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Telefónica

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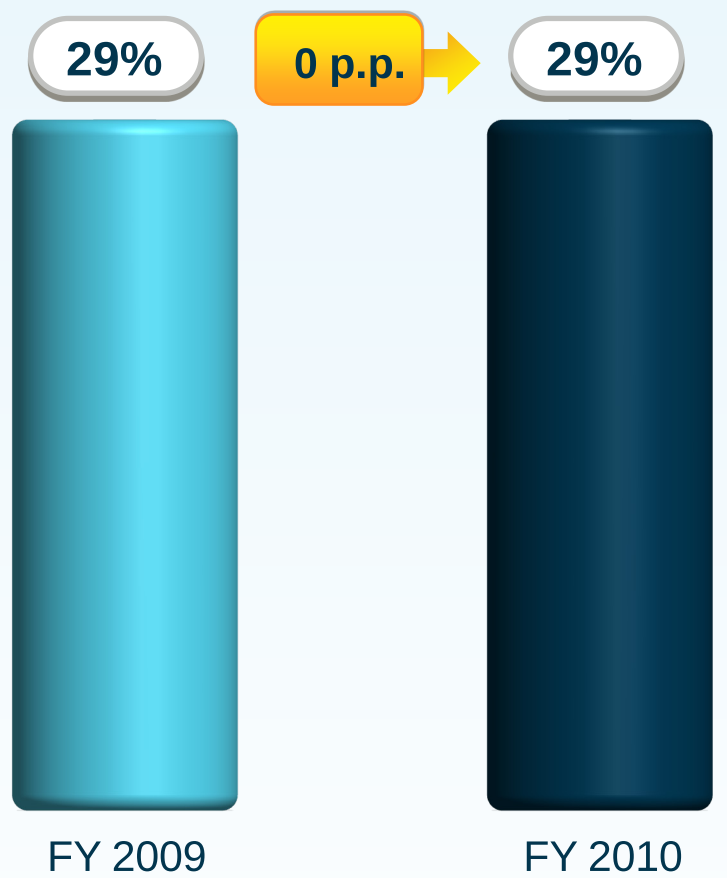
Sustaining market leadership

Regional revenues share[1]

(Constant FX effect)



Stable Revenue share

Market revenue share

FY10

#1 Pe
#1 Ch
#1 Ar
#1 Br
#2 Co

#1 Ve
#1 Ur
#2 Ec
#2 C A
#2 Mx

#1 - #2 In all markets

Leader in value & growth

Dec-10

35 % MBB[2]
Regional access share[1]

40% Brazil

30 MM
The largest mobile contract base

Moving faster

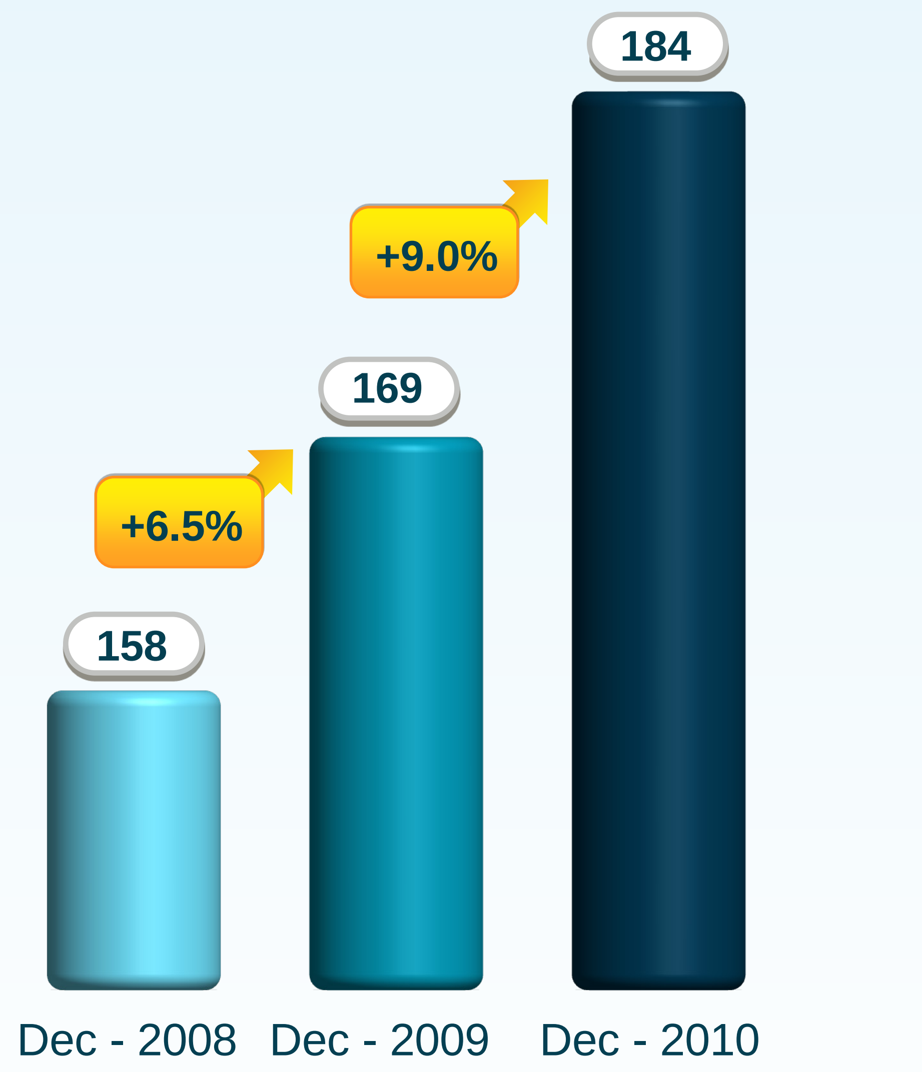
Source: Telefónica estimates

[1] Footprint share: only mobile in Mexico, Venezuela, Ecuador, Uruguay and Central America. Excluding TV in Argentina

[2] Dongles

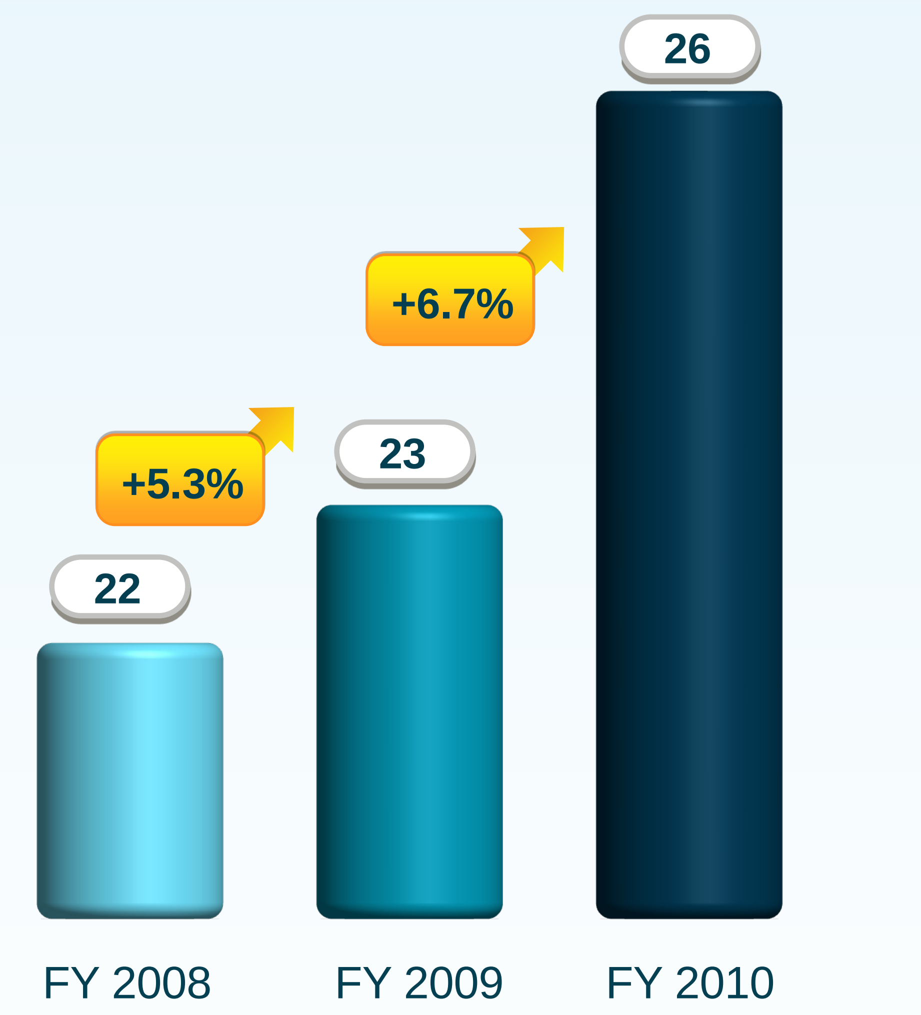
Delivering profitable growth

Accesses
Millions



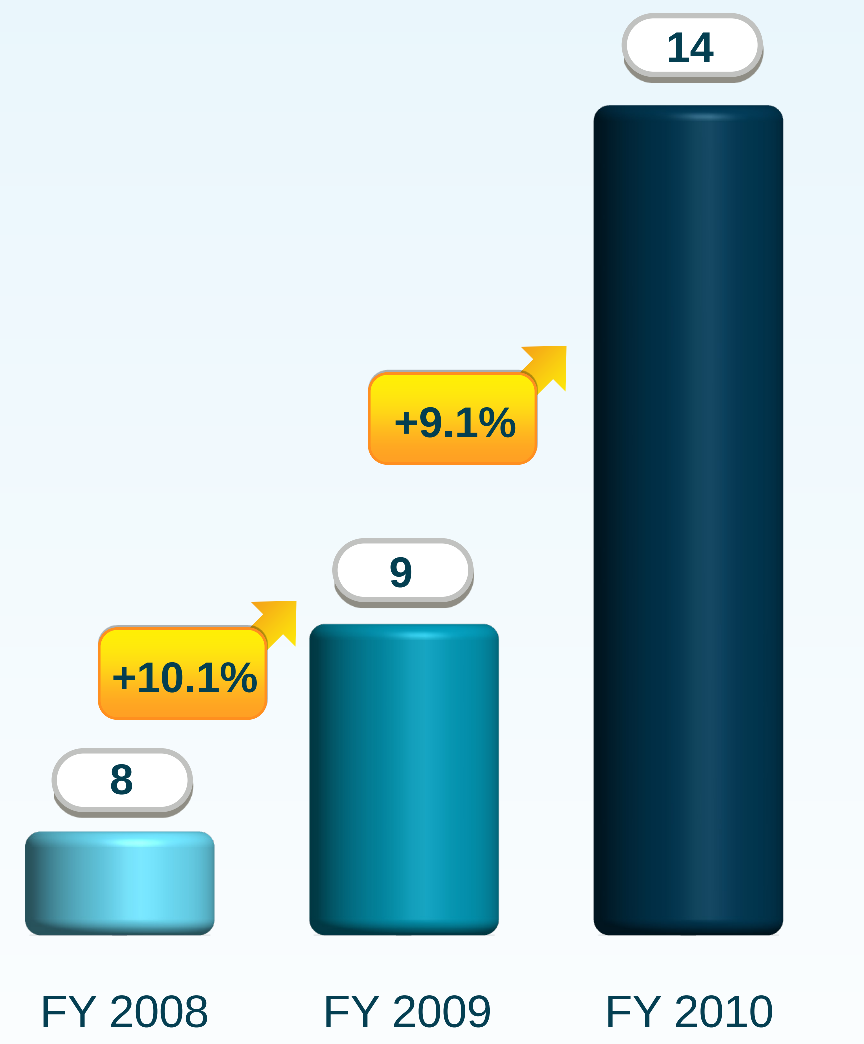
44.5%
FBB+MBB access growth 2010 vs. 2009

Revenue
€ in billions



43.4%
Mobile data rev. growth 2010 vs. 2009

OIBDA
€ in billions



39.9%
OIBDA margin 2010

Source: Reported Data; organic growth rates

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01

Latin America in bold letters

Latin America plays a key role in the new international arena

Latin America was the 2nd major destination of Chinese FDI, just behind Asia

US$ 141 bn of FDI into the region in 2010

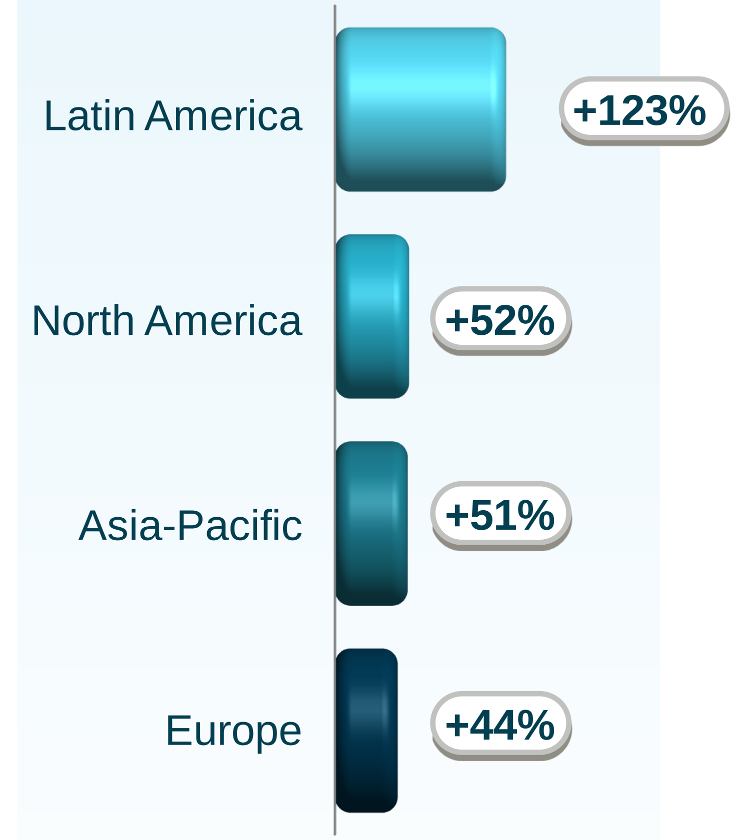
TEMASEK HOLDINGS GIC ADIA
中国投资有限责任公司 CHINA INVESTMENT CORPORATION

Multilatinas are emerging as a new force

VALE EMBRAER CEMEX Itaú

Sovereign wealth funds from Middle East and Asia **investing more than ever** in the region

