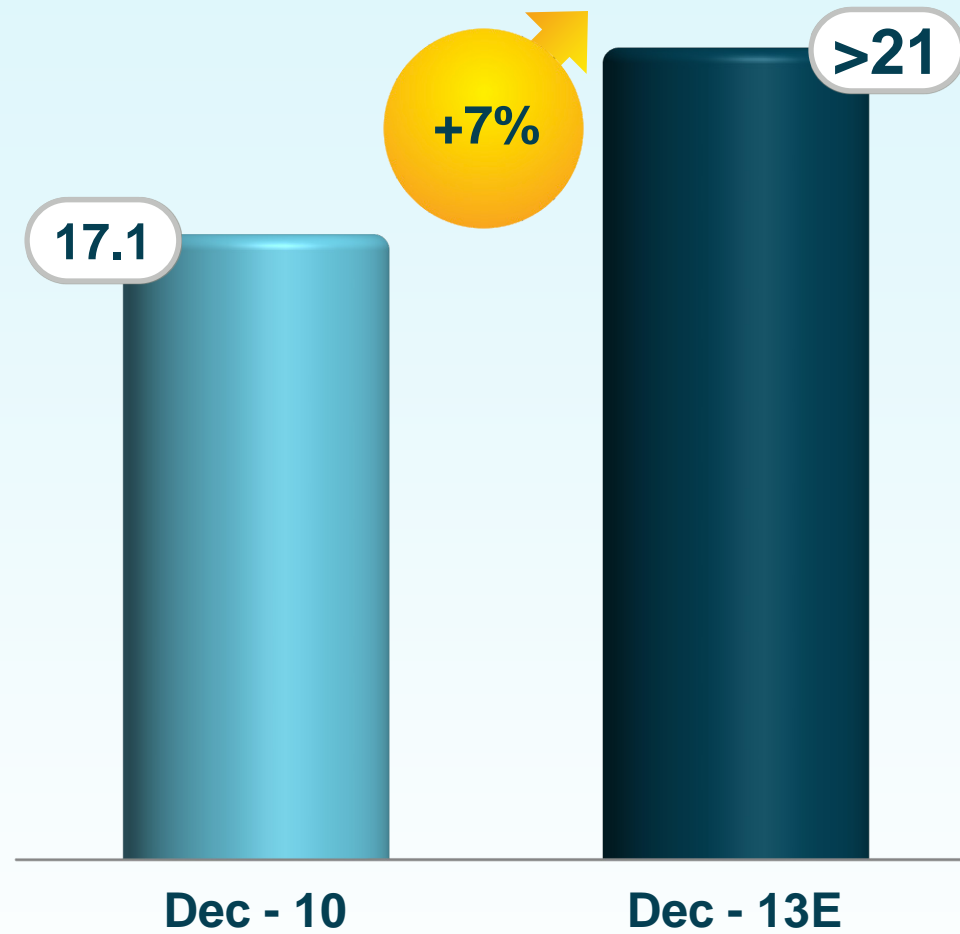
- **Selective** and **demand driven** rollout
- **High quality full bundled** offer supporting **capillarity for cloud services** with enriched experience and low latency:
 - § Unlimited set of services including high quality content (HD, 3D)
 - § Multiroom and multidevice applications, PVR enhanced functionality
 - § Telepresence
- Pricing schemes consistent with advanced services and multitasking for **high level** users

FBB will continue to be a significant growth engine

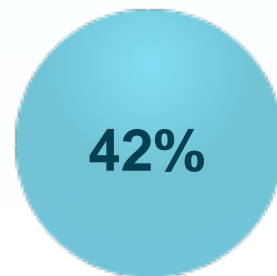
FBB Retail Accesses

TEF. Millions

 CAGR



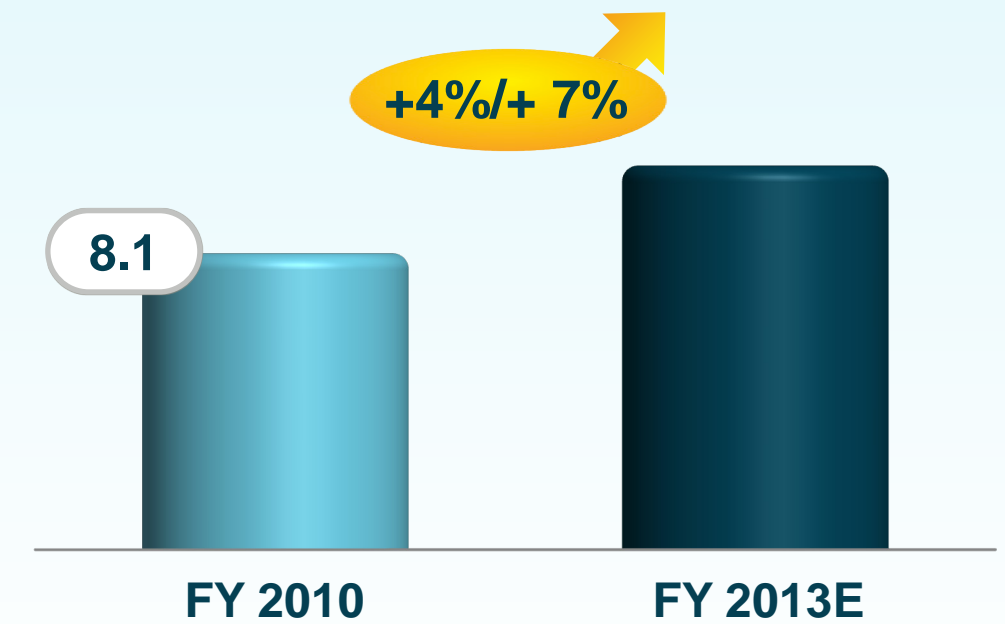
FBB Penetration
TEF. % / Fixed Lines



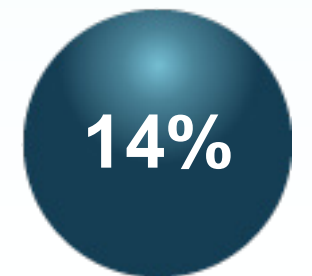
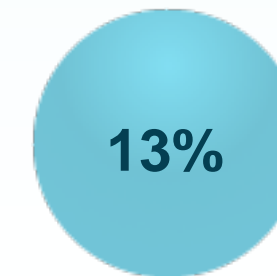
FBB Revenues¹

TEF. €bn

 CAGR



FBB Revenues
TEF. % / Total Revenues



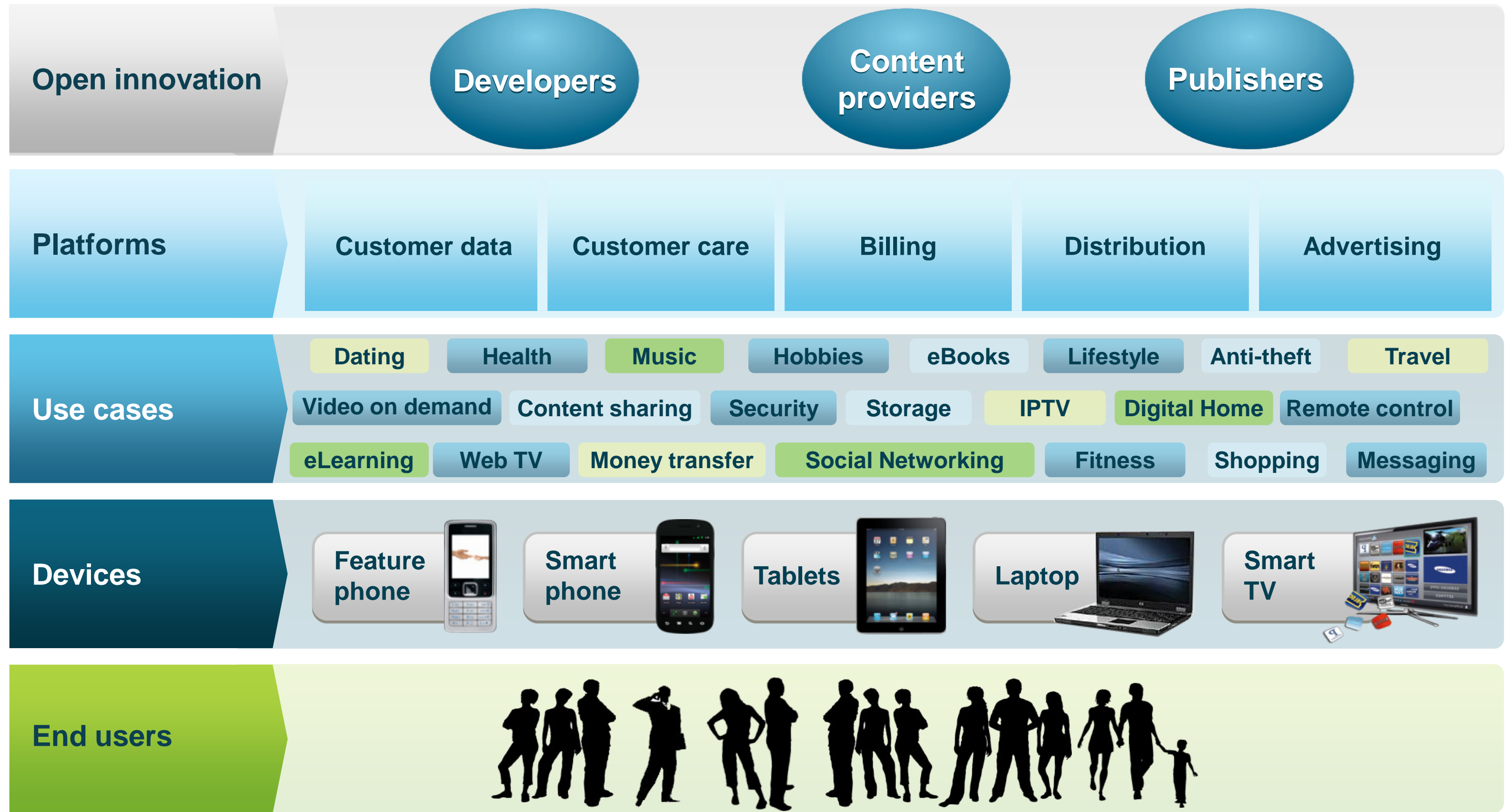
¹Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela and changes in consolidation perimeter

