Results
January-December 2011

Telefónica

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Agenda

2011 results and 2012 priorities

01 **2011 HIGHLIGHTS, 2012 STRATEGIC PRIORITIES AND GUIDANCE**

Mr. César Alierta
Executive Chairman and CEO

02 **2011 FINANCIAL RESULTS, CAPITAL STRUCTURE AND BUSINESS PRIORITIES**

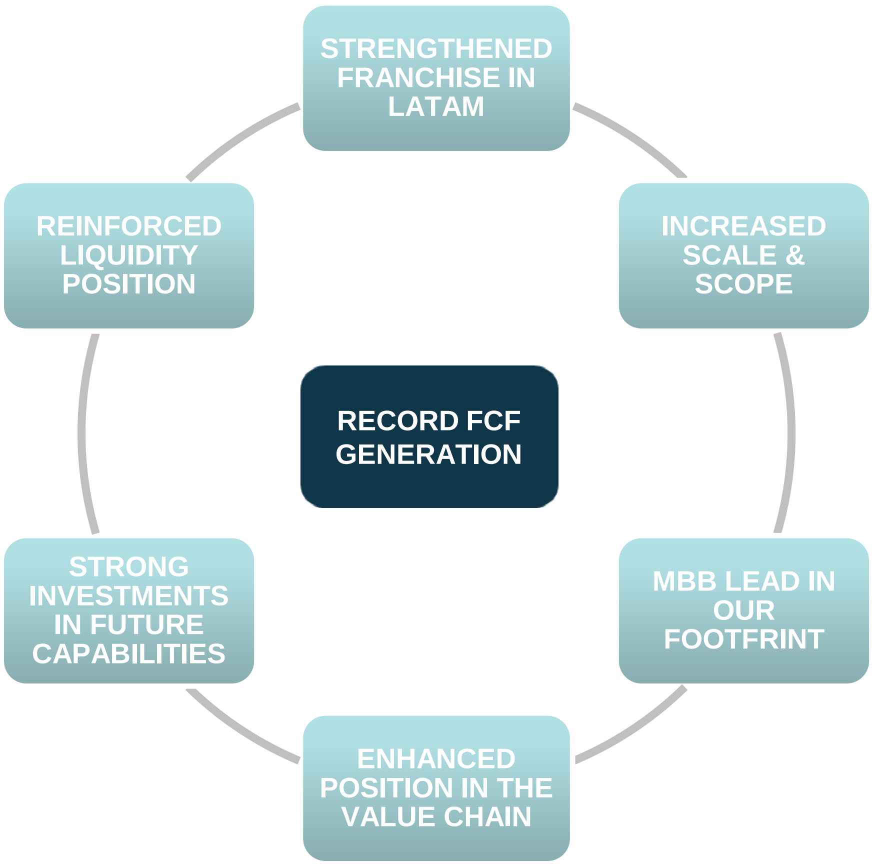
Mr. Ángel Vilá
Chief Finance and Corporate Development Officer

01

2011 HIGHLIGHTS, 2012 STRATEGIC PRIORITIES AND GUIDANCE

Mr. César Alierta

2011, a year of record FCF generation and significant progress globally and vertically



Solid financial results against a difficult backdrop

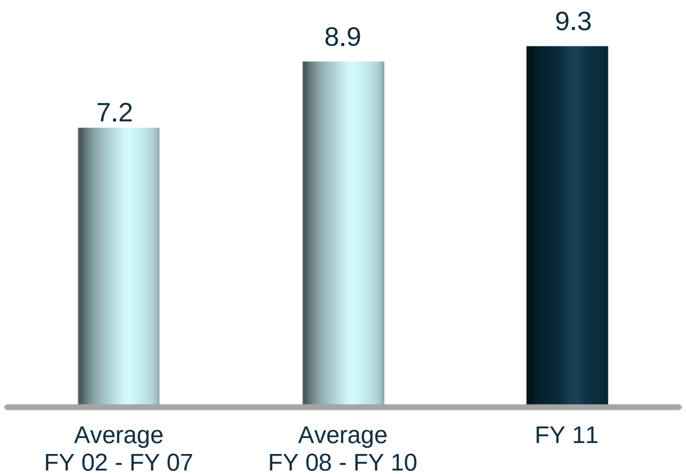
- **Steady revenue growth (+3.5%) driven by key growth engines** (Latam & mobile data)
- **Solid underlying OIBDA margin over 36%** amid increased commercial investments
- **Record FCF generation at € 9.3 bn** despite higher investment to bolster future growth
- **Guidance fulfilled** (revenue, OIBDA margin & CapEx within targets)
- **Very attractive shareholder remuneration**