MSCI[1]
31/Dec/2008 to 31/Mar/2011



The market is starting to recognize this change

[1] Morgan Stanley Composite Index

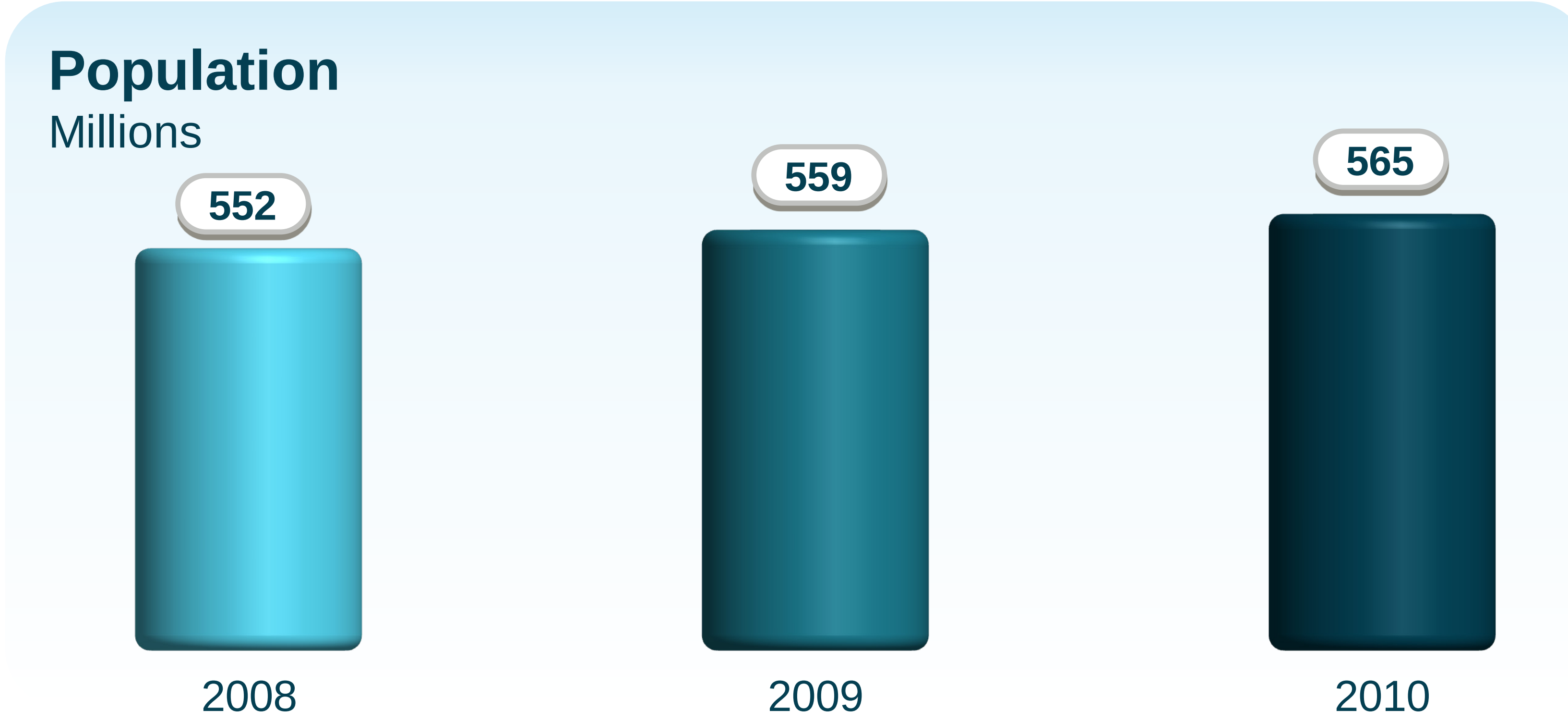
Latin America is growth & stability

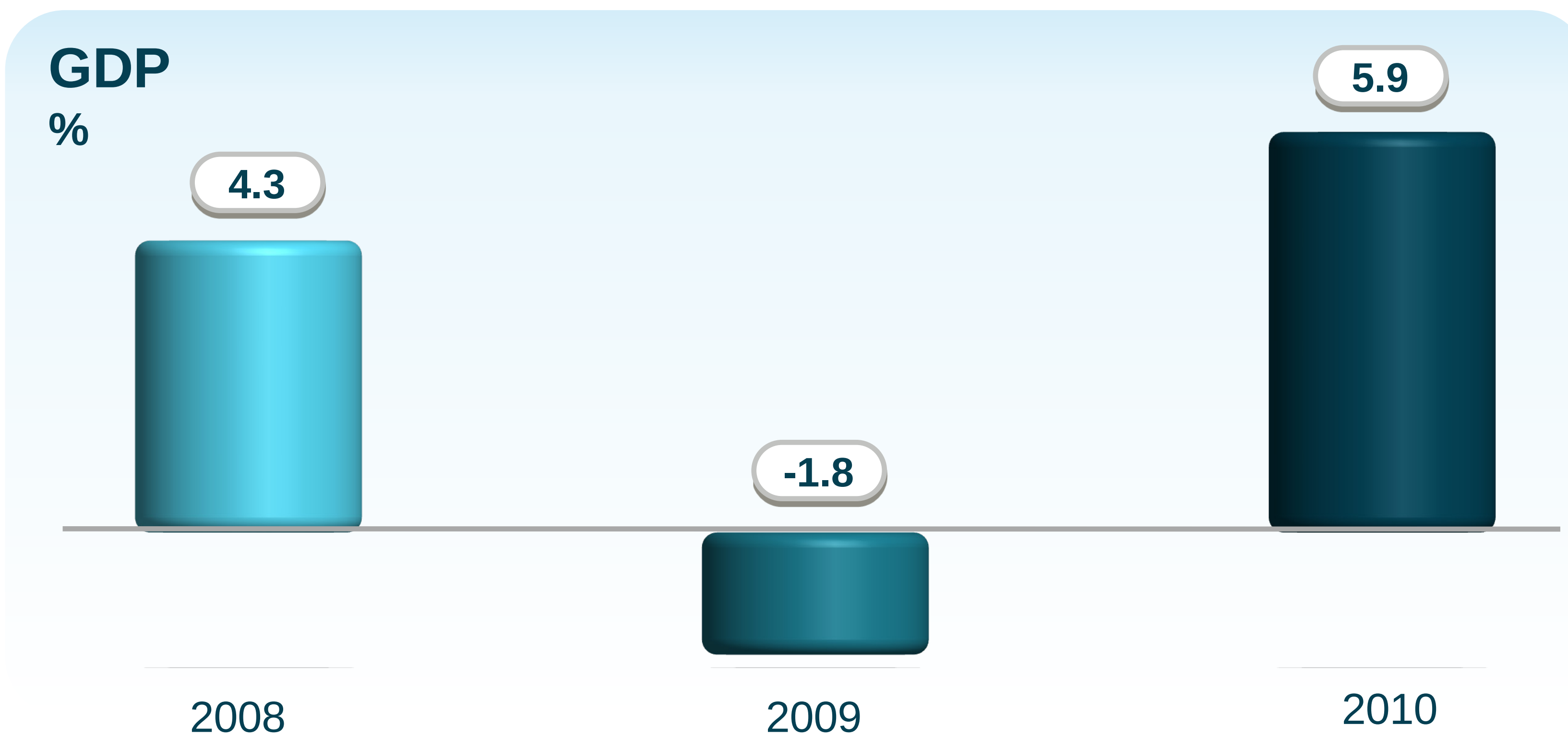
The Economist

Nobody's Backyard
The rise of Latin America

Latin America in an Uneven Global Recovery: Managing Abundance

Paris, January 24, 2011





>70%
GDP Investment Grade

Source: IMF, Standard & Poors (Brazil, Colombia, Peru, Mexico, Panamá & Chile)

Latin America in bold letters

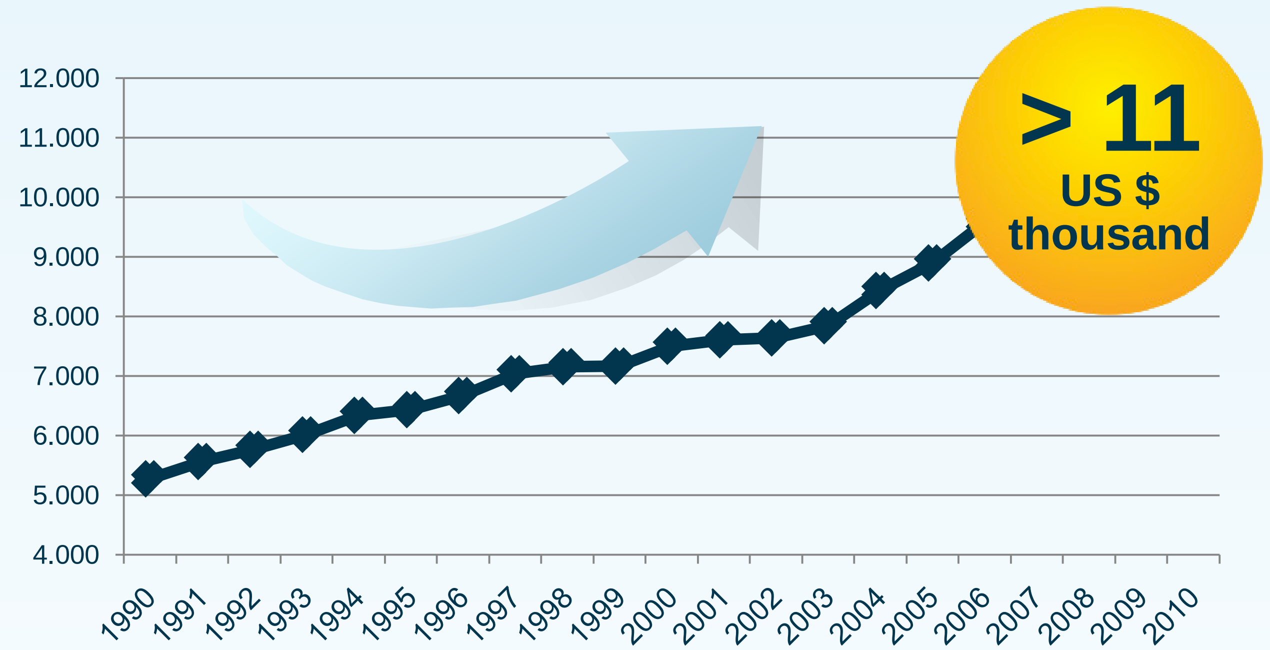
Middle Class	**200 m** population	The population of Germany, France and Italy as a whole
Young and Urban	**150 m** <14 years	The population of Russia
Addicted to Internet	**400 m** Internet users in 2015	Double since 2010