FBB Retail Accesses: Include FO (Fiber Optics), DSL, cable modem and satellite

FBB Penetration: Over total fixed lines ex Fixed Wireless

FBB Revenues: Include Retail FBB connectivity, VAS, wholesale FBB, fixed data services and equipment revenues

Beyond connectivity we are reinforcing our service ecosystem



Our digital assets strengthen our service ecosystem

7 Verticals



Video & DH



Applications



Financial services



eHealth



Security



M2M



Cloud

7 Companies



Jajah

Unified communications



Tuenti

Social network



Terra

Media content and services



Rumbo

eTravel



TIS

Security



TLS

eLearning



T Solutions

Enterprise solutions

ONE PLATFORM - ONE SERVICE - ONE ROLLOUT

Broadening our portfolio to new growth engines



Video & DH

IPTV, Videoclub, HD, Social features, Telepresence, CDN



Apps

BlueVia, Wac X.0, App Folder, eBooks, O2 Media, RCS



Financial services

Handset insurance, Merchant payments & NFC, Direct to bill, m-pass, Cobranded cards



eHealth

Movistar eHealth, Health CRM, Tele rehabilitation, Imaging, Mobile baby, Chronic management



Security

Clean pipes, Anti fraud, Managed security, Mobile security, Data loss prevention, Identity management



M2M

Managed connectivity, Managed devices, Asset management, Utilities, Connected car, Smart cities



Cloud

Aplicateca, Terabox/3G, Virtual DC, Virtual Desktop

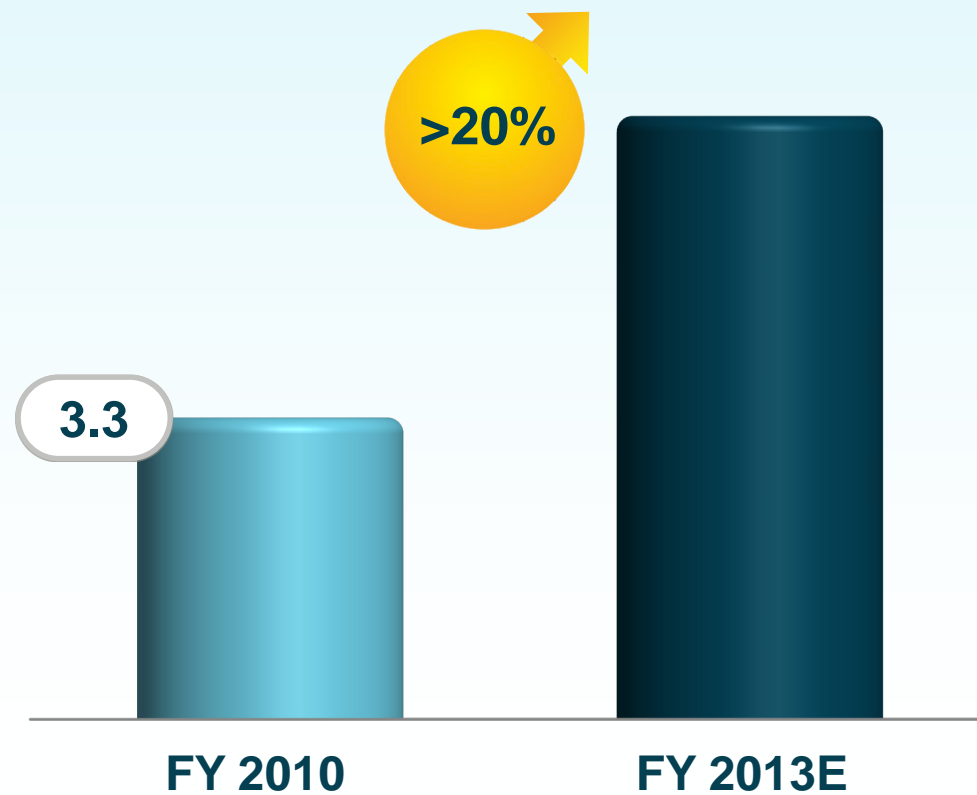
Country focus rollout:

- Identified **leading countries** per product
- Progressively **expanding** to remaining countries
- **Globally following up** to reinforce execution and delivery

Services beyond connectivity will further foster top line growth

Services Beyond Connectivity Revenues¹

TEF. €bn



Services Beyond Connectivity Profitability¹

TEF. OIBDA Margin



Profit drivers

- Global approach & scale
- New business leverage on core assets
- Margin improvement from greenfield to run rate

¹Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela and changes in consolidation perimeter

Services Beyond Connectivity Revenues: Include content, digital services, ICT solutions and vertical units revenues

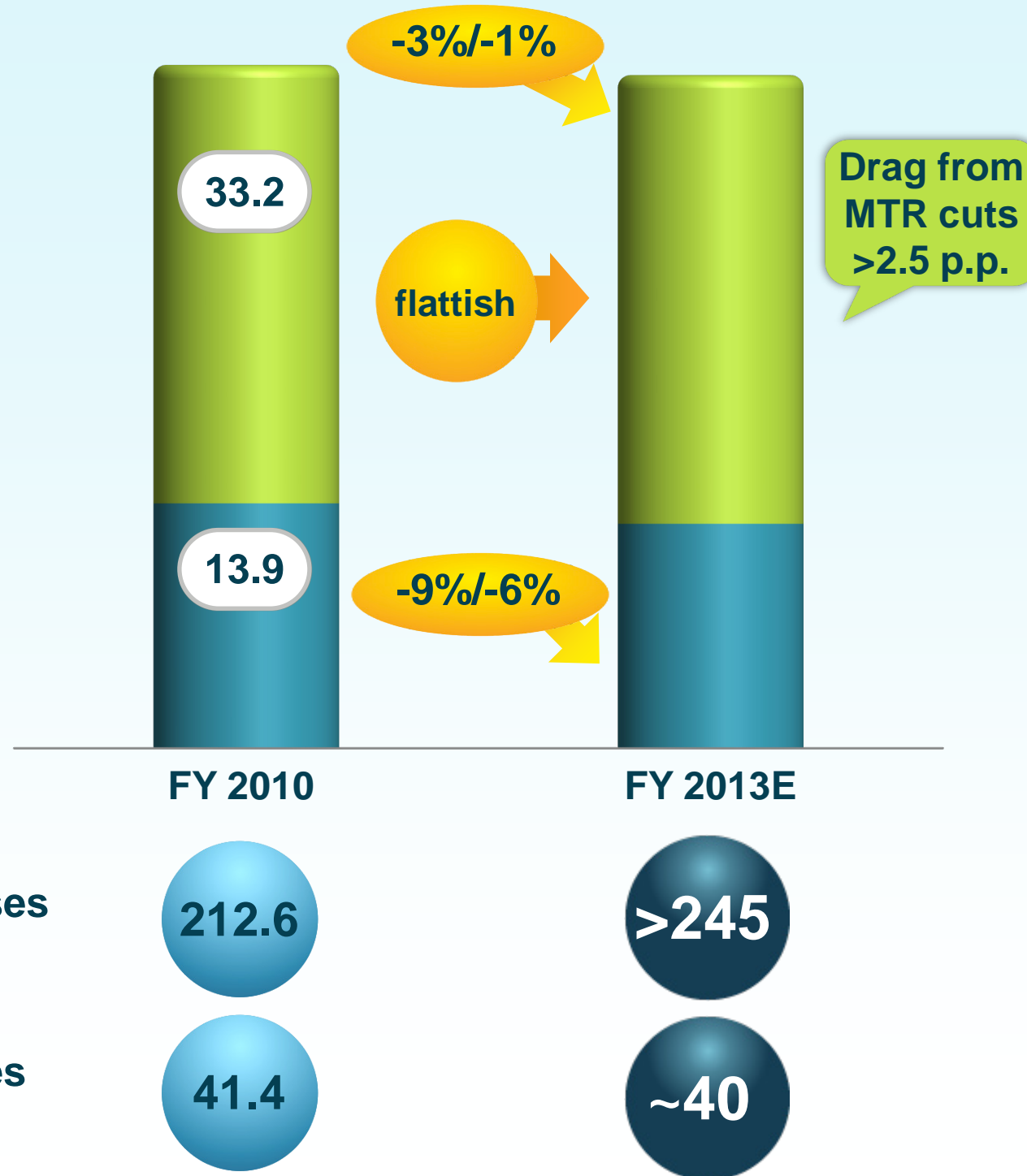
We have important remaining revenue opportunities in voice