01

Record yearly FCF generation

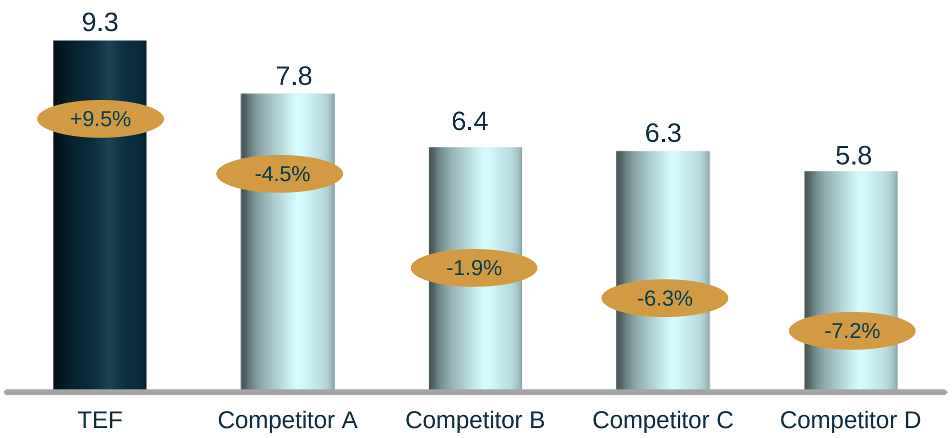
FCF Generation

€ in billions



Outperforming top European based peers[1]

€ in billions



1. Source: Company releases and broker estimates.

01

New strategic boost from last summer to drive transformation and increase our growth potential

Accelerate portfolio management & network sharing to free resources

Restructuring of Colombian operations

Telefónica and DT in network collaboration agreement

Sale of 2,500 non-strategic towers in Mexico

Sale of minority stakes

Refocused commercial strategy in Europe & further push in Latam

New shareholder remuneration targets, increased financial flexibility

New organization, enhanced position in the value chain

T. Digital to bolster our position in the new digital world

T. Global Resources to get the most from our scale

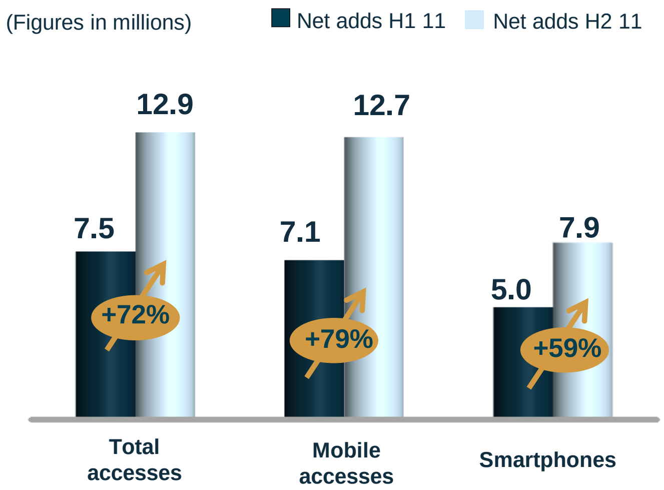
Progress in our transformation journey to foster growth

01

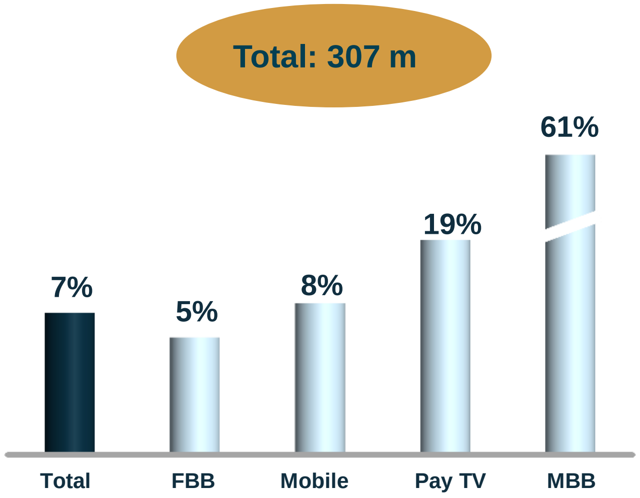
Strong investments in customer expansion, setting stage for future growth