Latin America time is NOW

Source: ECLAC & Pyramid

Latin America has reached a critical level of development

GDP per capita
US$ ppp



Income levels support new and more intense patterns of consumption

GDP per capita
US$ ppp 2010

Income levels way ahead of other emerging economies

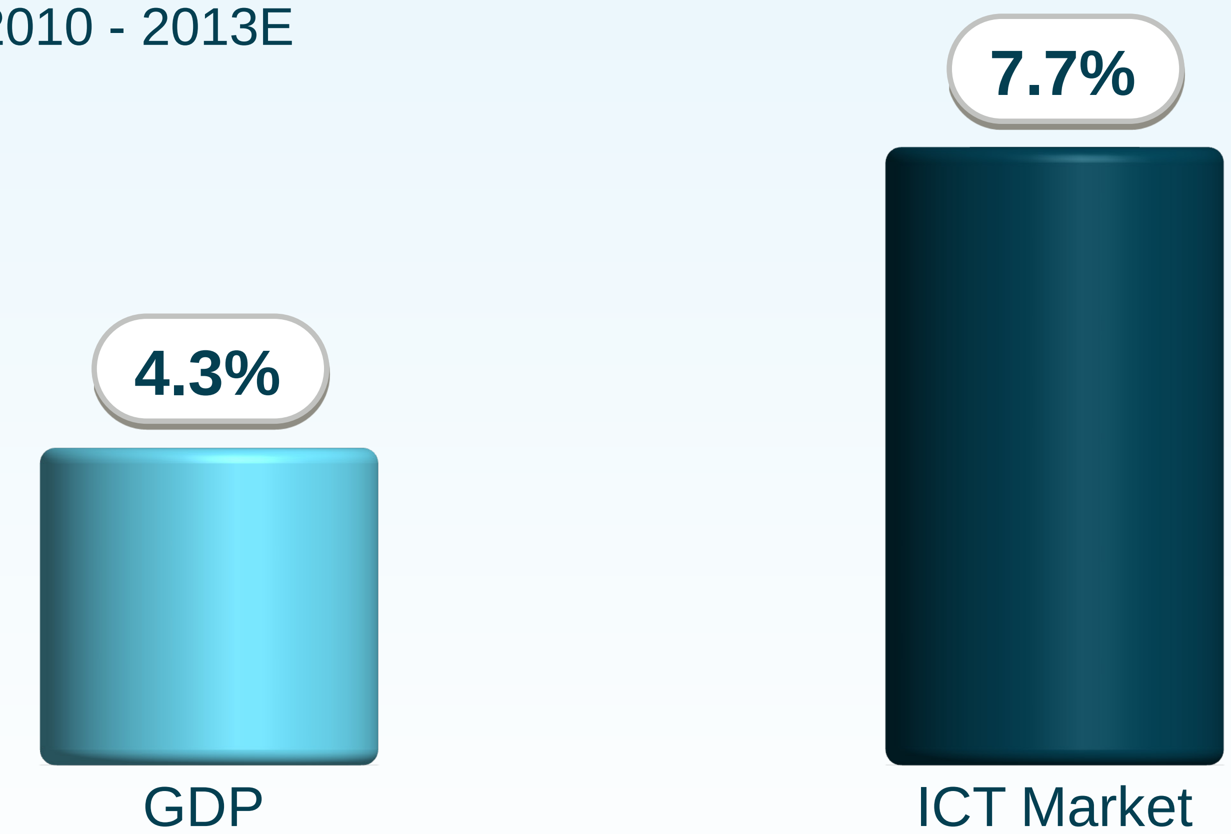
Latin America time is NOW

Source: IMF

Telecom sector: thriving on regional growth

Telecom market expected to grow faster than GDP in Latin America

CAGR
2010 - 2013E



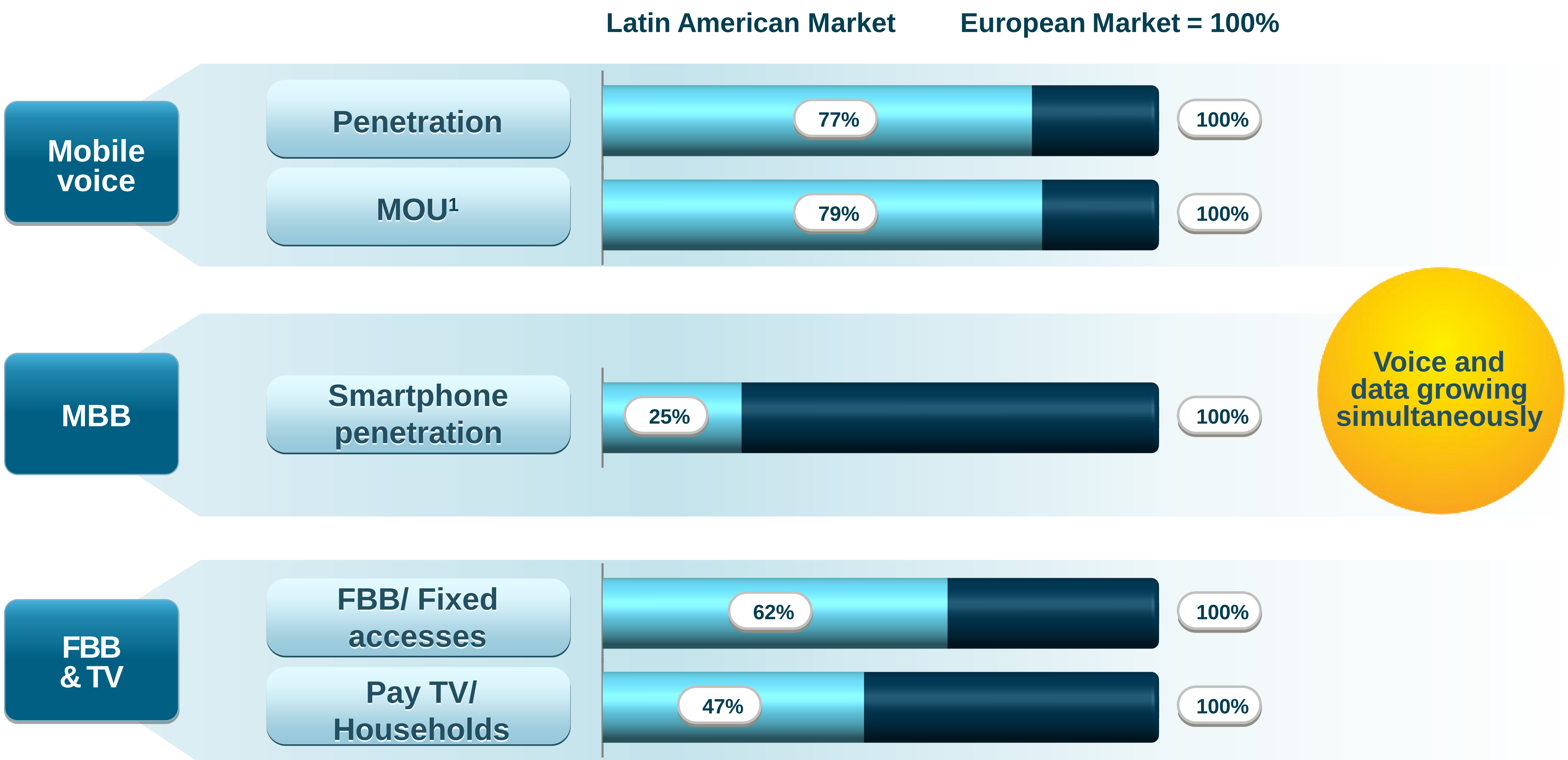
Positive context for Telcos

- Stable regulation, MTRs expected to follow predictable glide path
- Low and decreasing exposure to regulated prices (mobile retail prices, FBB, MBB and bundles not regulated)
- Major spectrum auctions already done
- Consolidated competitive market structure

Latin America time is NOW

Source: IMF & IDC

Plenty of room to grow



[1] Incoming and outgoing traffic
Source: Yankee Group, Pyramid, Q4 2010

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02

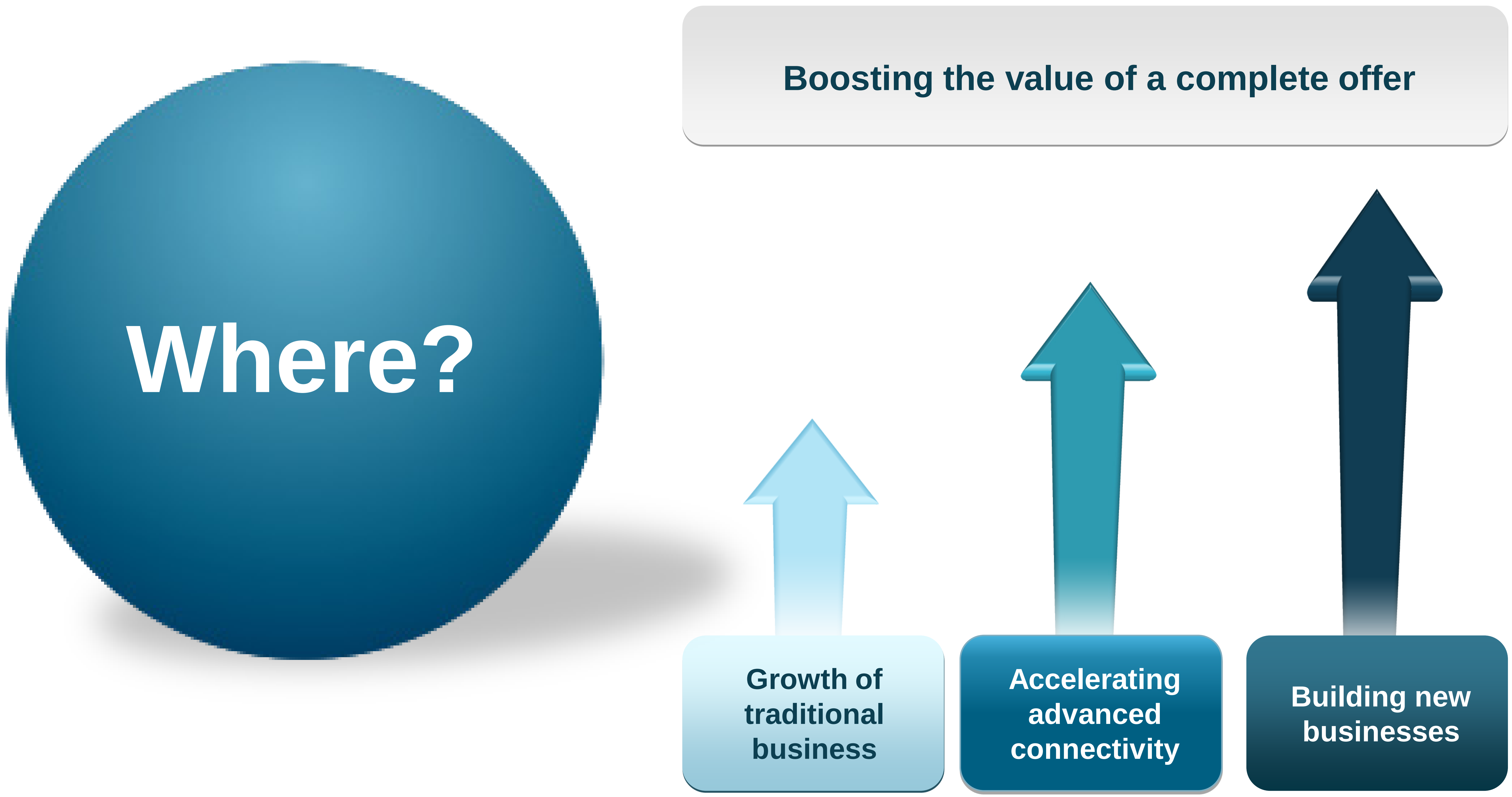
Capturing current growth, building new options

Capturing current growth, building new options

Where?

How?

Capturing current growth, building new options



An integrated and innovative complete offer

An empiric case that shows the value of an integrated offer

Mobile Data Service Revenues
FY 2010 vs. FY 2009
% local currency

+46.9%

Fixed Internet, Content and Pay TV Revenues
FY 2010 vs. FY 2009
% local currency

+10.0%

Accelerating growth businesses

One of the few companies in the world with a complete offer supported on a mobile network

Mobile ARPU
FY 2010 vs. FY 2009
% organic[1]

+26.3%

Mobile Data Service Revenues
FY 2010 vs. FY 2009
% organic [1]

+47.4%

Focusing on value

[1] In local currency and excluding hyperinflation accounting in both years

Driving mobile voice to the limit of its potential

Targeting untapped potential across segments

- New commercial approach to valuable young customers through social networks

Young and Urban

ISC improvements specially in prepaid

Savings in call center[1]

Systematic up selling

Caribú Project

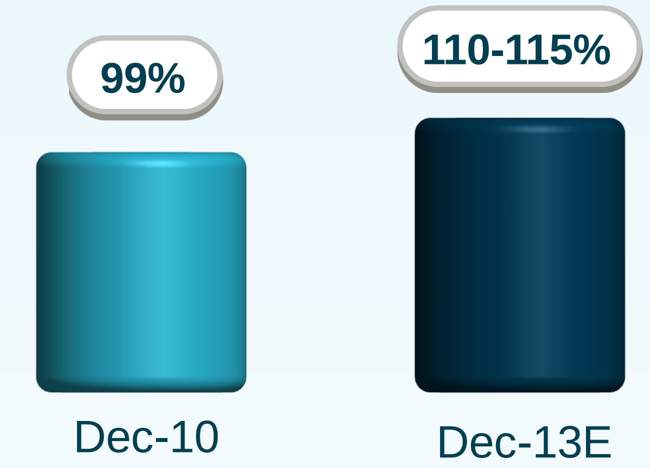
- 2.8 millions of net migrations to contract in FY2010

Potential of Middle Class

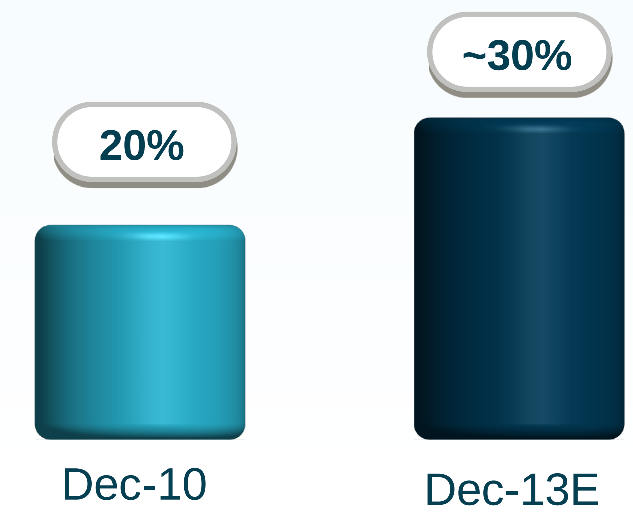
30 m The largest contract base

Key targets

Mobile voice market Penetration
% population



T. Latinoamérica Customer Mix
% contract / Total mobile accesses



[1] Calls to call center: -28% mar'11 vs. aug'10

Accelerating on mobile broadband

Lowering entry barriers

100 US$ Smartphone to boost growth

Dongles

- One supplier
- Quality
- Time to market
- Simple portfolio

1.3 millions
Dongles sold since Q3 10

Enhancing our commercial offer

Paquete
NAVEGACIÓN

Paquete
REDES SOCIALES

Paquete
MAIL+CHAT

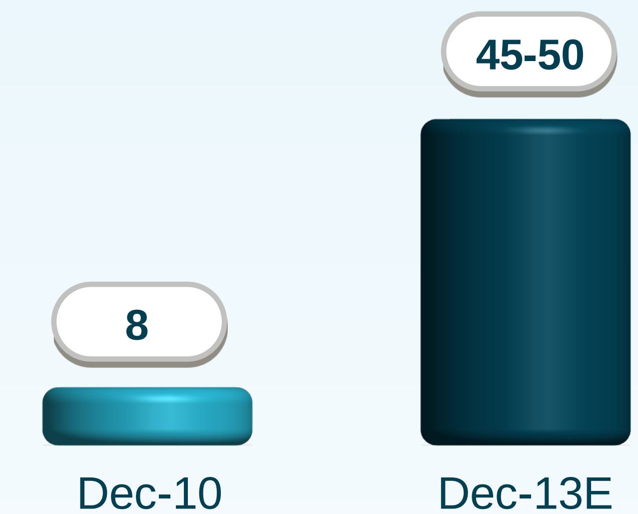
Paquete
CHAT

Paquete
MAIL

X 3.5
MBB accesses 2010 vs. 2009 in Colombia

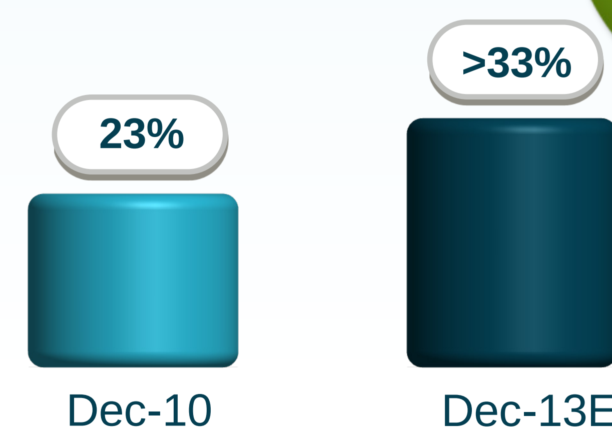
Key targets

MBB accesses
T. Latinoamérica millions



Mobile data revenues
T. Latinoamérica
% Mobile service revenues

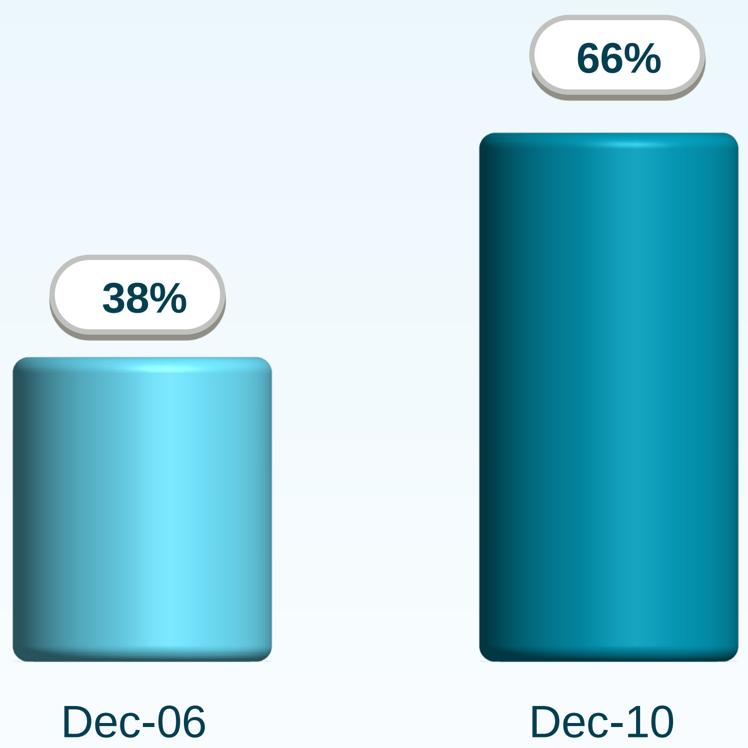
X3
non SMS/MMS mobile data revenues (€ m FX 2010)