Mobile & Fixed Voice and Access Revenues¹

TEF. €bn



■ Mobile
■ Fixed



Mobile Accesses
TEF. Millions

212.6

>245

Fixed Accesses
TEF. Millions

41.4

~40

● Clear marketing focus:

§ **Consumer:** Deepen **segmentation** and stimulate **usage** and **loyalty** through **commercial actions**, **up-selling plans** and **voice traffic promotions**

§ **Business:** Reinforce position in **SMEs** and **MNCs**

● Mobile: Solid growth in Latam and MTRs dragging growth in Europe and Spain:

§ **Capture penetration** in growth markets. Increase usage by accelerating prepay to contract **migration**

§ **Manage market share** in mature markets to offset **MTRs** cuts

● Fixed: Defend ARPU through **additional services**:

§ Defend **competitive positioning** through **bundles**

§ Develop **new VAS** to increase **usage**

¹Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela and changes in consolidation perimeter

Voice and Access Revenues: Include fixed/mobile access & voice (SMS included), narrowband and mobile & fixed equipment revenues

Mobile Accesses: Dongles and PCMCIA's are not included

Fixed Accesses: Fixed Wireless Accesses included

We are expanding our value oriented customer base

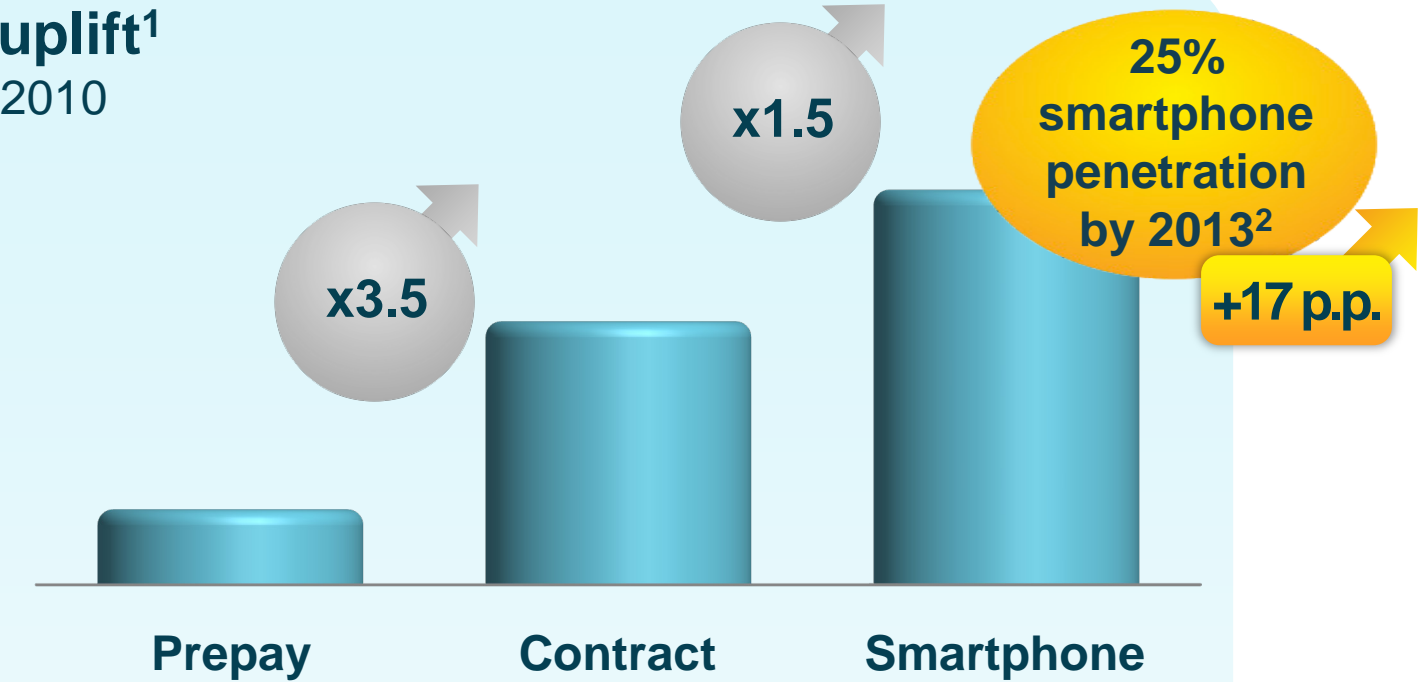
Accesses TEF. Millions	Dec-10	CAGR 10-13 E
MBB	23.7	+50%
FBB	17.1	+7%
Mobile	212.6	+5%
Fixed	41.4	-1%
Total	287.6	~+6%