Decisive commercial actions to regain momentum already bearing fruits across the board

(Figures in millions)



Accesses growth organic (y-o-y)

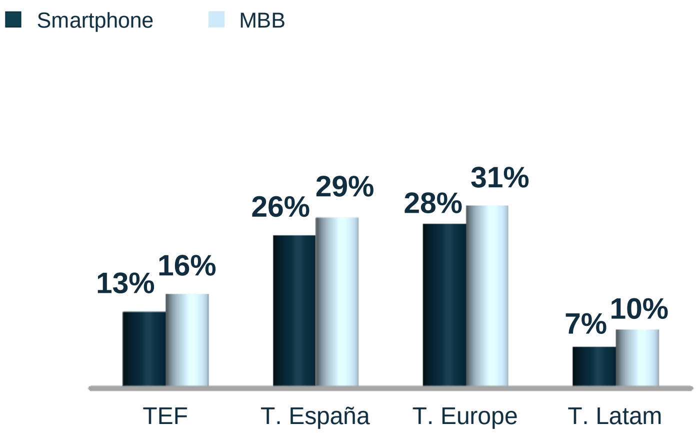


- **Record mobile net adds in Q4, with best ever quarter for smartphones**
- **Outstanding growth in MBB** to exceed over 38 m accesses
- **Contract segment** is already **1/3 of the mobile base**
- **Sustained expansion of FBB** accesses leveraging bundles
- **Pay TV net adds in FY 11 almost doubled** y-o-y

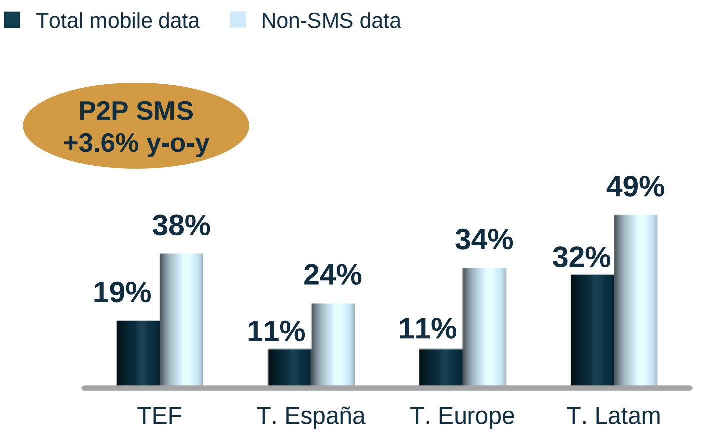
01

Delivering growth from data on rapid adoption of MBB

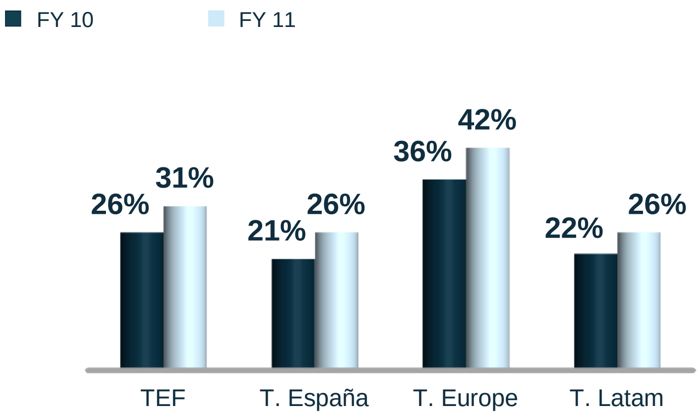
Data penetration (Dec-11)



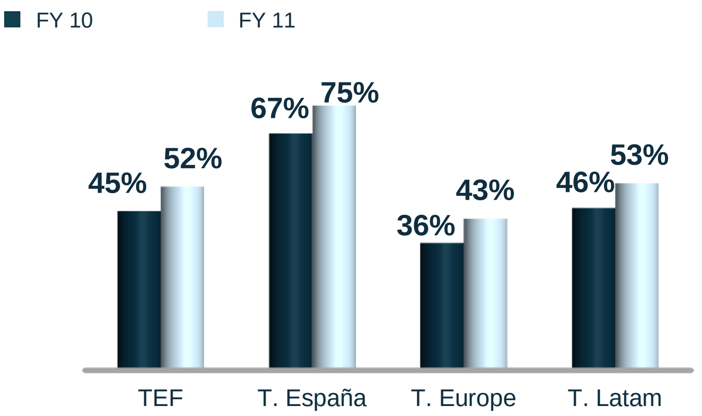
FY 11 mobile data revenue growth (organic y-o-y)