Capturing the fixed opportunity

Intensifying bundles

Bundling[1]
%Traditional fixed accesses



Minimizing F2M revenues cannibalization

Segmented development of multimedia and connectivity offer

ADSL

UBB

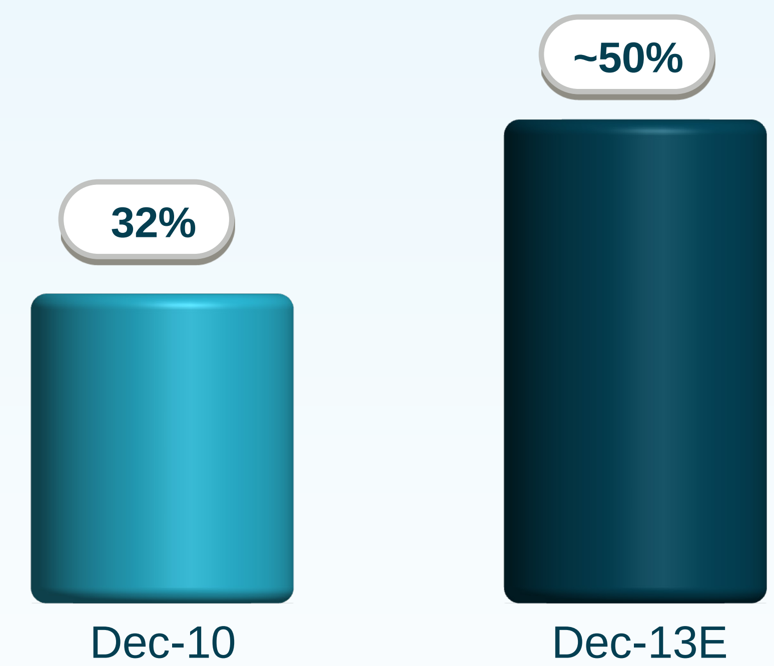
TV Basic

TV Advanced

Develop a full offer for the 200+33 m middle class

Key targets

FBB penetration T. Latinoamérica
% BB accesses/ fixed lines



No FBB access without valuable bundle (2P /3P)

[1] % of fixed accesses with bundled voice plans

Building new options

Video OTT

- Increased market potential
- Profitability improvement
- More value for BB access

Financial Services

- Banking the unbanked (70% of population without savings account)
- Innovative value propositions

movistar

MasterCard Worldwide

Cloud Computing

- Leverage of Telefonica's Global Network
- Global T-Cloud

BANCO PICHINCHA

MAPFRE

Terra TV

- Multimedia services across music, video and information

terratv

Services beyond connectivity revenues
FY 2010 5% Total T.Latinoamérica Revenues

Capturing current growth, building new options

Where?

Boosting the value of a complete offer

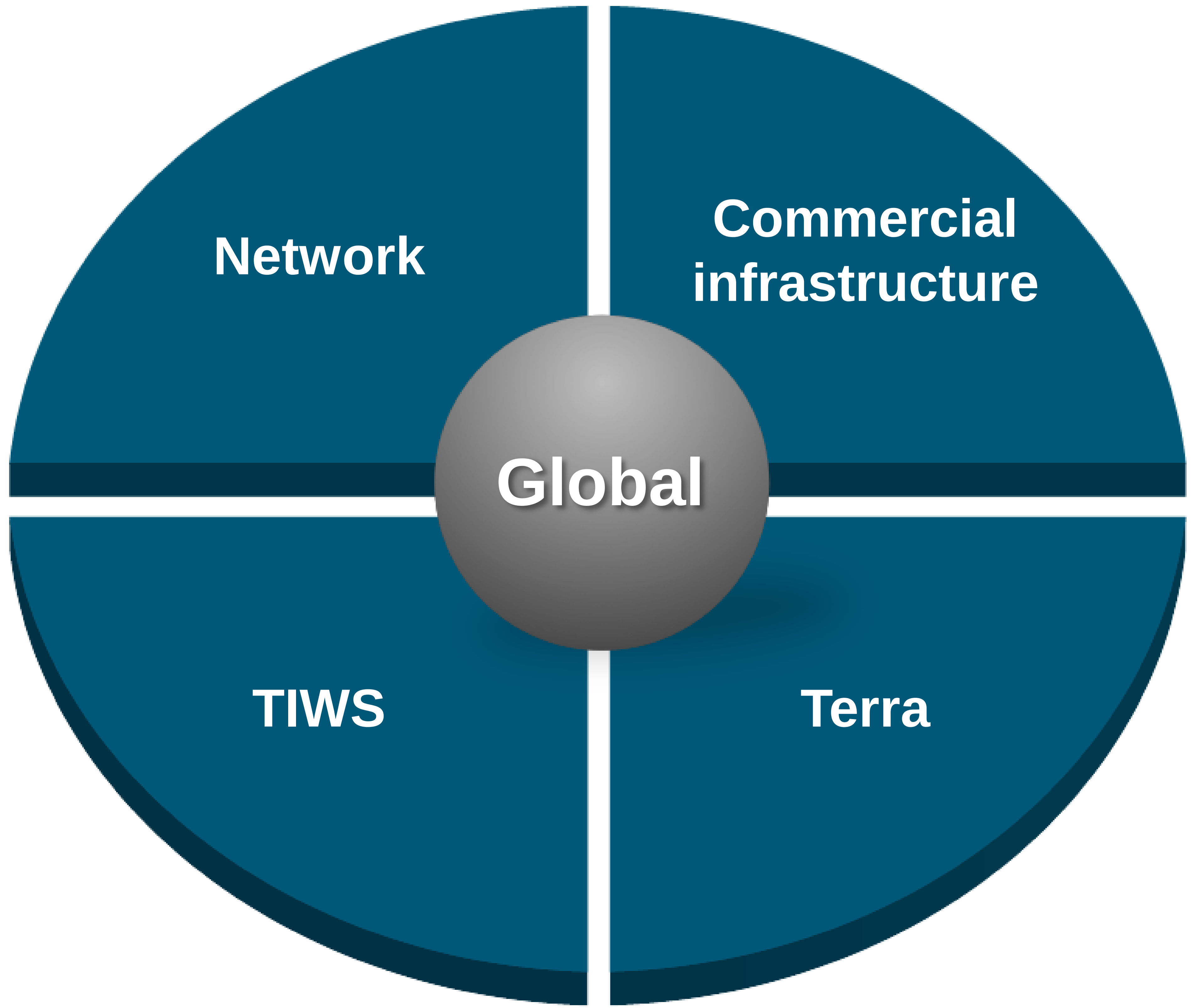
Growth of traditional business	Accelerating advanced connectivity	Building new businesses
Positive CAGR 10-13 E		**>20%** CAGR 10-13 E

Capturing current growth, building new options

Leveraging a non replicable platform

Ensuring the best basics

Enhancing with unique assets



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Extracting value from our global model

7 Verticals

- Video & DH
- Apps
- Financial services
- eHealth
- Security
- M2M
- Cloud

Leveraging global scale

Telefónica

~ 290 m accesses

Key strategic partnerships

+ 730 m combined customers

Sharing best practices

- Quality and customer oriented projects
- Network management
- Fixed transformation initiatives
- Medianetworks and TIWS capabilities
- Device strategy

TIWS allows us to manage traffic growth and to implement new technologies quicker and cheaper

Competitive advantages

Economies of scale

Economies of scope

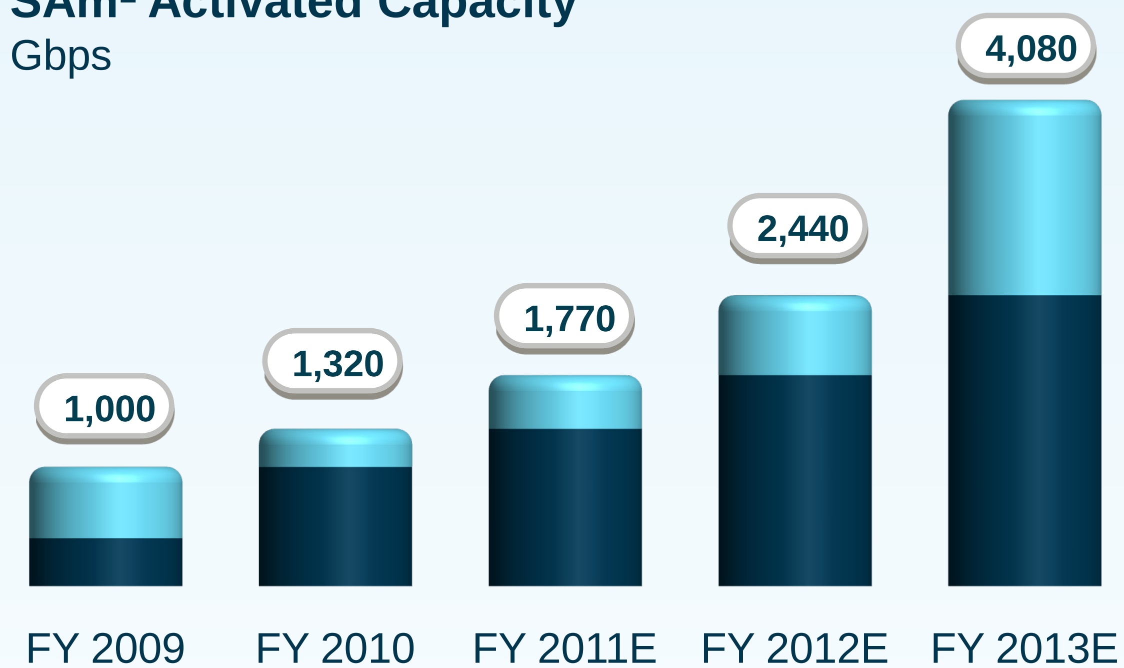
Access to new markets

Technological evolution

Unique Infrastructures

4th largest submarine cable ring

SAm[1] Activated Capacity
Gbps



- Key Asset in the region
- Terrestrial domestic networks
- Satellite Infrastructure provides extended coverage
- Global CDN[1] with local capillarity

[1] Content Delivery Network

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Our brand attributes strengthen the value of a customer oriented strategy

1# or 2#
Top of
mind in
every market

Quality as the main driver for customer satisfaction

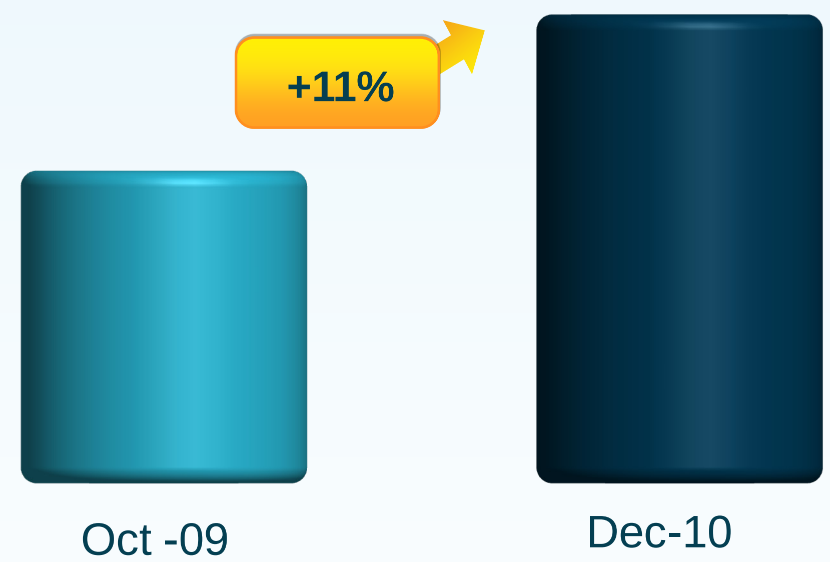
What we said in October 9th 2009

- Consistent Delivery
  - End to end process focus & COPC[1] methodology
  - FCR[2] focus & billing claims reduction
- Best Customer Experience
  - Unique experience
  - Strong reduction of unsatisfied
- Customer Culture
  - Employee and customer program linked to customer experience

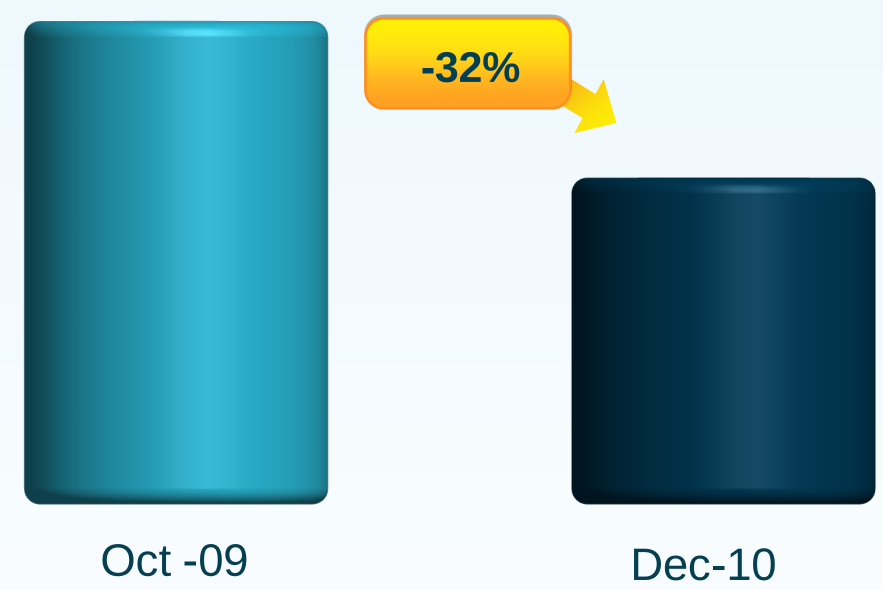
Improving CSI in every market

What we have achieved so far

FCR[2]
%



Billing claims
%



Our customer oriented strategy and quality management have been a key factor in our commercial performance in every market

[1] **COPC:** Customer Operations Performance Center
[2] **FCR:** First Call Resolution

Business intelligence as a key driver to enhance customer focus

Key initiatives

- FCR focus & billing claims reduction
- Seamless multichannel experience
- Customer culture

INTI
BUSINESS INTELLIGENCE TLATAM

An integrated, customer focus, regional and flexible business intelligent project