>340
by
FY 2013E

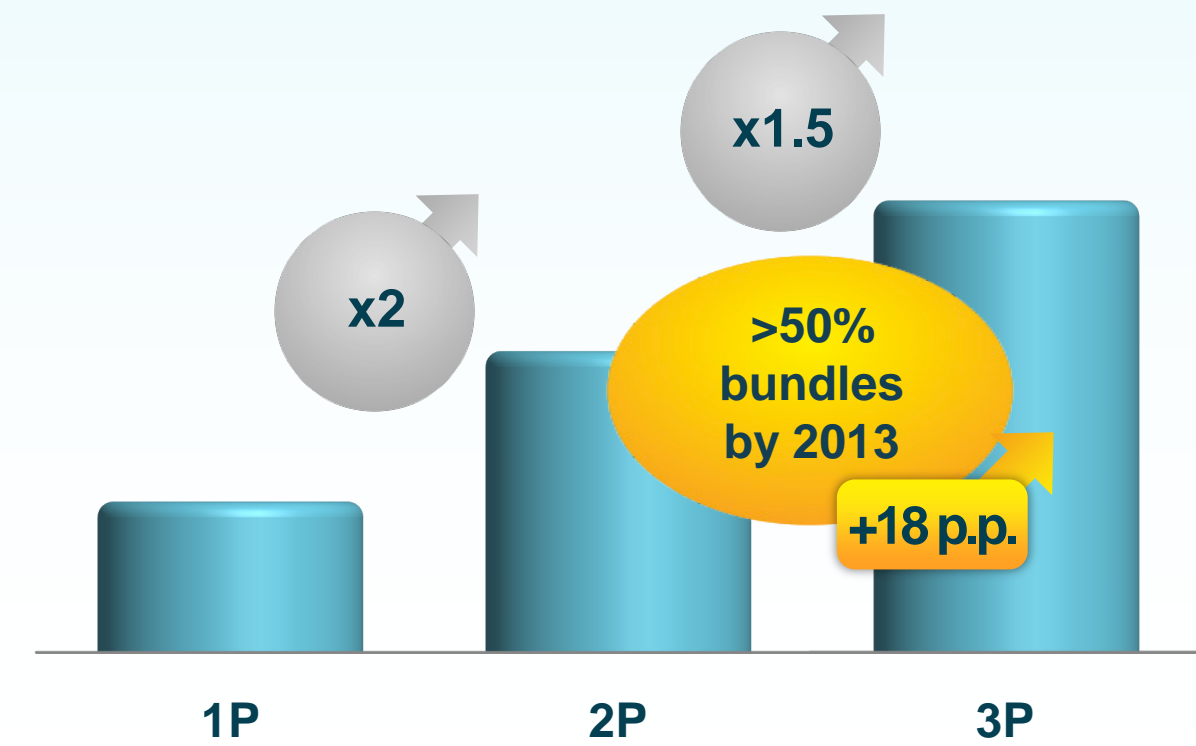
ARPU uplift¹ TEF. FY 2010

 VAR
 VAR

Mobile



Fixed



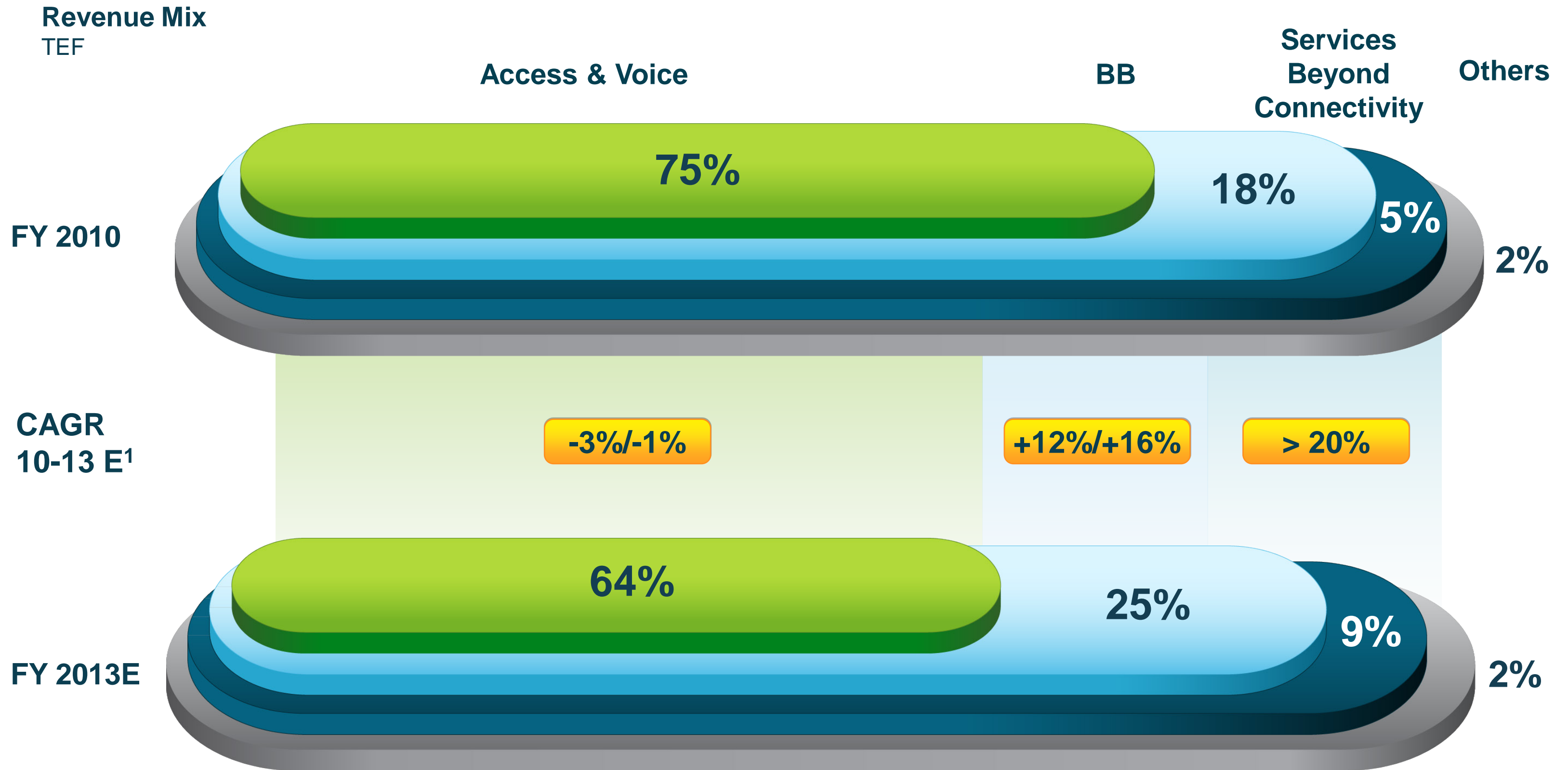
¹Average prepay, contract (feature phone) and smartphone with data attached rate customers across footprint

²Smartphones with data attached rate / Total Mobile base excluding dongles and M2M accesses

Mobile Accesses: Dongles and PCMCIA's are not included

Bundles: 2P+3P customers

We are increasingly capturing growth opportunities



¹Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela and changes in consolidation perimeter

Voice and Access: Include fixed/mobile access & voice (SMS included), narrowband and mobile & fixed equipment revenues

BB: MBB and FBB revenues

Services Beyond Connectivity: Include content, digital services, ICT solutions and vertical units revenues

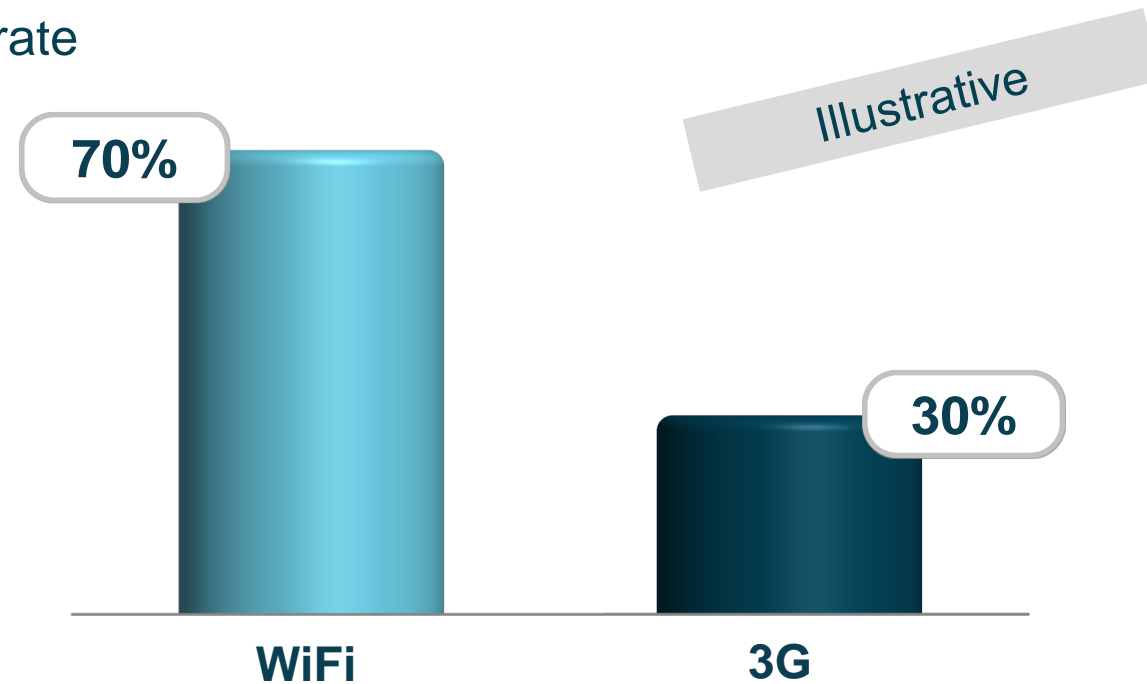
Others: Subsidiaries and other companies

02

Accelerating transformation

Our operational model is adapting to customer behaviour changes

Smartphone data traffic¹ Quality rate



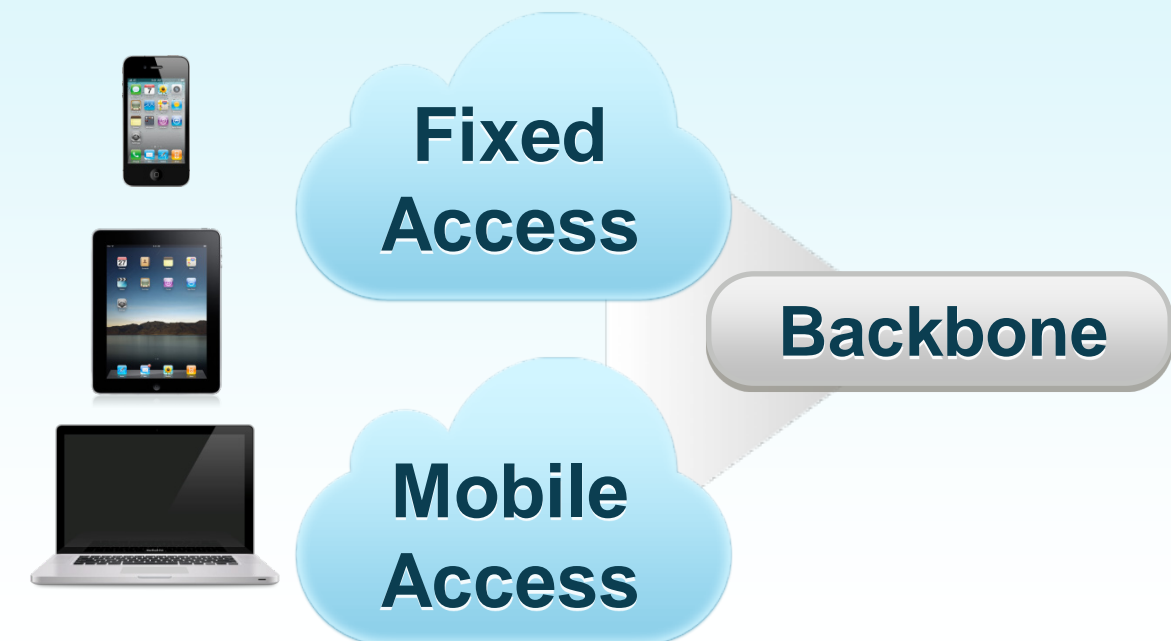
- **Smartphones** may either support **3G** or dual **3G / WiFi**
- **Tablets** may either support **dual 3G / WiFi** connectivity (65%²) or just **WiFi**

Before



Customer tightened to the network

From now on



Customer chooses device and network

¹Preliminary measures on TEF networks including total mobile data traffic (2010)