Mobile data/MSR



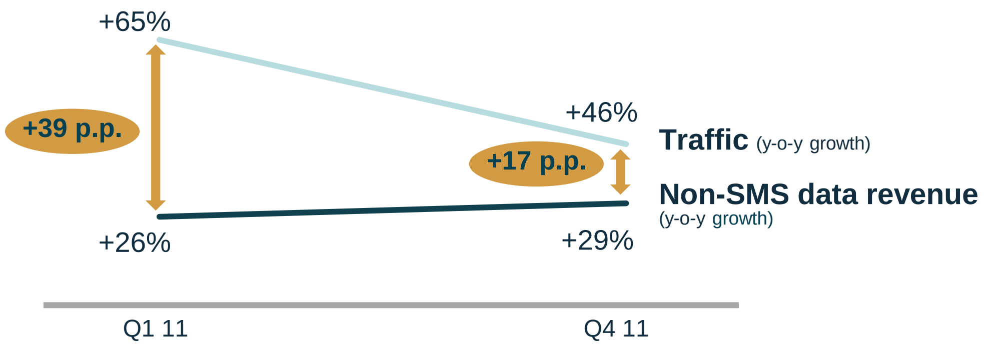
Non-SMS data/Mobile data revenue



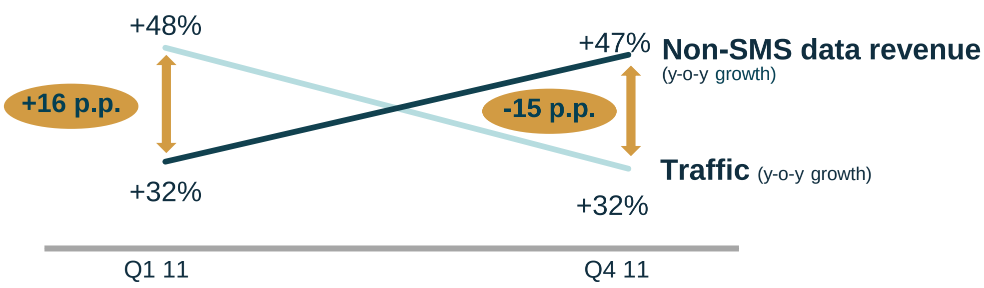
All revenues figures in aggregated terms.

01 Monetising the MBB explosion

Data traffic converging to revenue growth T. Europe[1]



Successful monetisation in Germany



- **Major focus on smartphones**[2]:
  - ARPU uplift 1.5x
  - Higher profit up to 1.4x
- **Pricing consistent with data monetisation**:
  - Tiered pricing across markets
  - Integrated tariffs in Europe
  - All MBB users with a data-tariff attached
- **Negligible VoIP traffic volumes in our European markets**

1. Includes T. España and T. Europe.
2. Comparison vs. average contract across footprint.

01

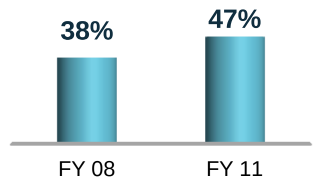
Building on our strengths to successfully execute our growth strategy in 2012

Environment

- Tough macro scenario in Europe
- Competitive markets across footprint
- New market dynamics
- Regulatory action

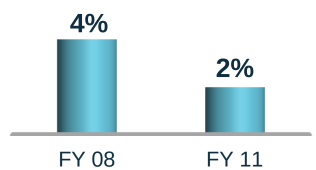
Telefónica strengths

Revenues outside Europe



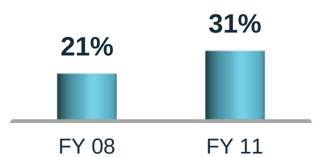
- **Robust outlook for Latam**, where structural growth remains intact and we have strengthened our lead
- **Enhanced positioning in the growing German market**
- **Significant lower exposure to Spain** with enhanced commercial propositions and more cost flexibility

Net revenue exposure to MTR & roaming in Europe



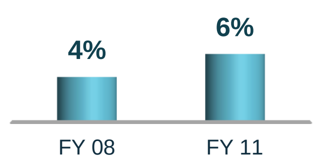
- **Lower drag from MTRs in Europe**
- **Limited impact from data roaming prices regulation**

Mobile data/MSR



- **Tiered data across our footprint**
- **Integrated tariffs** (voice+data+SMS) **in Europe**
- Cheaper handsets to **boost smartphone penetration in Latam**

Revenues from Services Beyond Connectivity



Launch of Telefónica Digital to bolster our position in the digital world

Strong positions in an industry where local market shares are key
#1/#2 in most markets

Services Beyond Connectivity revenues include content, digital services, ICT solutions and vertical units revenues.