Best in class churn

Mobile Churn
FY 2010
%

Reference in customer satisfaction in main markets

Source: Global wireless matrix, Q4 2010, Merrill Lynch and Telefónica estimates

Capturing current growth, building new options

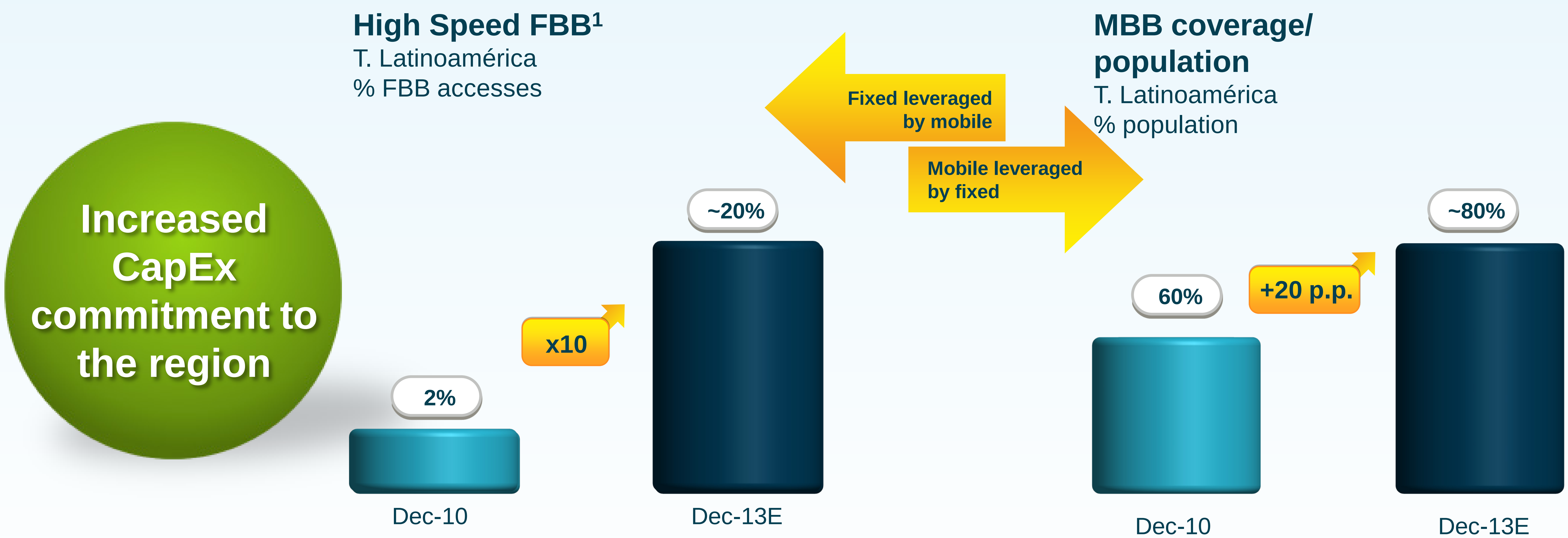
Where?

Increased CapEx commitment to the region

How?

Committed to the opportunity

We are investing to capture the growth



1 Equal or higher than 8 Mbps

03

Our portfolio: leading Brazil, leveraging diversity

Leveraging diversity

FY 2010[1]
Latam revenue

Brazil

- Our key growth pool
  - § Improving commercial momentum
  - § Capture synergies

48%

North Region
(7 countries)

- Mexico, strong bet on 3G as the key driver to recover momentum
- Venezuela, focus on value through a complete offer

16%

South Region
(6 countries)

- Complete and integrated offer
- Lead introduction of new services in our networks being the best provider of video and applications

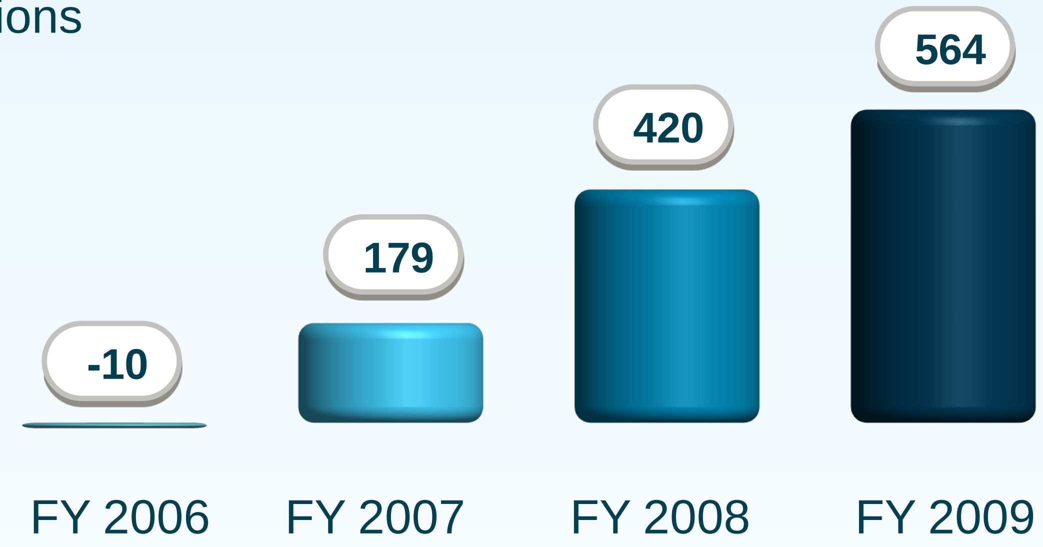
33%

1 Assumes 100% VIVO

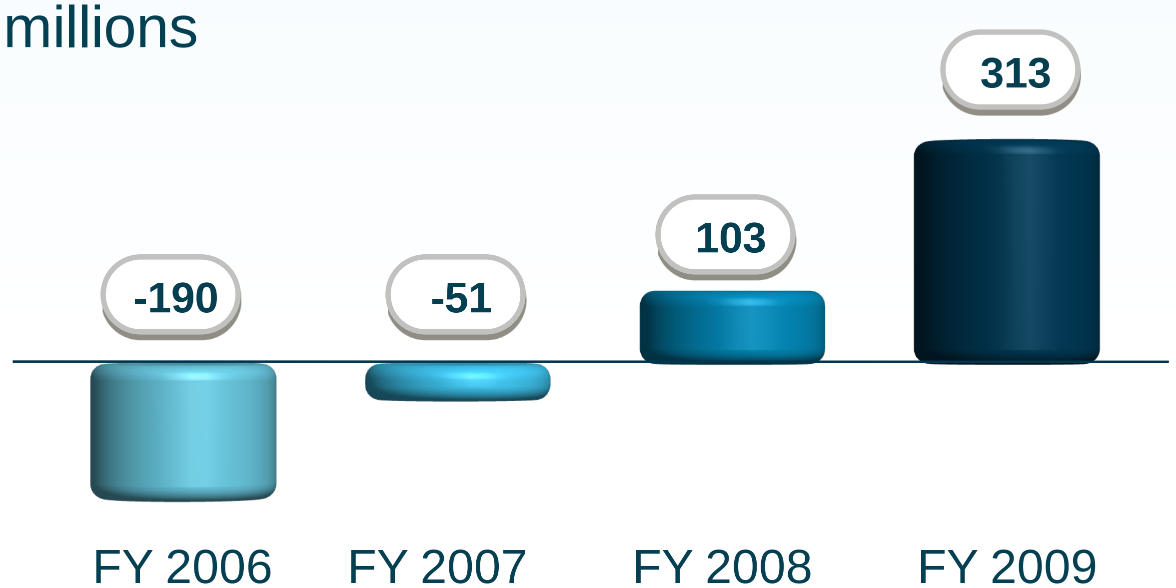
Mexico, refocusing our commercial approach and recover momentum

Solid track record as an attacker

OIBDA
€ in millions

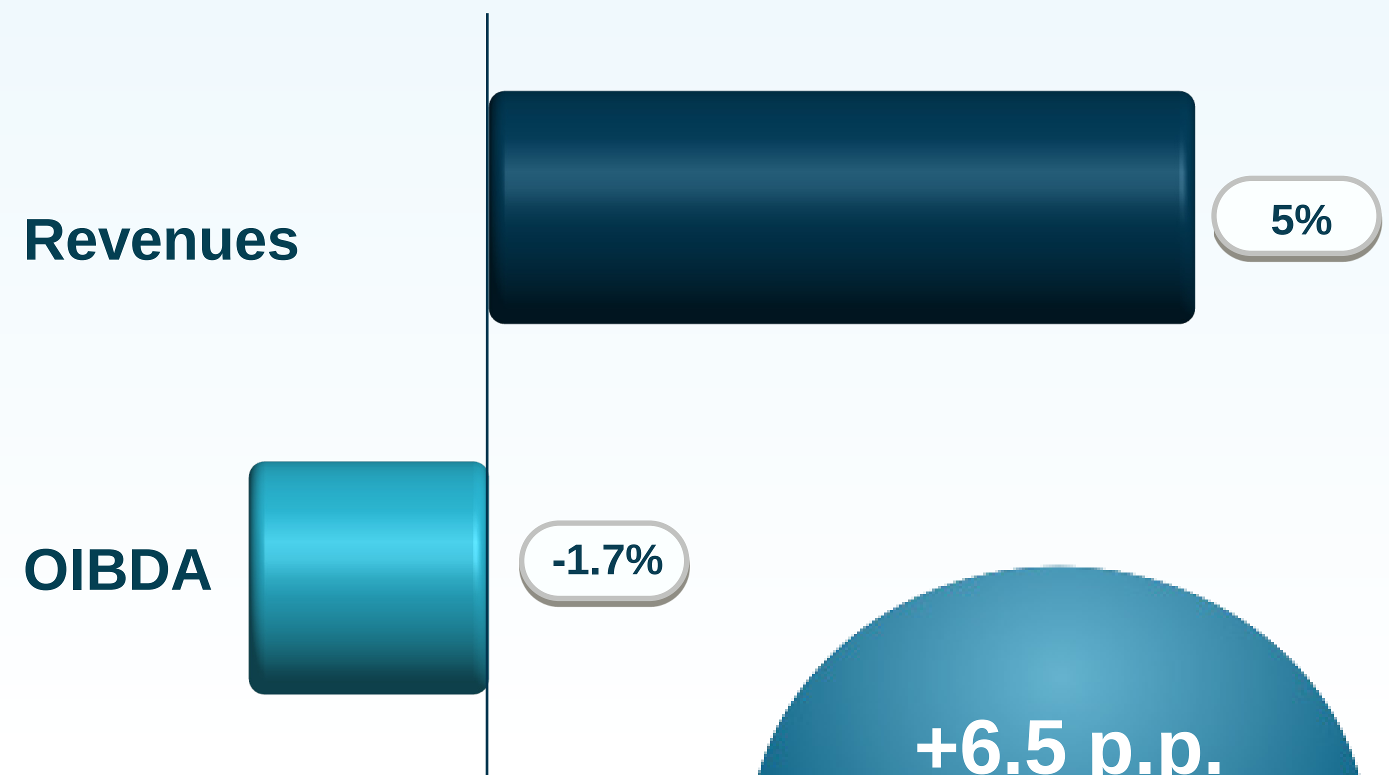


OpCF
€ in millions



Challenging situation in 2010

FY 2010 vs. FY 2009
% Local Currency



+6.5 p.p. market share 2010 vs. 2006

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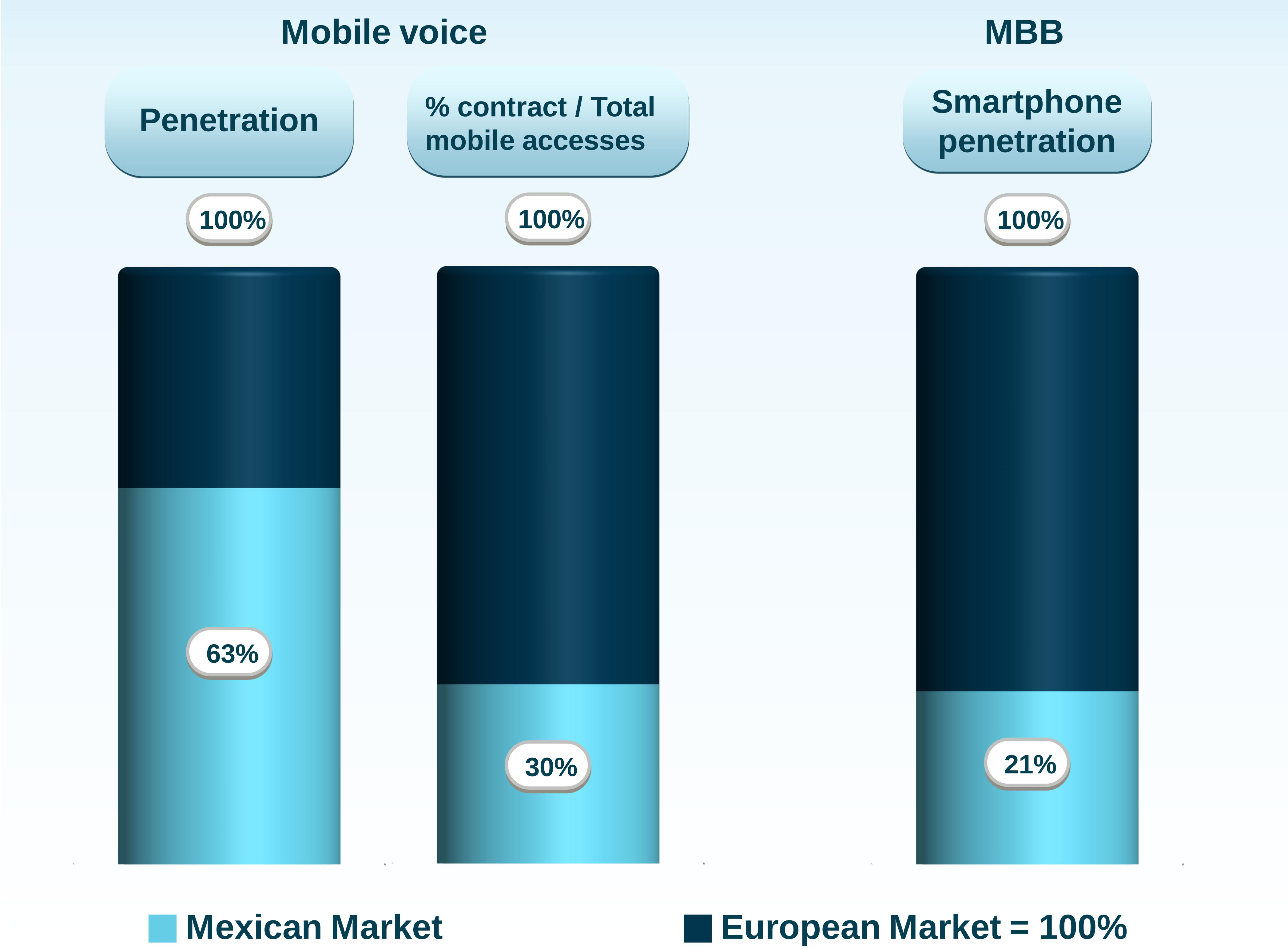
A large growth potential