²Business Insider. November 2010

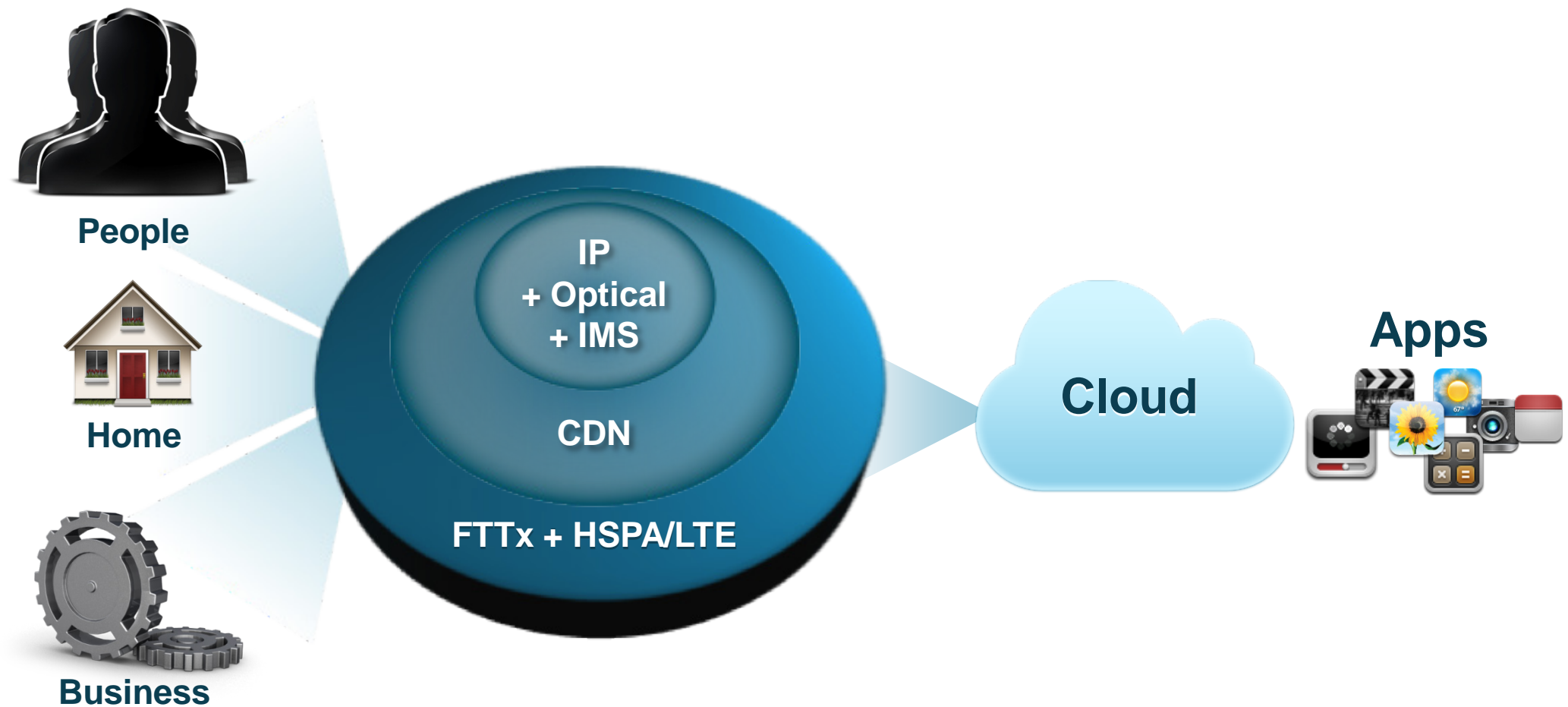
Leverage fixed and wireless technologies to meet customer demands

● Fixed access support:

- § Higher wireless access bandwidth (LTE/LTE Advanced)
- § Closer sites to customers (Small Cells)
- § Customer indoor experience (WiFi)

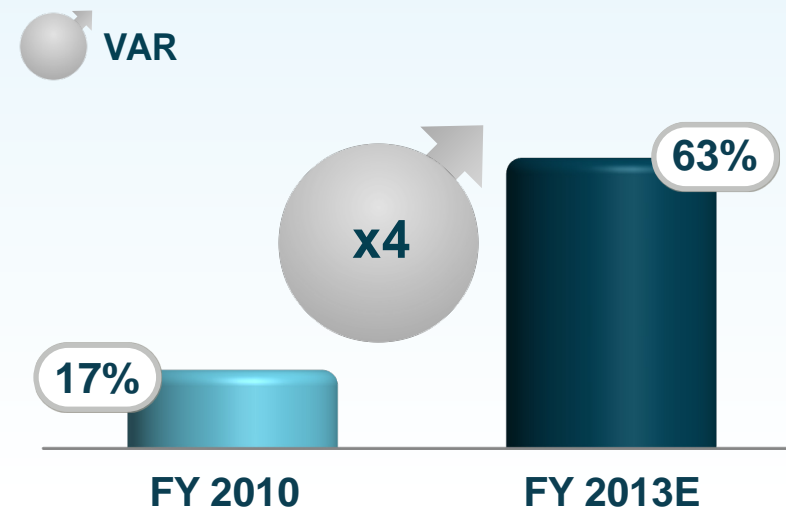
● Wireless access support:

- § Wireless loops (FW)
- § Wireless broadband (FWB)