01

Telefónica Digital, our platform to monetise the opportunity in the digital world

Unique combination of Assets and Capabilities leading to a strong position in a changing Digital Environment

Combination of Fixed & Mobile Delivery

307 m billing relations

Multiaccess
IP network

Strength in Enterprise & Government segments

Leading exploitation of changing value chains

giffgaff
tuenti terra
Telefónica Servicios Audiovisuales S.A.U
Venture Capital wayra.

Telefónica Digital

"Verticals" coming to fruition; sharing best experiences from UK

18 months ahead in Digital Product Development

Social;
Portal;
Customer2Customer;
enabling Cross-exploitation

Breadth of Existing Customer Relationship points

To bolster revenue growth

Driving Additional Growth from Digital Services & Very attractive Partner for emerging Digital Players

Fostering core business transformation
"Giff Gaff", "O2 Connect"

01

Best in class networks place us in the best position to maximise value across the whole value chain

Single & Ubiquitous Customer Experience	End-to-End Quality of Service Guaranteed5	Telefónica Digital

Core network + Computing&Storage

~ 5M Kms terrestrial fiber
Full IP, IMS: flexibility
>2 Tbps Capacity
>100K Servers worldwide

Content Delivery Network

Multi-access Network

MBB
3G/LTE/WIFI
>100K mobile sites

UBB
LEVERAGE COOPER/ FIBER
Rollout in 6 of 9 main markets

~€ 31 bn invested in networks & spectrum over the last 4 years

Cloud

Digital Services

- **307 m accesses**
- **61 m BB accesses**

- **High Capacity/Converged core**: key to manage MBB traffic (~50% sites connected by fiber in FTTX markets)
- **Maximising efficiencies through right balance** of technology, spectrum availability and ownership

- **Strong R&D franchise,** >1K internal; ~10K using our APIs
- **Growing IP portfolio**; ~100 Patents/year; 50% in actual P&S

Monetise services from 3rd parties	Large footprint to reach all customers	Best position for new services

01

In 2012 we will further advance in our transformation journey, prioritising investments to drive forward growth

Foster Revenue Growth

Improve Efficiency to balance increased customer investments

- T. Global Resources to fully capitalise scale
- In-country efficiencies

Sustained CapEx effort to support broadband expansion

- Targeted investment in fiber/VDSL to increase speeds/coverage in FBB
- Enlarged coverage/capacity in MBB Selective LTE roll-out
- Spectrum acquisition

2012 GUIDANCE

FINANCIAL GUIDANCE:

- Shareholder remuneration in 2012:
  - Cash dividend € 1.30 per share
  - Buyback € 0.20 per share
- Net financial debt / OIBDA < 2.35x (equivalent to previous (ND+Commitments) / OIBDA < 2.5x)

OPERATING GUIDANCE (considering constant perimeter)

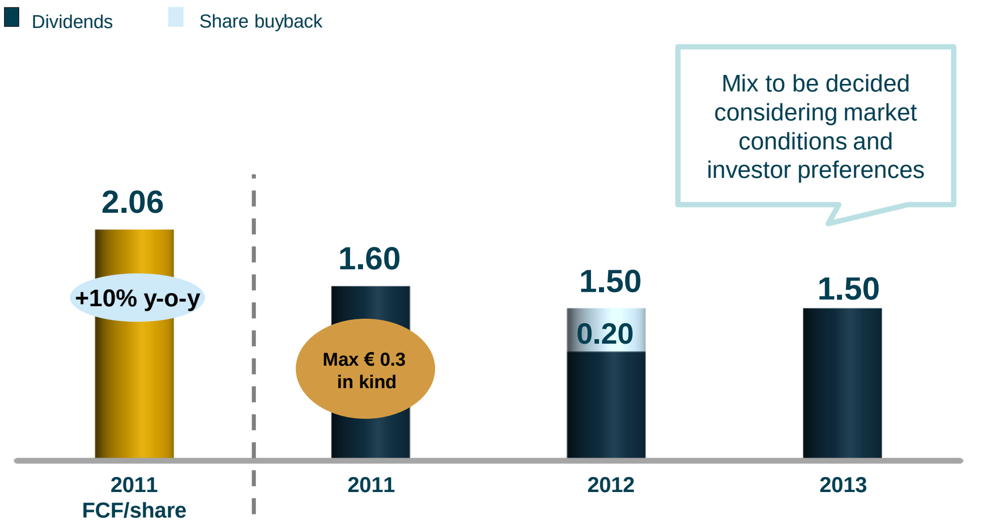
- Revenue growth >1% at current exchange rates
- Lower OIBDA margin decline than in 2011
- Similar CapEx/sales as in 2011