The opportunity



11th largest population in the World

Young & Urban
~32 m <14
78% urban

Internet Users
35 m

Social Networking
76% penetration among <24 years

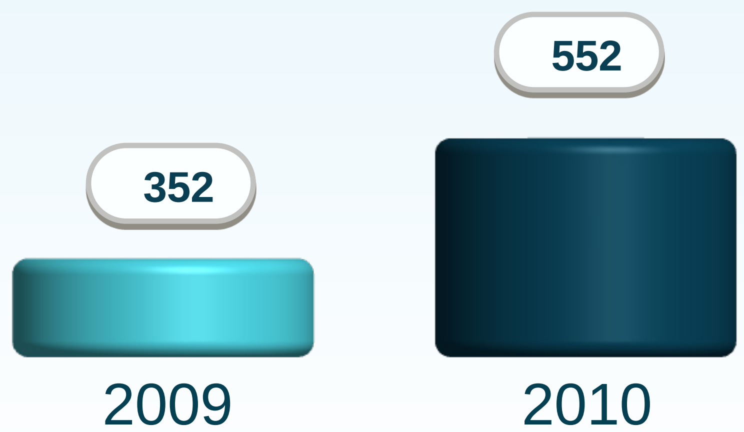
Highest GDP per capita in the region

Source: Yankee Group, Pyramid, Q4 2010, Economist Intelligence Unit, Universal McCann

And the platform to build upon it

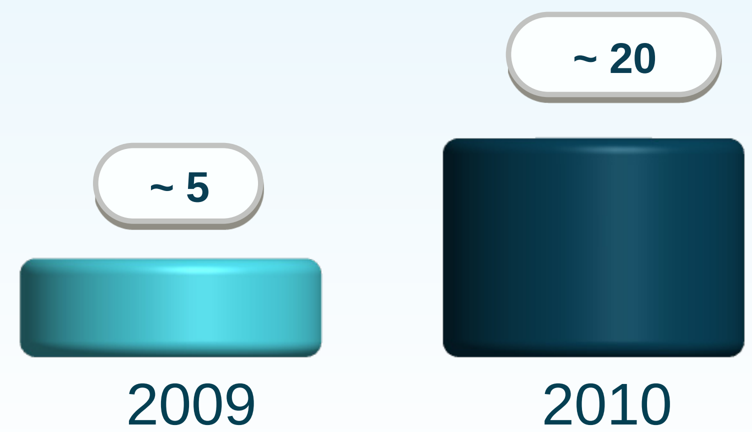
Spectrum

MHz



LD Backbone

Thousands Km



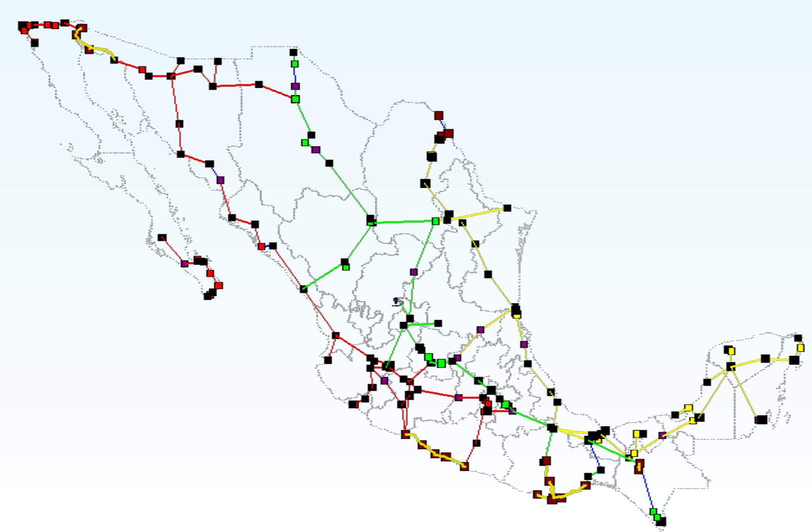
Customer satisfaction

Q310 Spectrum acquisition

1,700-1,900 MHz Band

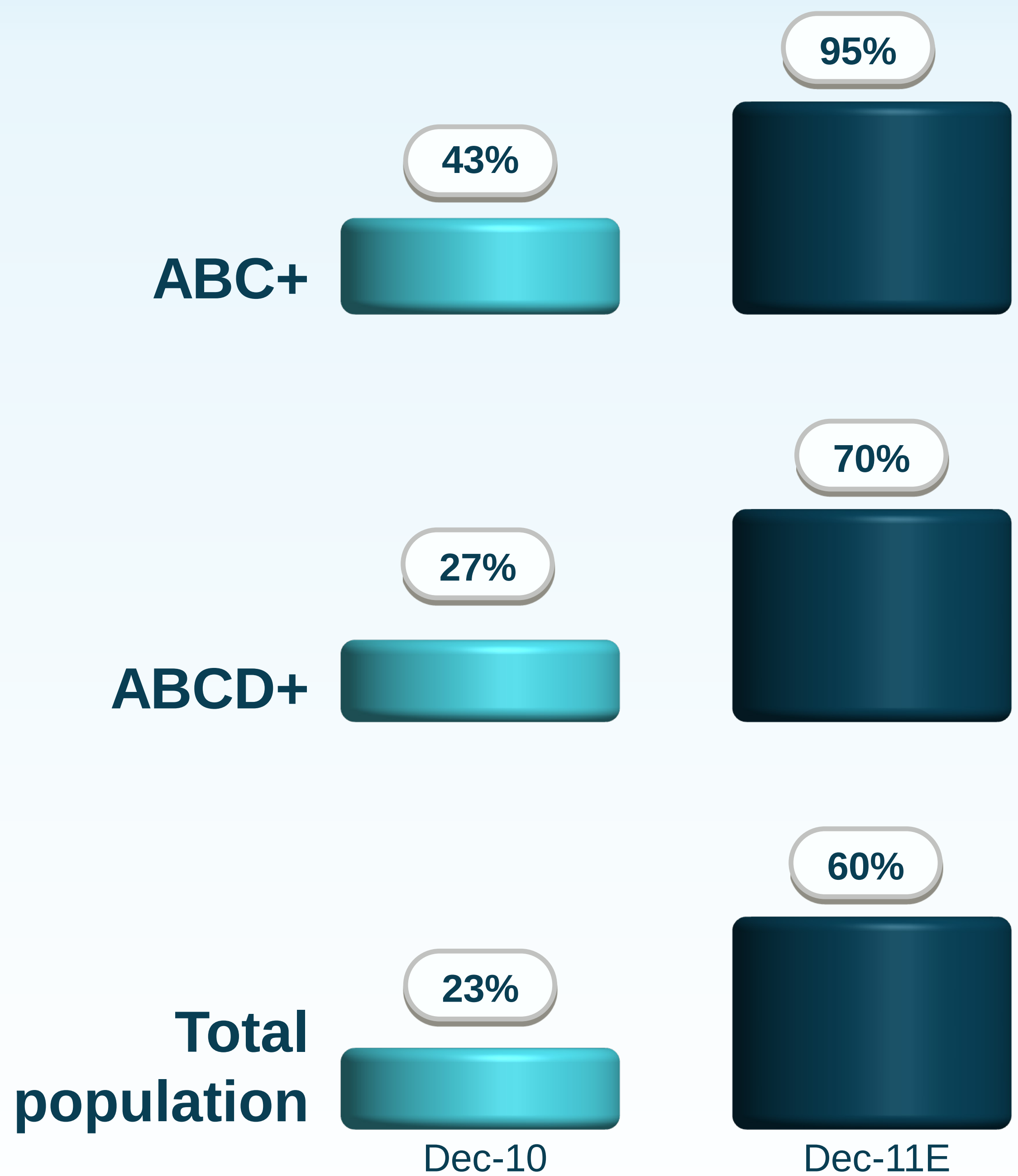
Starting point to capture the MBB wave of growth