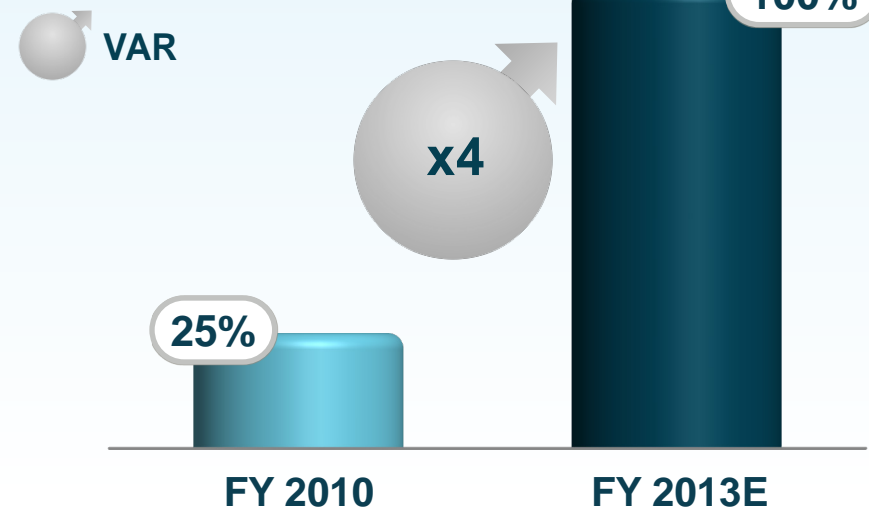
3G & LTE BS FO connected

TEF. % /Total BS



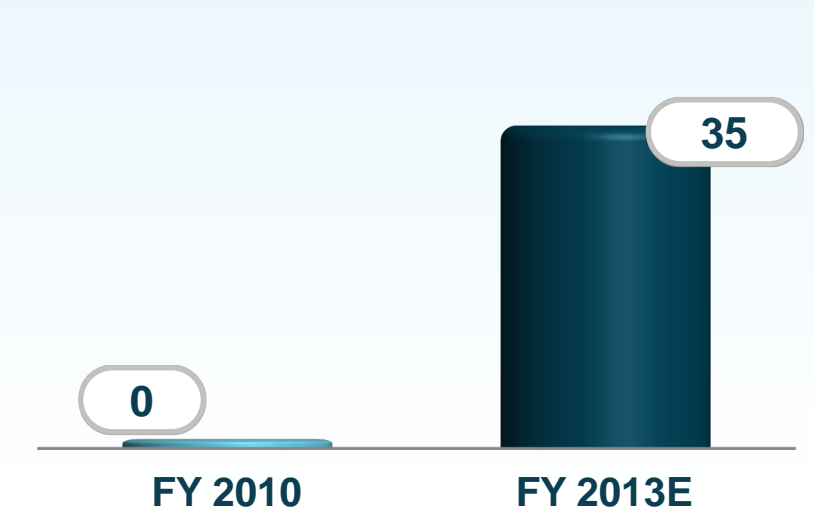
IMS implemented

TEF. % of countries

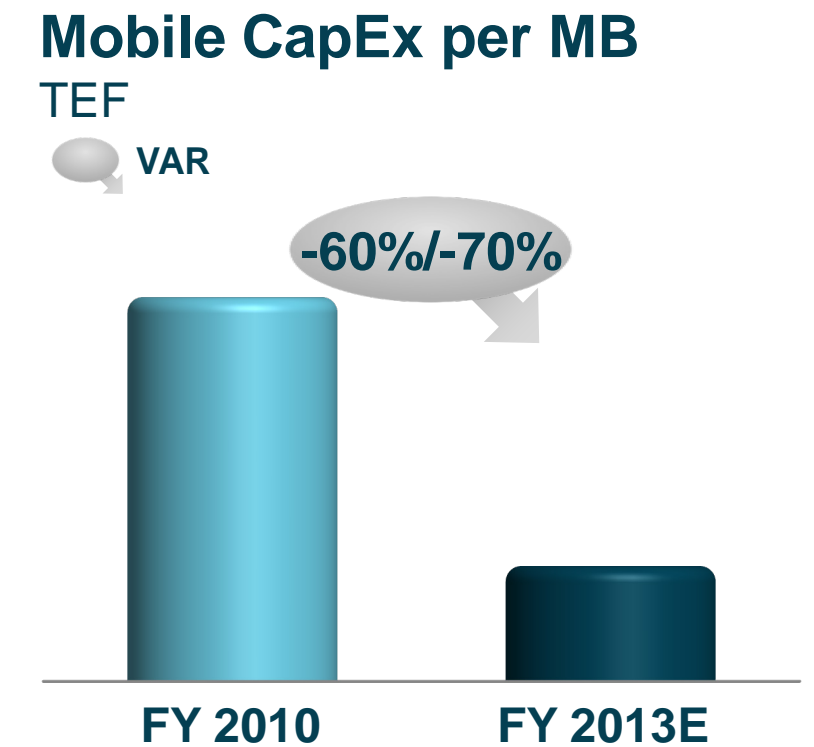
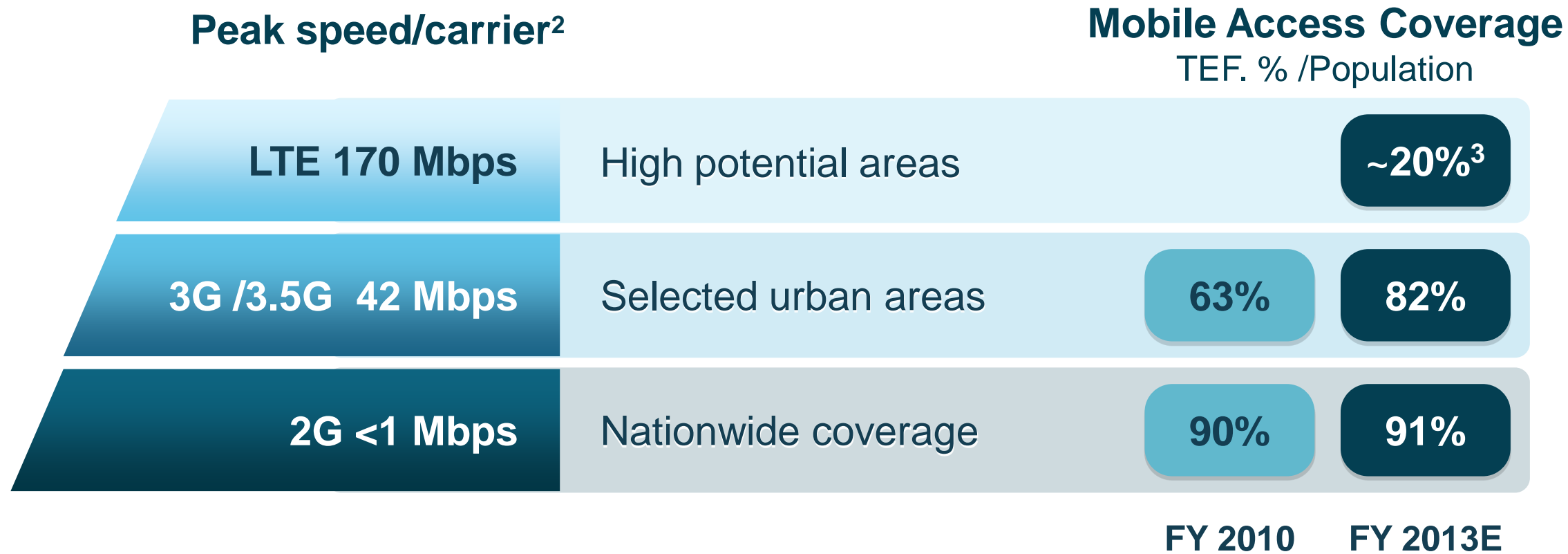
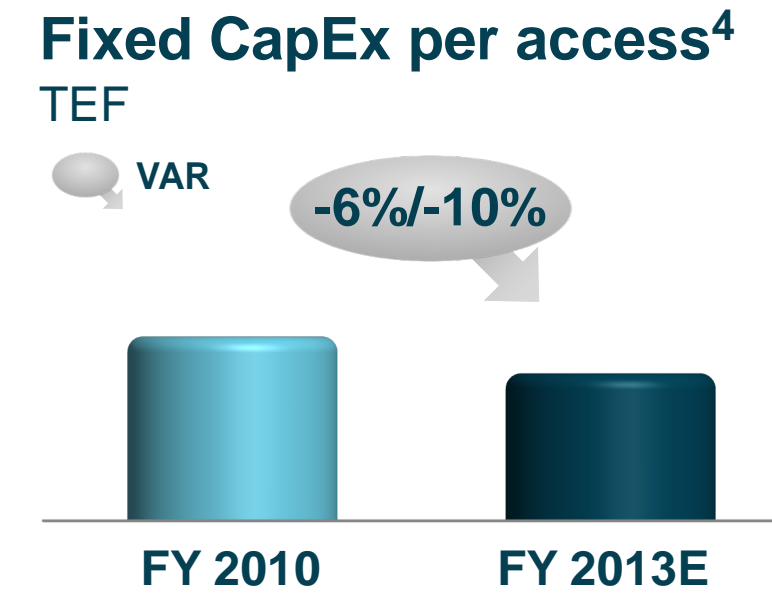
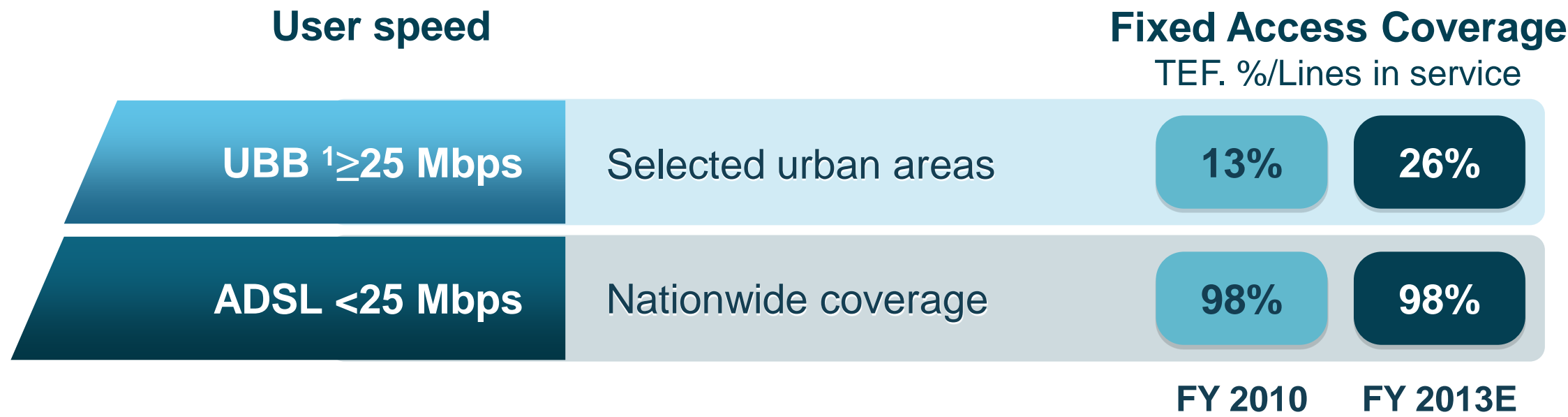


Global CDN deployment

TEF. Number of countries



Demand driven coverage expansion



Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela and changes in consolidation perimeter

¹Includes VDSL and FO

²Peak theoretical speed supported by different MBB technologies

³Coverage for countries with LTE spectrum in the period

⁴Includes investment in Fibre Optics accesses as well as customer equipment

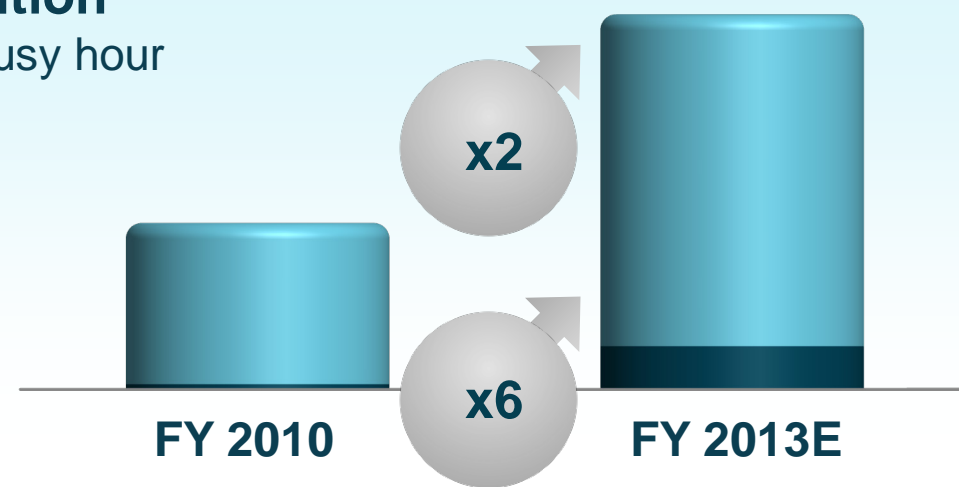
Manage network traffic growth in an efficient way