2011 base for guidance purposes: Net financial debt/OIBDA: 2.46x, Revenue (€ 62,837 m), OIBDA margin (36.1%), CapEx/Sales ex spectrum 14.2%. Assumes average FX for 2012 of €1: US$1.32; €1: BRL2.30; €1: £0.85.

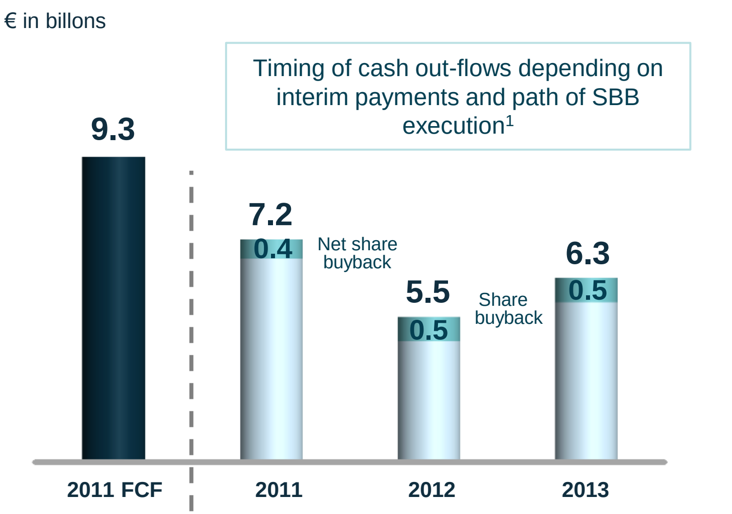
01

A very attractive shareholder remuneration fully covered by FCF generation

Total declared shareholder remuneration (€ per share)



Remuneration cash outflow per year



- **Fully sustainable remuneration**
- Dividend **not to be financed with debt**
- **The highest DY among "top 100"** companies by market capitalisation

1. Graph assumes 50/50 execution of share buyback in FY 2012/2013.

02

2011 FINANCIAL RESULTS, CAPITAL STRUCTURE AND BUSINESS PRIORITIES

Mr. Ángel Vilá

02

2011 Key financials

€ in millions	Jan-Dec 2011 Reported	Jan-Dec 2011 Underlying	Jan-Dec 2010 Underlying	Underlying Change y-o-y	Underlying Change y-o-y ex-MTRs	Reported Change y-o-y
Revenues	62,837	62,837	60,737	**+3.5%**	**+4.8%**	**+3.5%**
OIBDA	20,210	22,697	23,188	**-2.1%**	**-1.3%**	**-21.6%**
OIBDA Margin	32.2%	36.1%	38.2%	**-2.1 p.p.**		**-10.3 p.p.**
OI	10,064	13,671	15,027	**-9.0%**		**-38.9%**
Net income	5,403	7,494	8,983	**-16.6%**		**-46.9%**
EPS	1.20	1.66	1.99	**-16.4%**		**-46.7%**
OpCF (OIBDA – CapEx ex-spectrum)	11,282	13,769	14,959	**-8.0%**		**-35.7%**

Exceptional items[1]

	FY 11	FY 10
OIBDA	**-2,487**	**+2,590**
Net Income	**-2,091**	**+1,184**
Spectrum	**-1,296**	**-2,616**

Underlying performance: reported figures excluding exceptional items and spectrum acquisition.