Signed dark fiber consortium in June 2010

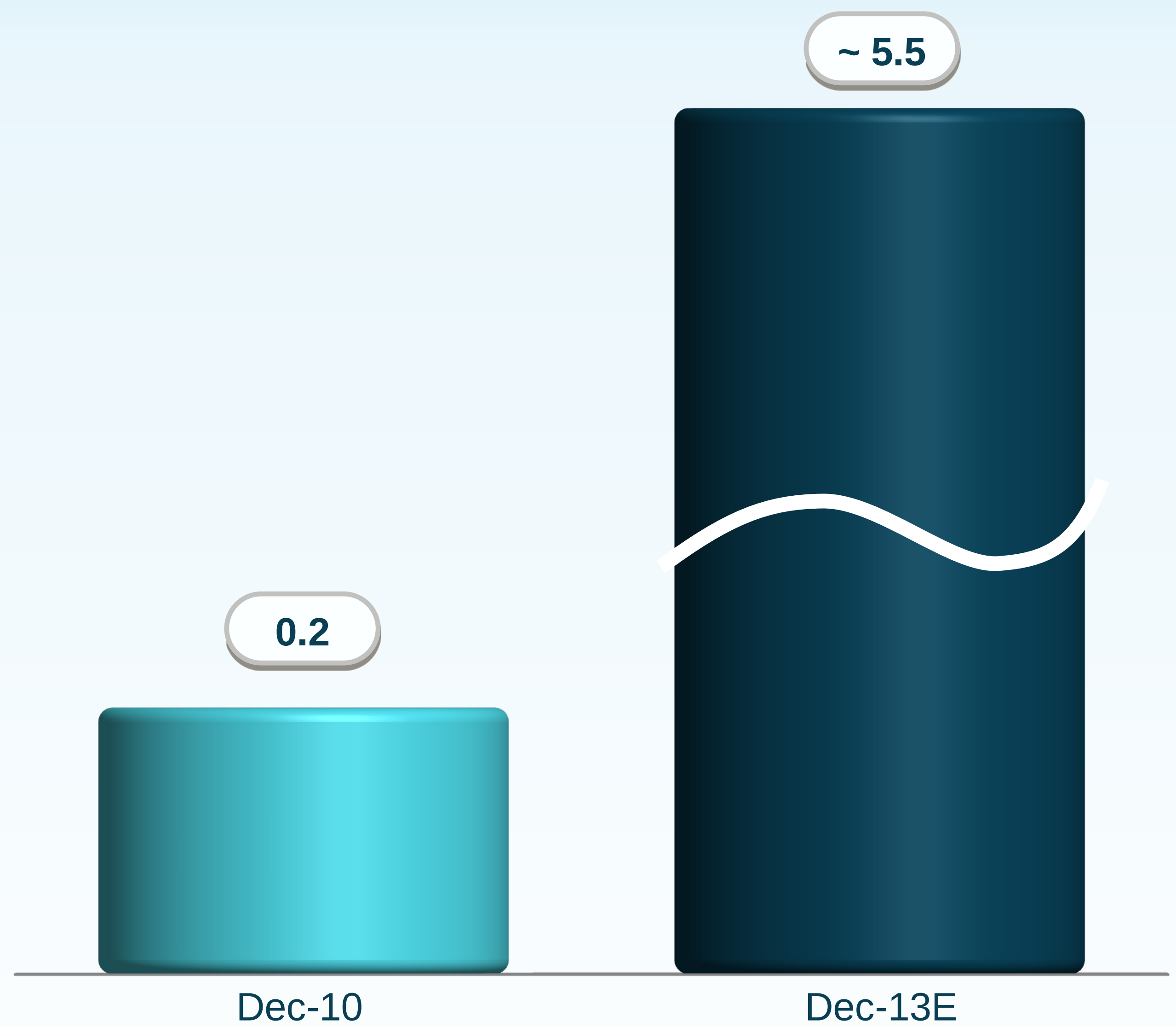


Betting on 3G to kickstart the new wave of growth

3G coverage by socioeconomic segment
%

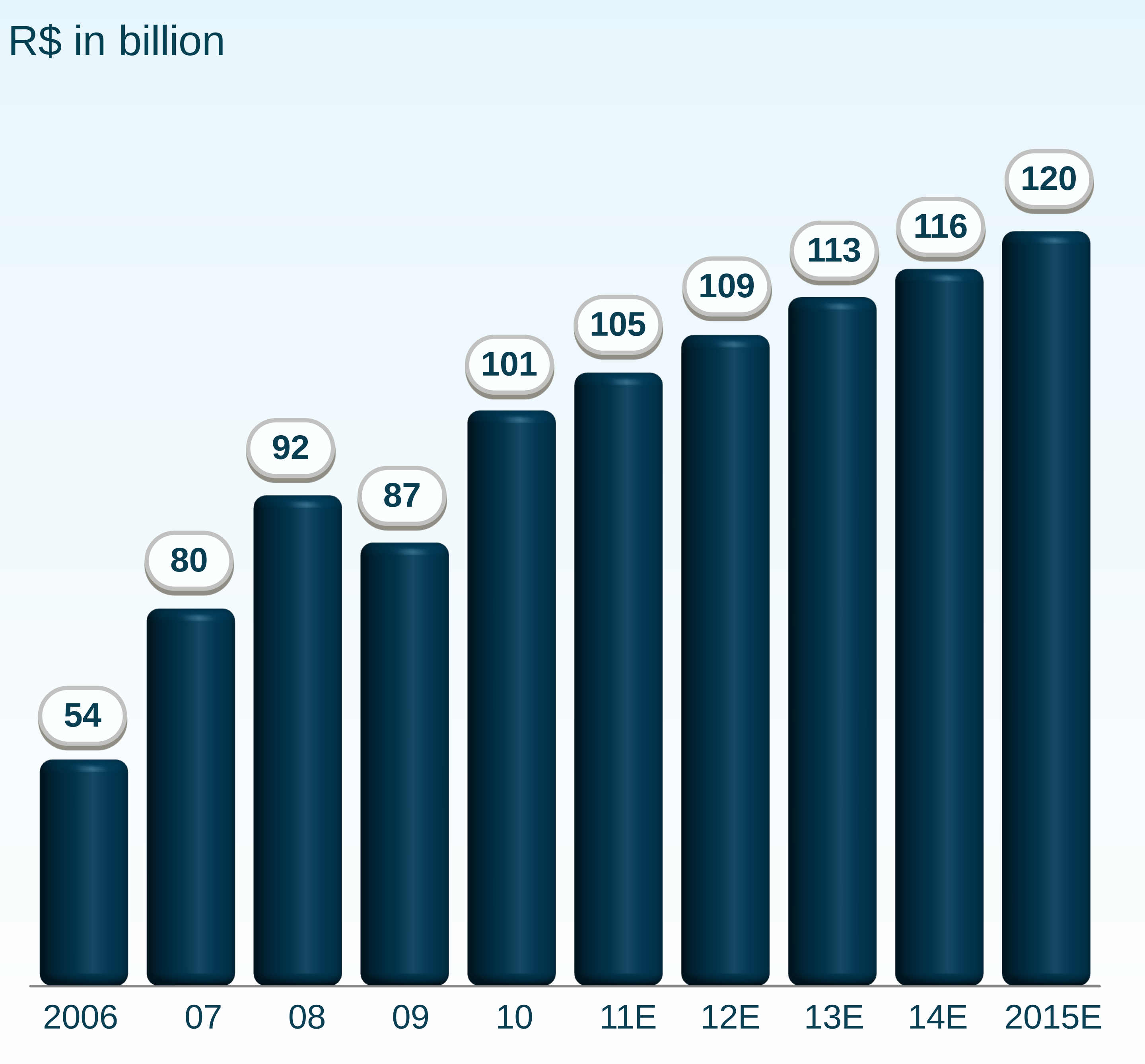


Telefónica MBB accesses
In millions



Brazil, a very large and rapidly growing market

Total Revenues Telecom Market Brazil

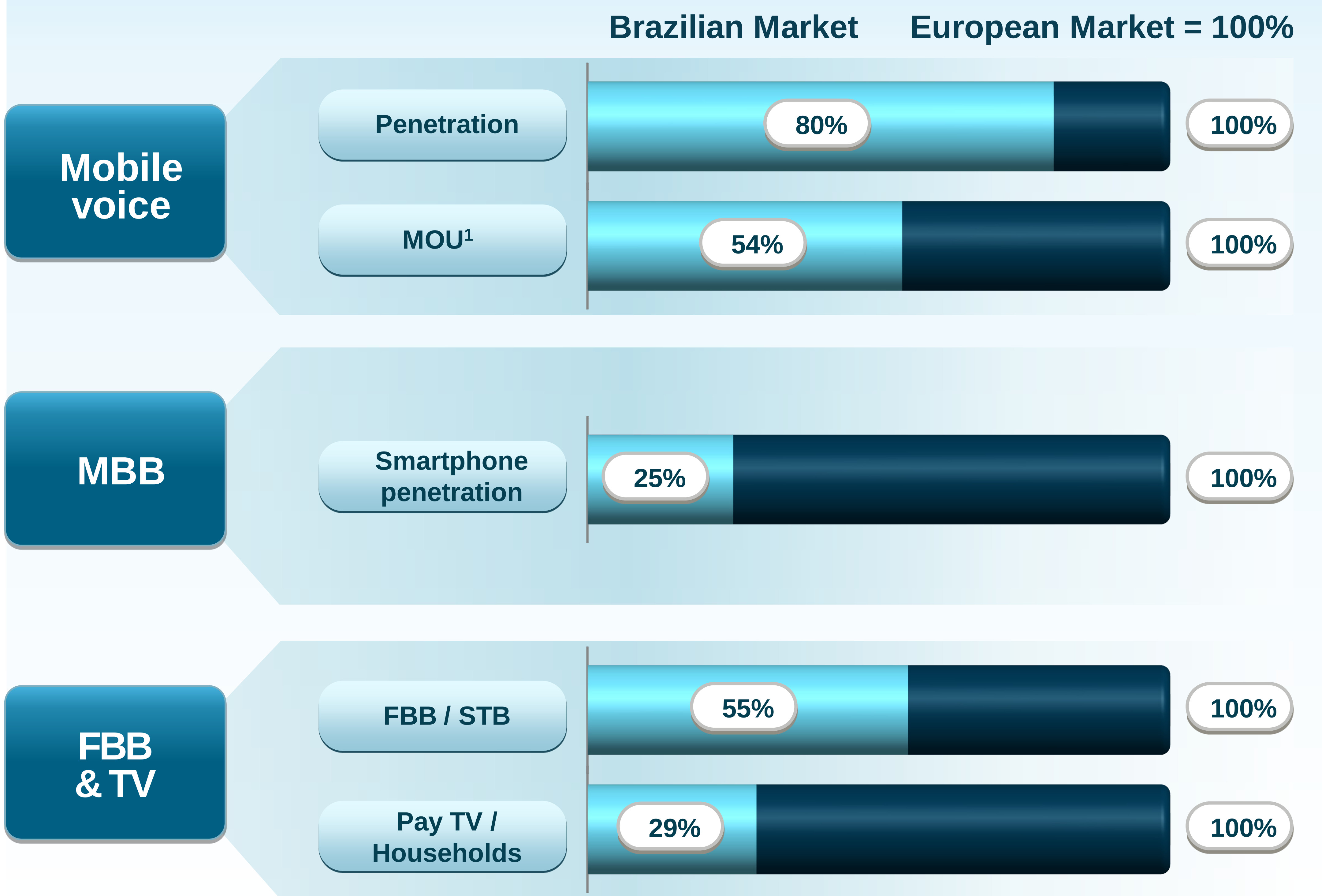


Top 10 telecom markets in the world per 2010 revenue

Source: Pyramid

Brazil, plenty of opportunities

The opportunity



Middle class ~100 m population

Young & Urban ~50 m <14 87% urban

Internet Users 80 m

Leading penetration in Social Networks

GDP Growth

[1] Incoming and outgoing traffic
Source: Yankee Group, Pyramid, Q4 2010

Brazil, much more to come

Mobile Voice Market	FY 2010-2013E
Mobile Penetration %	+ 17 p.p.
MOU[1] Min	+ 3%

MBB Market	FY 2010-2013E
Mobile data users %	+ 23 p.p.
Smartphone penetration %	+ 8 p.p.

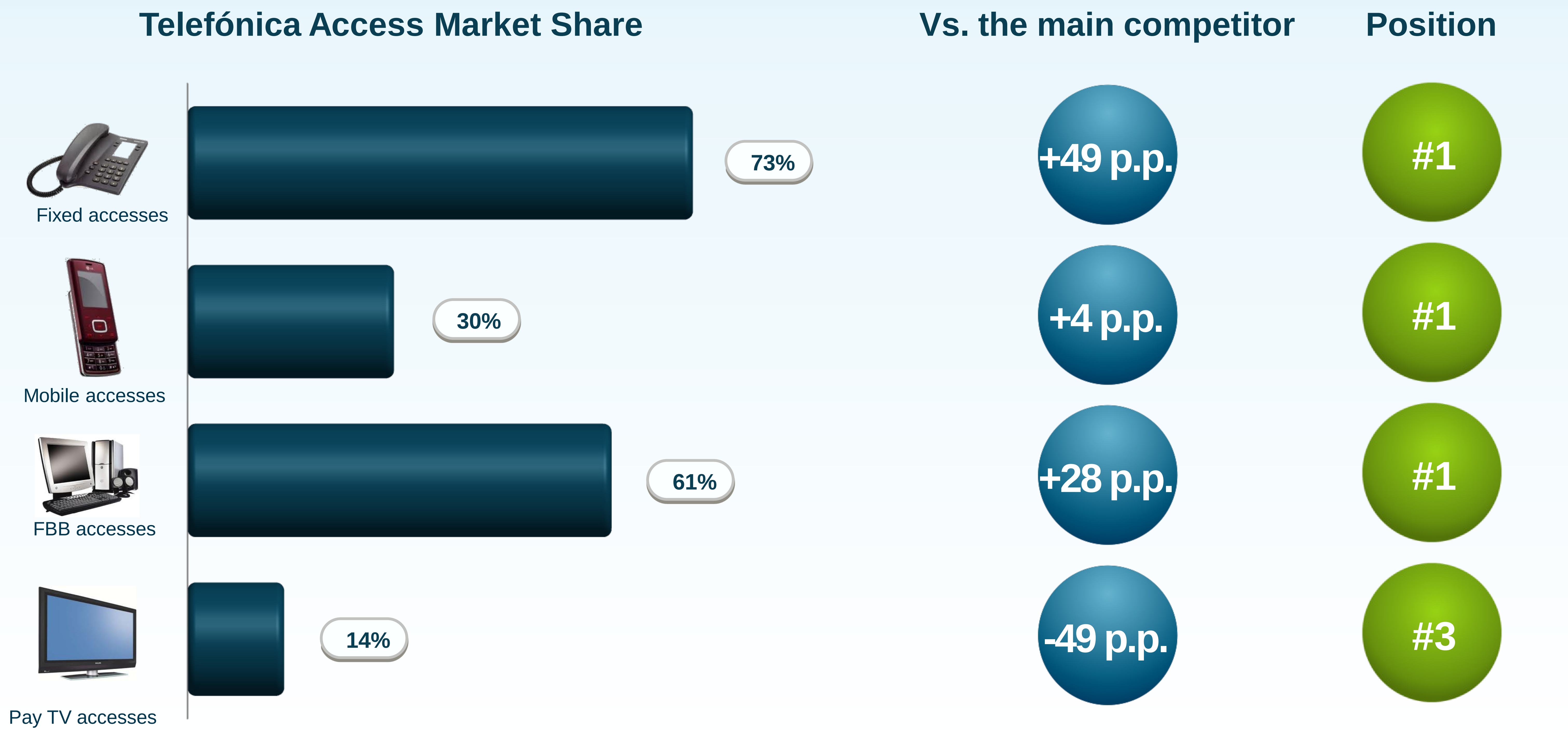
FBB & TV Market	FY 2010-2013E
Pay TV Subscribers / Households %	+ 5 p.p.
FBB/STB %	+ 12 p.p.

[1] Incoming and outgoing traffic

Source: Yankee Group, Pyramid, Q4 2010

Telefónica in Brazil, clear leadership

A leadership position[1]
December 2010



1 Share and position in fixed voice, FBB and TV Sao Paulo
Source: Anatel and Telefónica estimates

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Telesp, a strong fixed incumbent

Best performance vs. peers in Latin America

Thousands of fixed accesses net adds, FY 2010

Customer satisfaction improvement

First company to offer >30 Mbps

Positive churn evolution

Historical level of FBB net gain

Source: Company data

Vivo, the indisputable leader

VIVO 2010

40% Dongles Market Share

35% Contract Market Share

30% Market Share

 # 1 Top of mind (6 p.p. above competition)

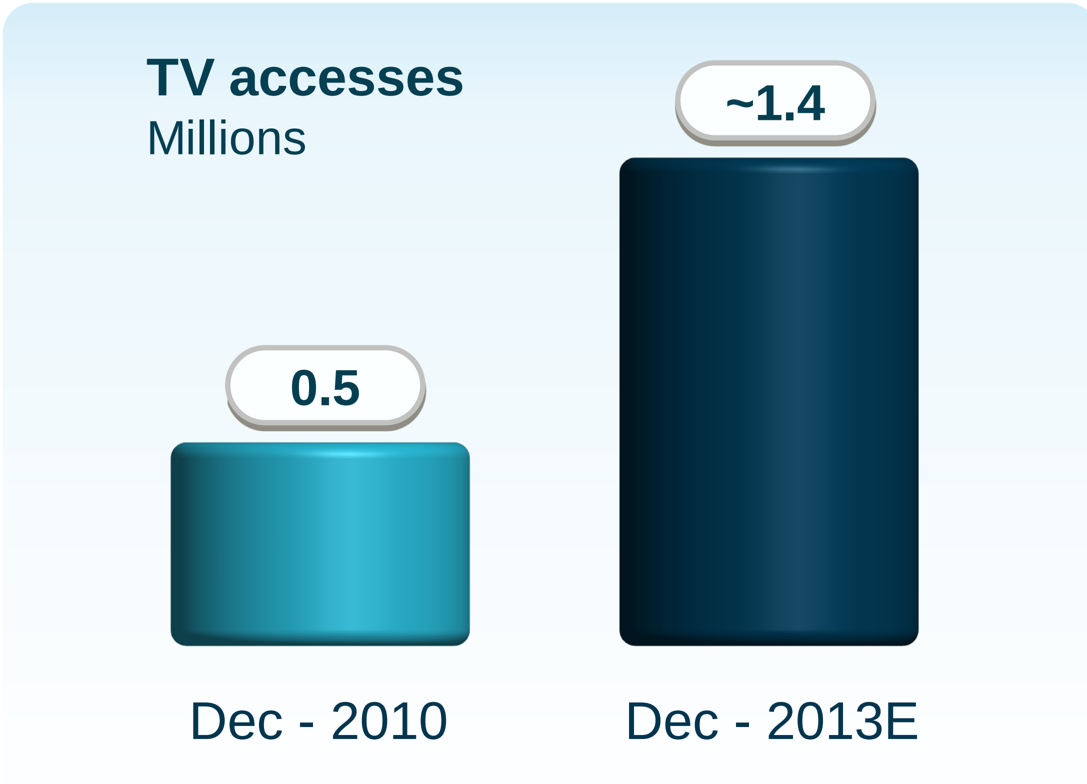
#1 Customer satisfaction

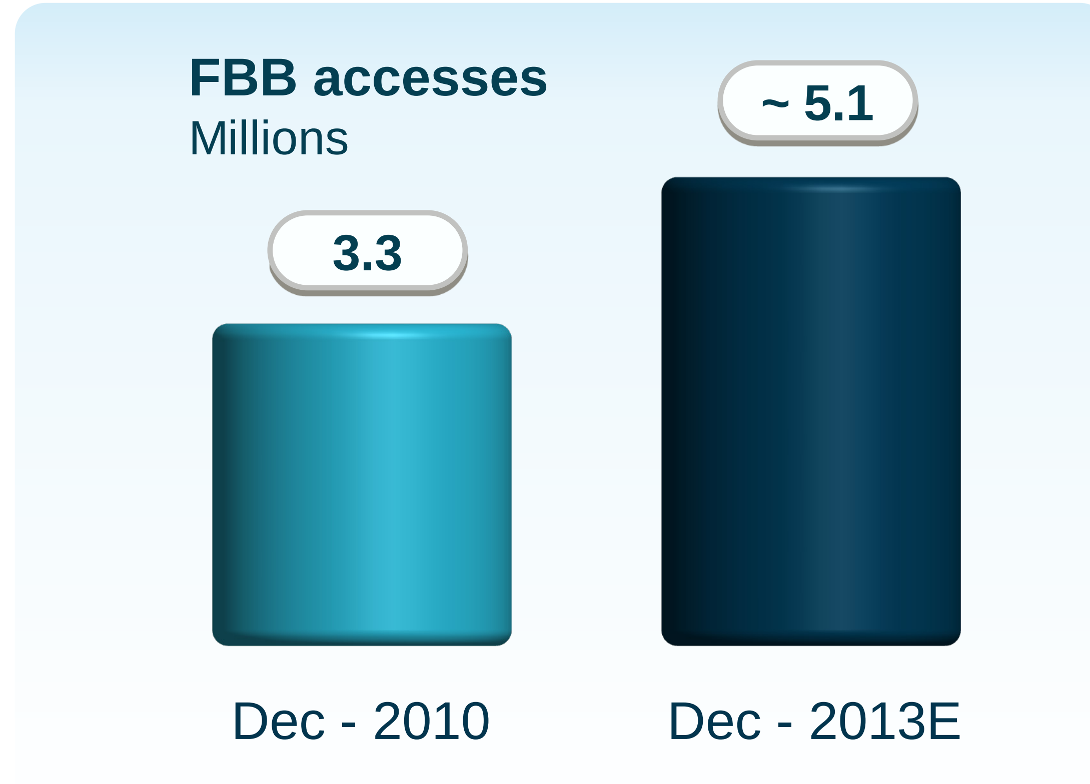
Leader in population coverage (over 25 m advantage)