Traffic Evolution

TEF. Gbps in busy hour

VAR

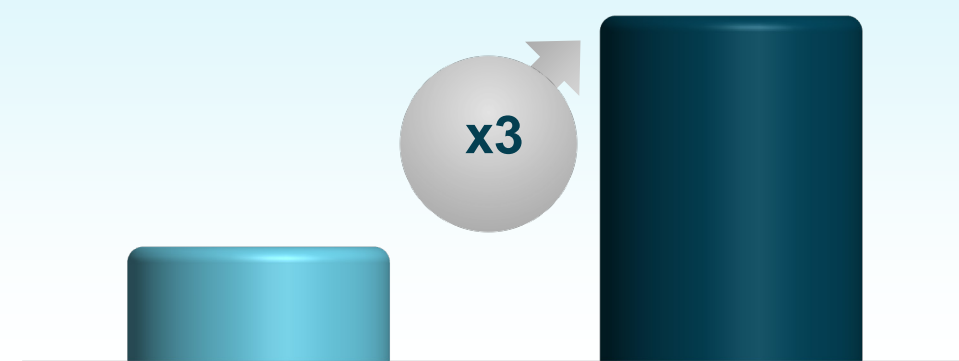
■ Fixed
■ Mobile



Backbone capacity

TEF

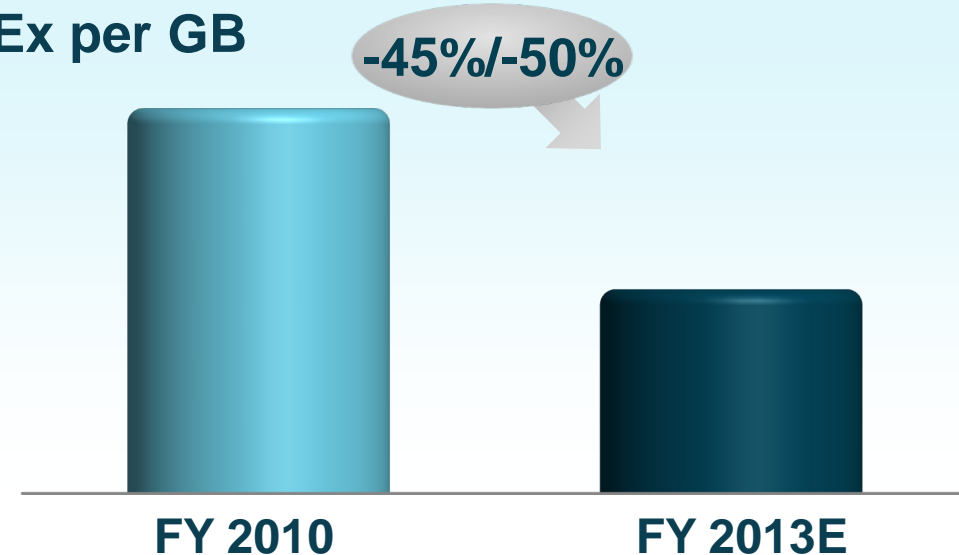
VAR




Network OpEx per GB

TEF

VAR



● Mobile access evolution

- § **Offload** mobile data traffic to WiFi and femtocells
- § Better **smartphone interworking**
- § **Capacity increase** (densification, sectorization, small cells and technology evolution through LTE, MiMo, dual carrier...)
- § **Software Defined Radio and Active Antennas** for flexible configuration  5 cm
- § **Efficient spectrum management** (priority on low-frequency bands and spectrum for LTE)

● Fixed Access evolution

- § Leverage **copper** technology evolution (bonding, vectoring)
- § Optimal **FTTH/N** deployment

● IP transport efficiency and QoS optimization

- § Network **intelligence** capabilities (PCRF)
- § **Online Charging System**
- § **CDN**

● New operational models

- § **Site** building efficiency programs
- § **Network sharing** agreements to rollout new sites

Progressing our IT transformation with focus on execution

DCs and Mainframe

Vision

From fragmented country-based infrastructure...
...to highly resilient global DCs (for both internal IT and commercial services)

FY 2011E

- Unified **mainframe management**
- DC in **Brazil** already launched
- DCs in **Spain, CR and Mexico** along FY 2011E

FY 2013E

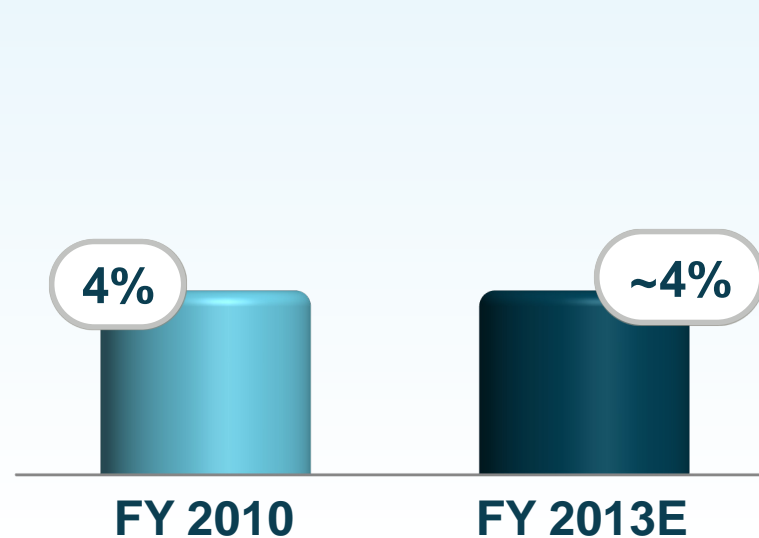
- **6 global DCs**: 2 in Europe + 4 in LatAm

Global Applications

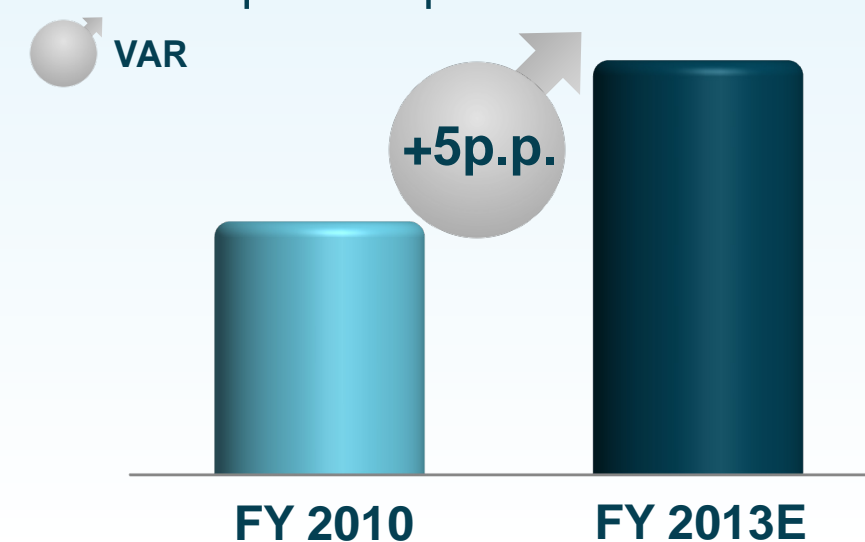
From specific country applications...
 ...to **global solutions** when applicable....
 ...focused on business requirements and supported with **software factories**

- **SAP**: Finance, HR, Logistics, Sourcing, Collections
- **Service Platforms**: Billing, Online Charging System, New Global Services
- BI; Corporate & MNC CRM
- Consumer **CRM**
- **OSS**

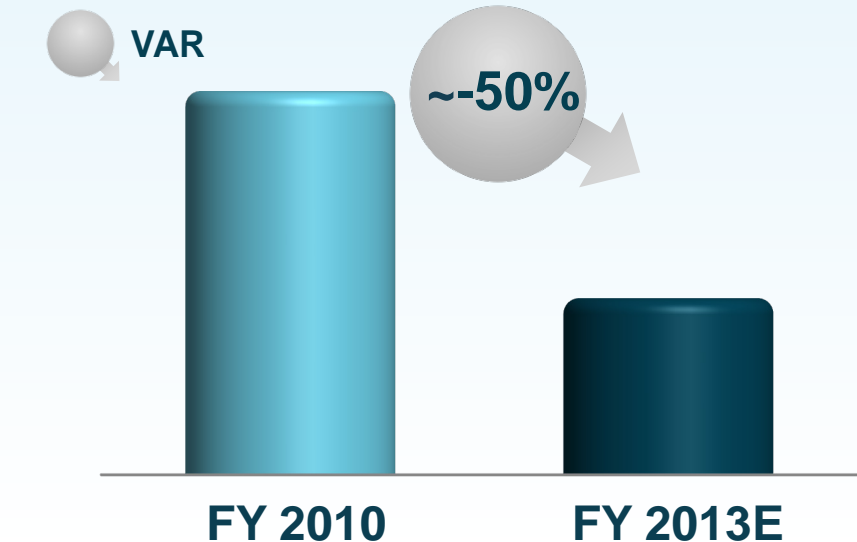
IT OpEx+CapEx to revenues TEF



IT transformation TEF. % OpEx+CapEx transformation/IT



TTM TEF



Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela and changes in consolidation perimeter

DC: Data Center

HR: Human Resources

BI: Business Intelligence

CRM: Customer Relationship Management

OSS: Operations Support System

TTM: Time To Market

Accelerate online evolution to a fully digital company

ENGAGE

for a better relationship with customers, employees and vendors

- **Seamless commercial experience** across channels (web, store)
- Increase use of **social networks**:
 - § For **institutional** communication, **sales** and **customer care**
 - § To enhance **professional communication**
- Boost integration with vendors to **fully online purchases** (qualifying, quotation, bidding, signing, procurement, delivery, billing)