02

2011 Organic evolution

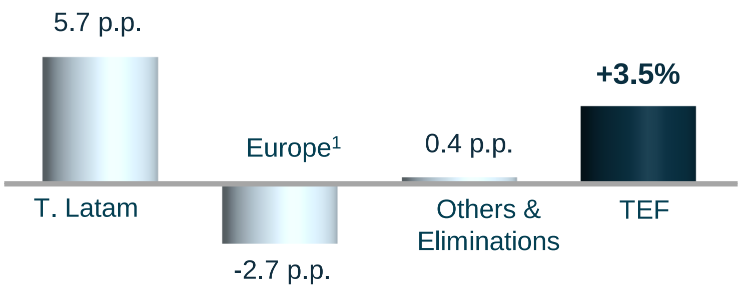
€ in millions	Jan-Dec 2011 Reported	Jan-Dec 2011 Organic	Jan-Dec 2010 Organic	Organic Change y-o-y	Organic Change y-o-y ex-MTRs
Revenues	62,837	63,104	63,058	**+0.1%**	**+1.4%**
OIBDA	20,210	22,784	24,017	**-5.1%**	**-4.3%**
OIBDA Margin	32.2%	36.1%	38.1%	**-2.0 p.p.**	
Operating Income	10,064	12,713	14,068	**-9.6%**	
OpCF (OIBDA – CapEx ex-spectrum)	11,282	13,965	15,478	**-9.8%**	

Revenue, OIBDA margin and CapEx in line with 2011 targets

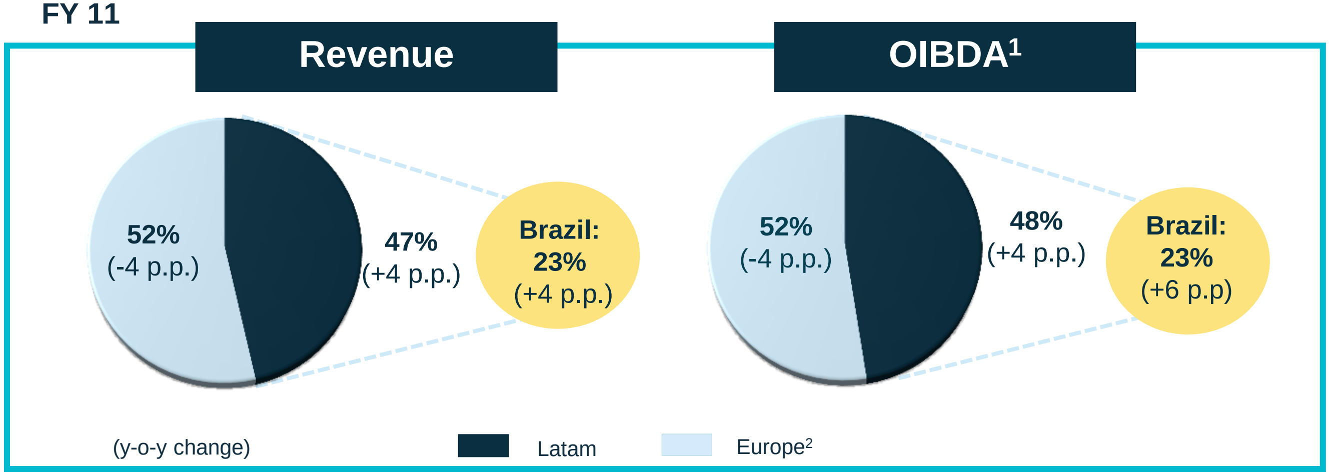
Organic: assumes constant average exchange rates as of FY 10 and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Further details included at the end of the document.