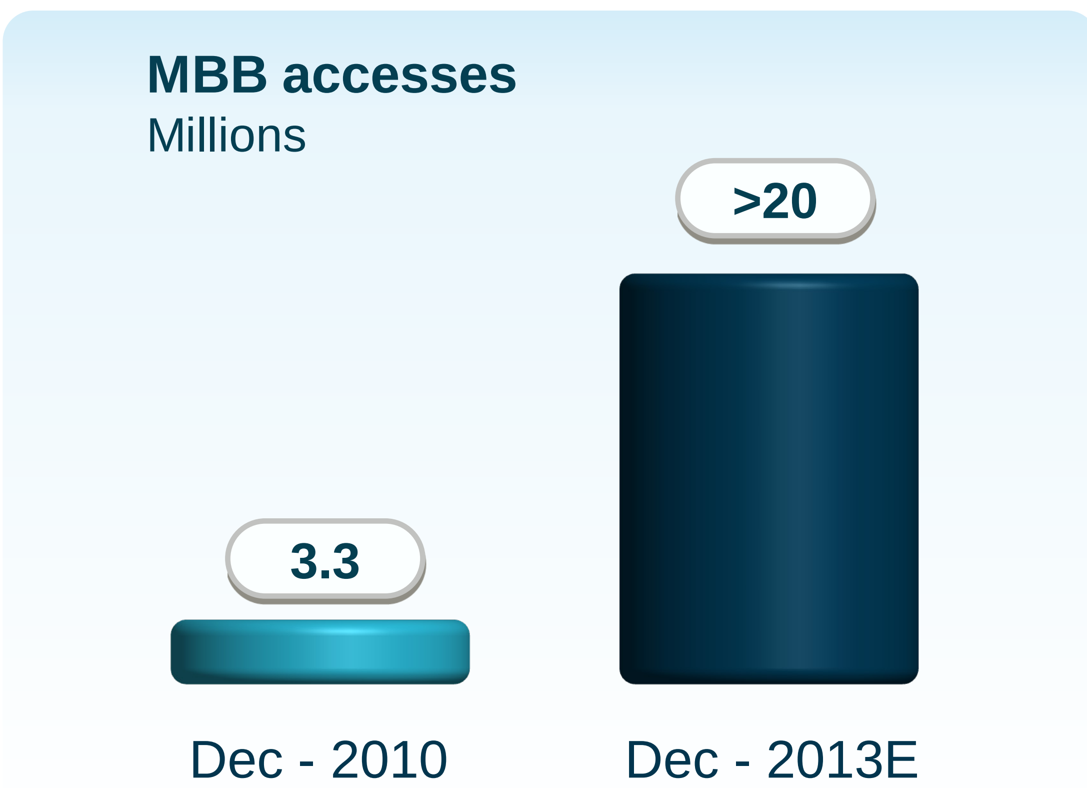
Leader in 3G coverage (x3 covered towns closest competitor)

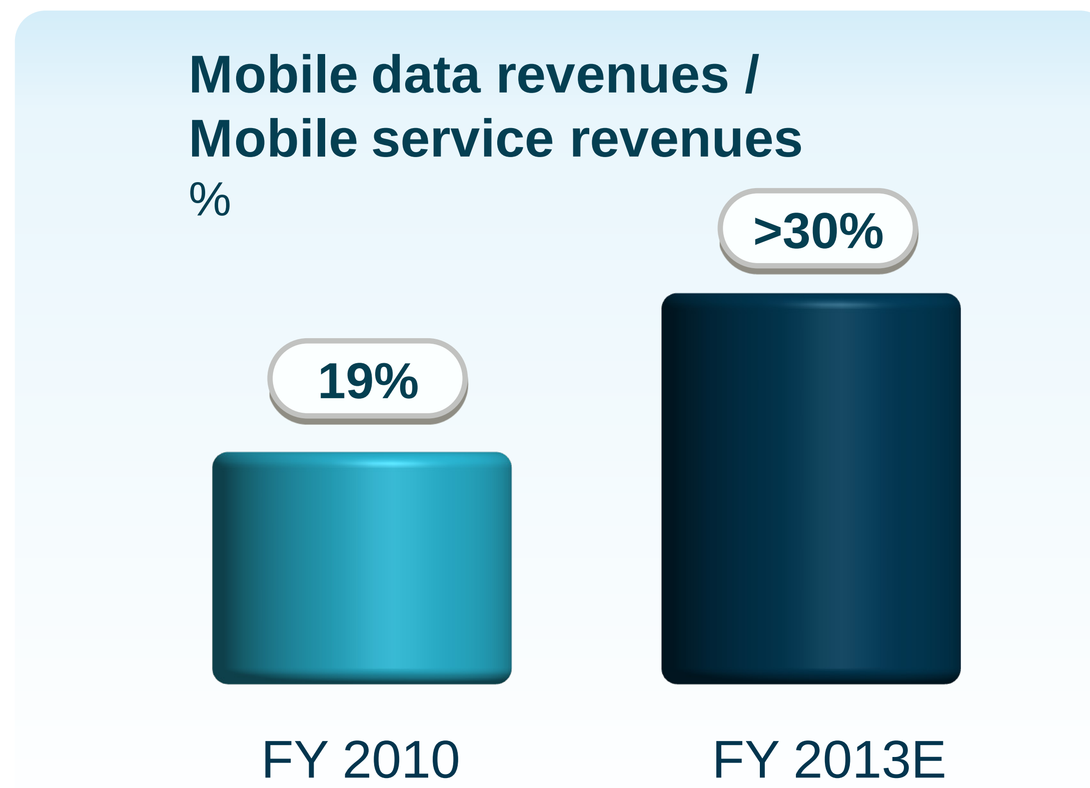
Source: Anatel

We are increasingly capturing growth opportunities



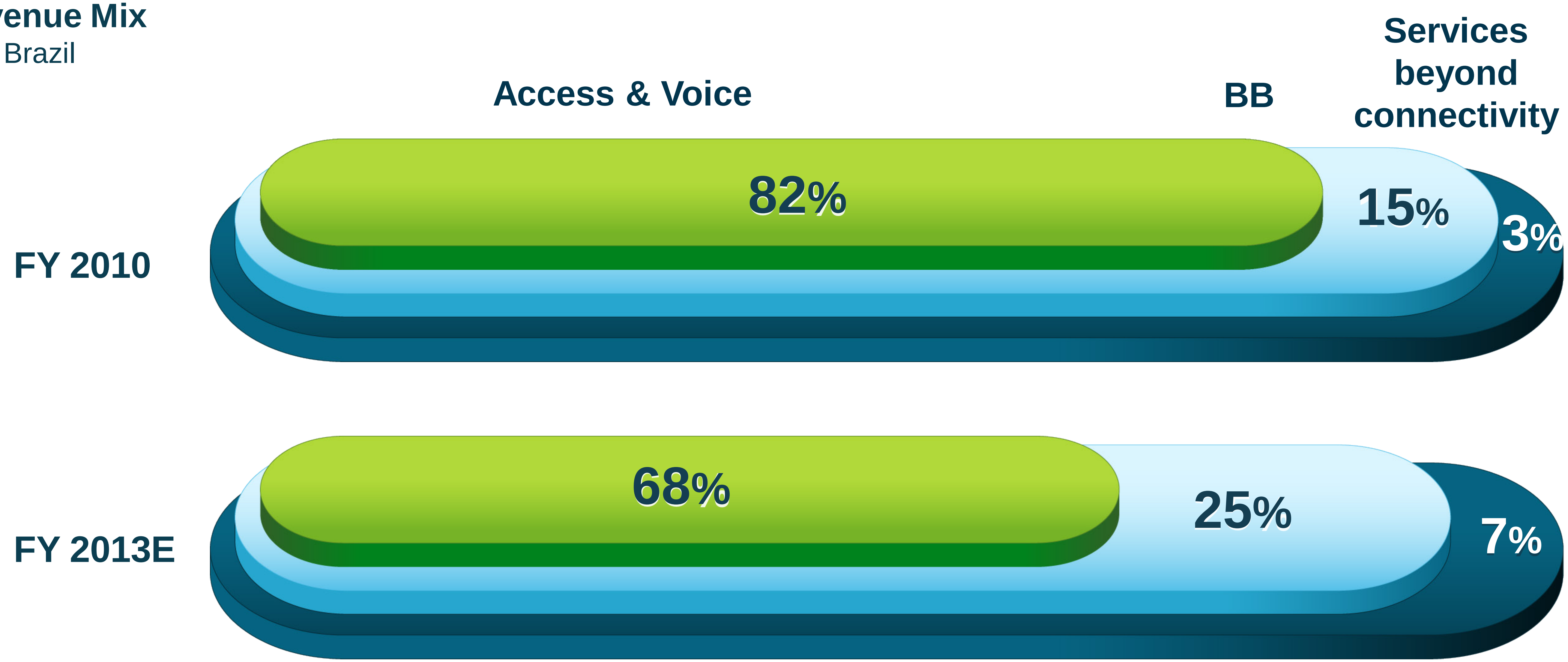






We are transforming our company

Revenue Mix
TEF Brazil



Margin expansion leveraging on synergies

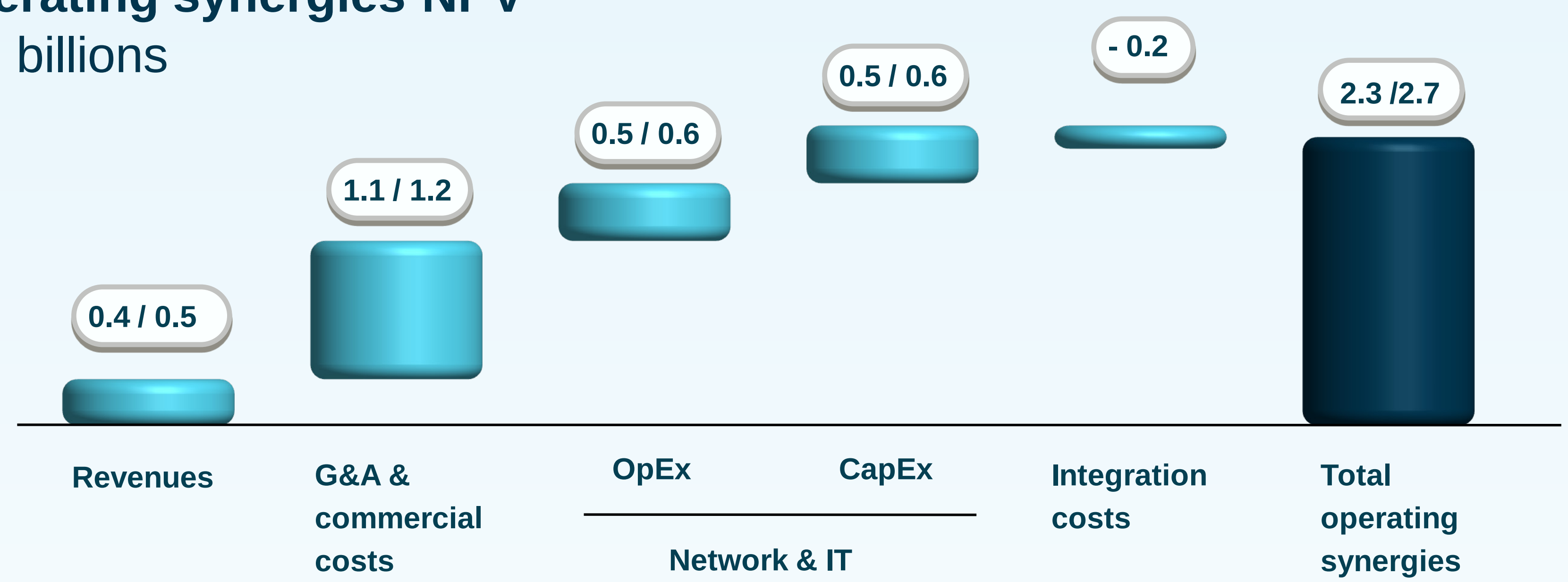
Investments of R$ 24,300 m until 2014

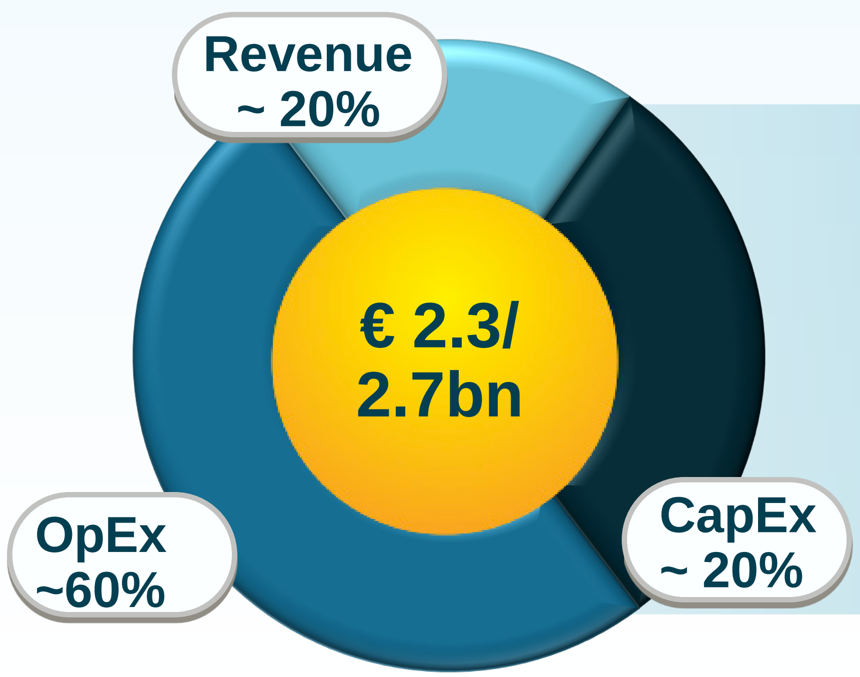
[1]Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela and changes in consolidation perimeter
Voice and Access: Include fixed/mobile access & voice (SMS included), narrowband and mobile & fixed equipment revenues
BB: MBB and FBB revenues
Services Beyond Connectivity: Include content, digital services, ICT solutions and vertical units revenues

We are going to capture a significant value

Minimum Synergy targets

Operating synergies NPV
€ in billions





- 3-4 years to fully exploit
- Savings from year 1

On track

Projects Launched Q4 10 – Q1 11
Examples

- Interconnection optimization
- Topology and network common design (voice and IP core)
- Unifying Internet access
- IT vendor management
- Up sell & cross sell for MCN´s, corporate and SOHO common customers

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Brazil, a country of opportunities

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Telefónica Latinoamérica

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