SIMPLIFY

processes, systems and organization

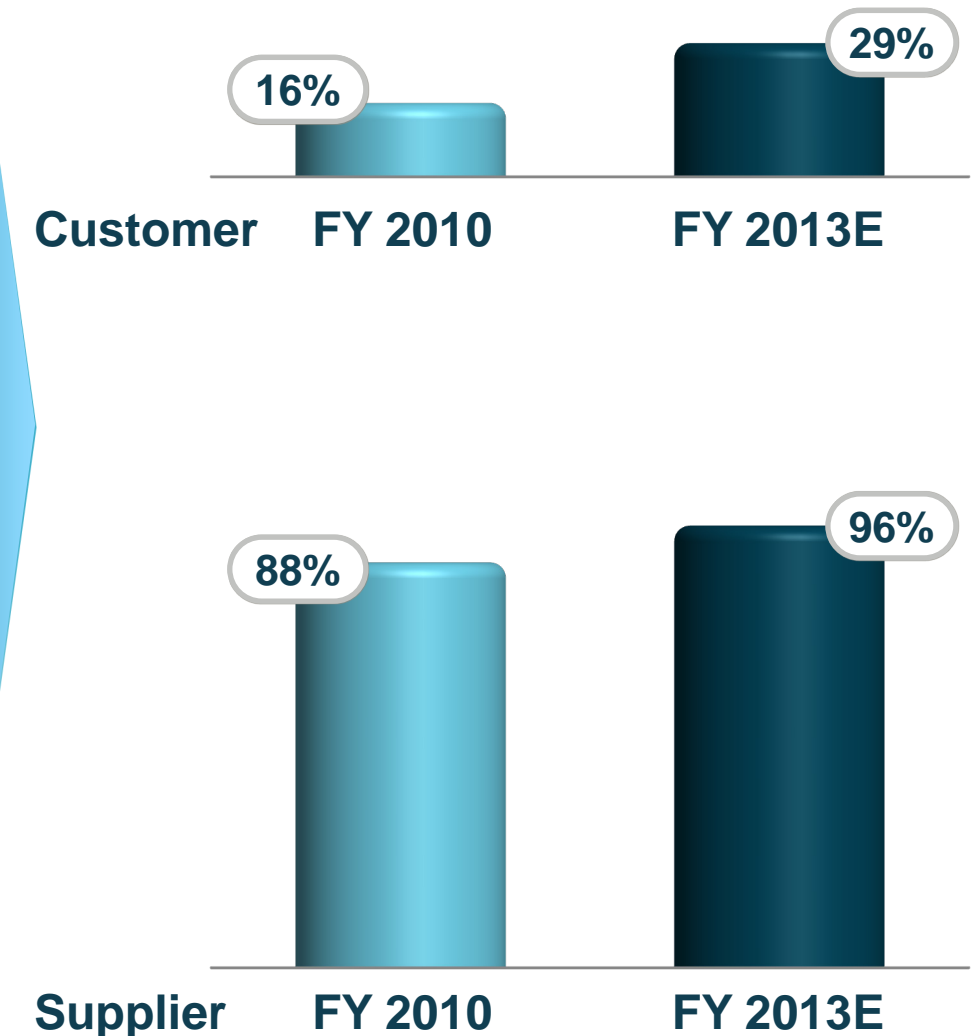
- Redesign end-to-end process to radically shorten “**ready for service**” cycle (from first contact to use)
- Integrate process and systems **across channels** (online/contact center/store/ sales team,...)

EXTEND

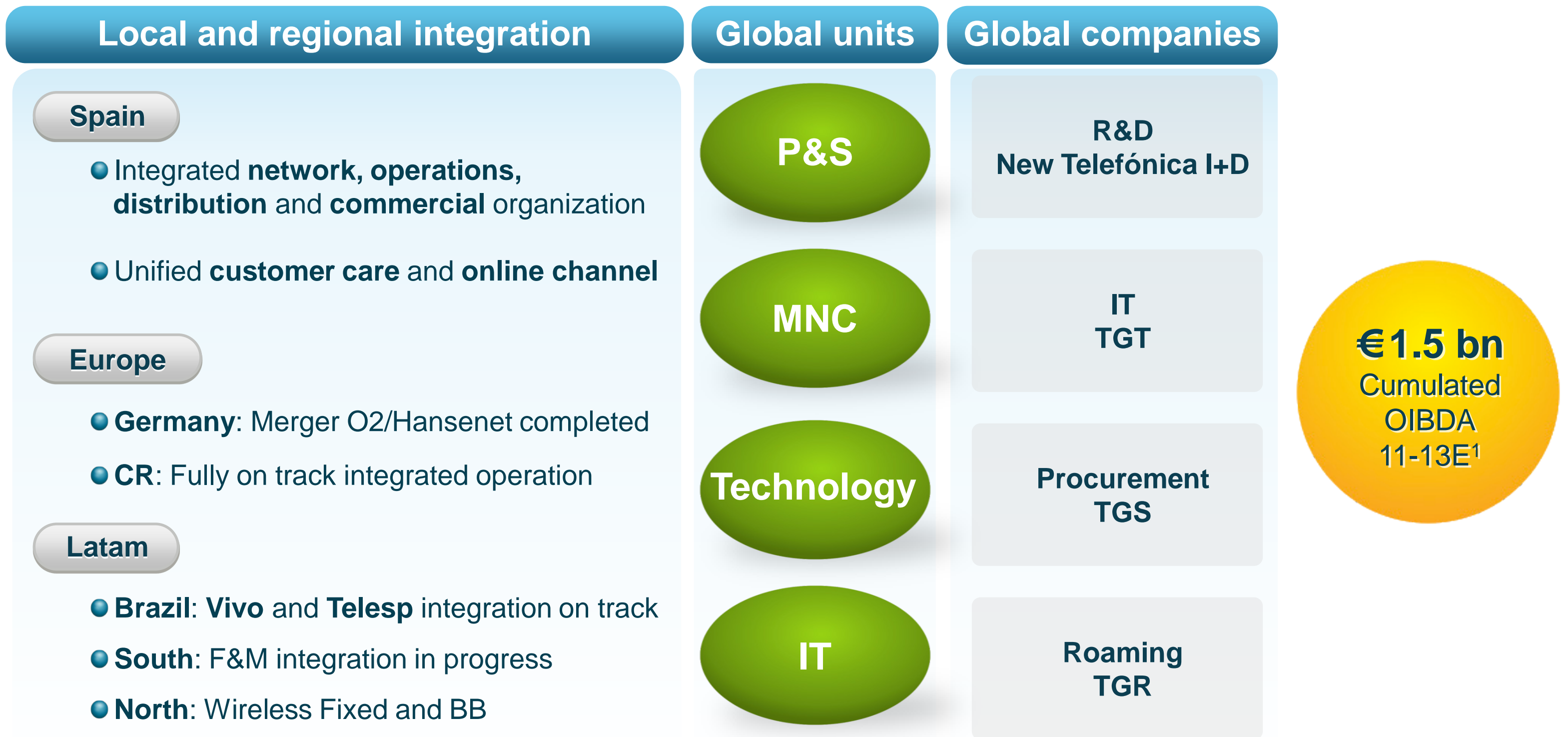
for new growth services and efficiency opportunities

- Increase commercial agility for **Services Beyond Connectivity**
- Develop **new array digital services** (Sonora, Video club, O2 Money)
- Facilitate **3rd party cooperation** (BlueVia, Aplicateca)

Online transactions TEF



Deepen our global and multilocal organization to fully exploit scale opportunities



One integrated company to optimise our cost structure and competitive advantage

¹Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela and changes in consolidation perimeter

TGT: Telefónica Global Technologies
TGS: Telefónica Global Services
TGR: Telefónica Global Roaming

Working to maximize efficiency

OpEx TEF. Base 100

FY 2010

FY 2013E

Interconnection¹

20%

Down trend due to MTR cuts

Commercial

34%

Increased total weight (~3p.p.) on high speed access & data growth

Network & IT

21%

Other expenses²

25%

Stable

OpEx aligned to revenue growth

CapEx TEF. Base 100

FY 2010

FY 2011E-13E Cum.

CapEx <€27 bn

UBB
(FO + VDSL)

3%

~1/3 of cumulative CapEx to capture the digital world

MBB
(3G + LTE)

20%

IT

16%

No major changes to enable growth

Customer³

15%

Other⁴

46%

Strong reduction in legacy

CapEx to sales peak in FY 2011E

Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela and changes in consolidation perimeter

¹Includes roaming

²Cost Of Goods Sold and operating expenses

³Includes fixed and mobile customer related equipment

⁴Other fixed, 2G and other CapEx

03

Recap

Leading growth and profitability

Seizing the digital opportunity

- Profitable MBB growth monetisation as the key priority
- New global services (verticals) and digital assets will be our new growth engines
- We keep on capturing FBB and mobile business growth opportunities

Accelerating transformation

- Best in class networks leveraging fixed and mobile and managing efficiently coverage and traffic growth
- IT transformation and full evolution to a digital company as important accelerators
- Reinforced global and integrated organization to leverage our scale and diversity

Guidance recap

CAGR 10-13E

Revenues

+1%/+4%

FY 2011E-FY 2013E

OIBDA margin

Upper 30's
limited
erosion from
FY 2010

Cumulative FY 2011E - 2013E

CapEx

<€27 bn

FY 2010 adjusted figures for guidance include full consolidation of Vivo, Hansenet and Tuenti in the whole year (12 months) and excludes Manx Telecom's results in January-June FY 2010. FY 2010 adjusted OIBDA excludes the capital gain from the revaluation of Telefónica's pre-existing stake in Vivo at the date of the acquisition of the 50% in Brasilcel owned by Portugal Telecom, non-recurrent restructuring expenses registered in the second half of FY 2010, and the capital gain derived from the disposal of Manx Telecom. FY 2013E guidance assumes constant exchange rates as of FY 2010 (average FX in FY 2010), excludes hyperinflationary accounting in Venezuela and changes in the perimeter of consolidation. At the OIBDA level guidance for FY 2013 excludes write-offs (impairments of subsidiaries), capital gains/losses from companies disposals and significant exceptional mainly related with restructuring costs. Results from the operation in Costa Rica are excluded from guidance calculation. Group CapEx excludes Real Estate Efficiency Program of T. España, the Real State commitments associated to the new Telefónica premises in Barcelona and spectrum licenses

Telefónica