02 Best portfolio diversification drives revenue growth

Revenue contribution to FY 11/10 growth



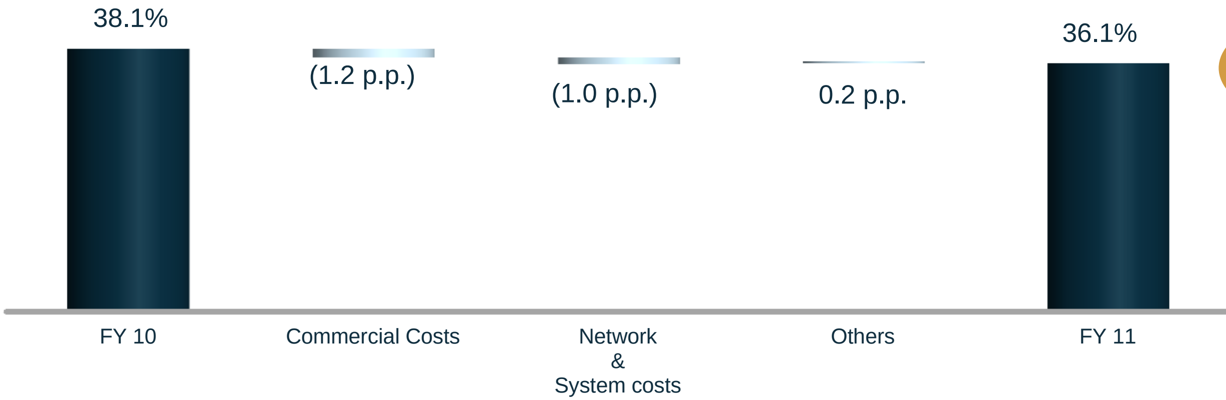
FY 11



1. Underlying figures: reported excluding exceptional items and spectrum acquisitions. Contribution to consolidated figures before intercompany eliminations.
2. Includes T. España and T. Europe.

02 Industry leading profitability

Organic OIBDA margin



Limited y-o-y erosion

- **Record smartphone sales** in FY11 drive rise in commercial costs (+5.7% organic y-o-y)
- Higher coverage, capacity and speed in MBB & FBB lead to increased network expenses
- MTR cuts drive interconnection costs down

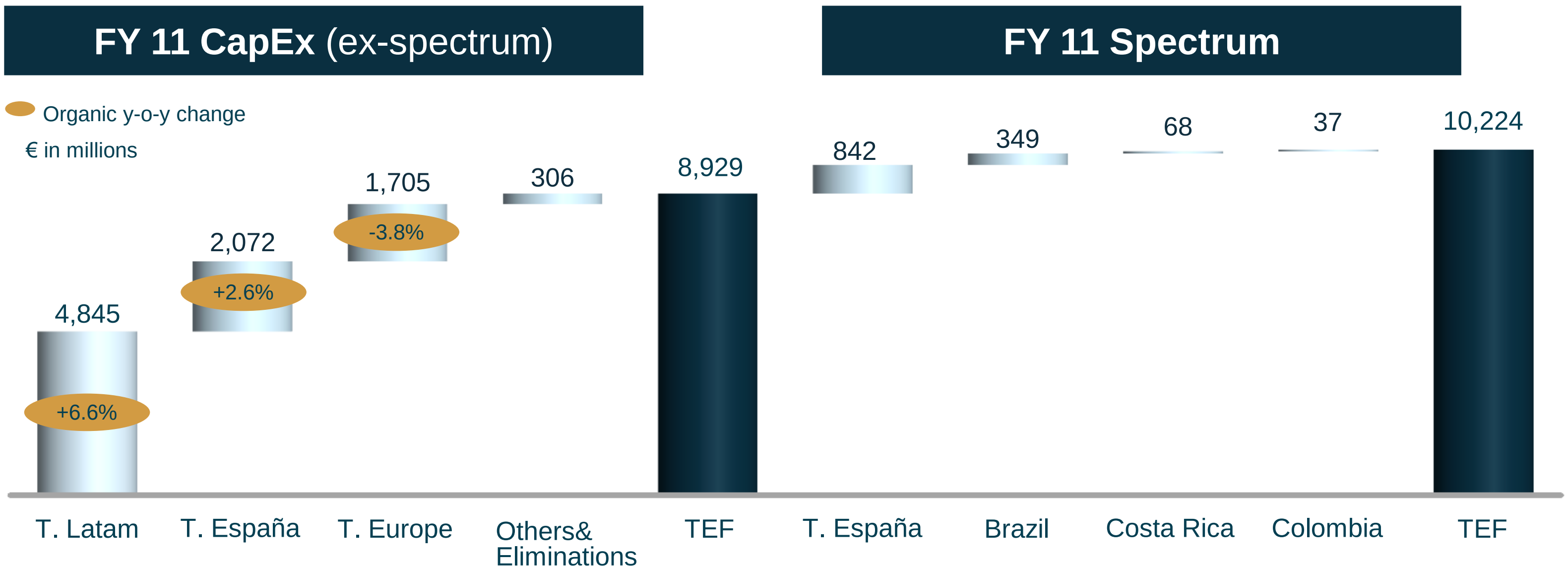
➕

Truly exploiting our unique scale, scope and global projects through TGR, strategic alliances and partnerships

- **Savings in FY 11 from standardization and increased aggregation in global sourcing**
- **Ongoing assets and services rationalization**

02

Strong CapEx to deliver long-term growth



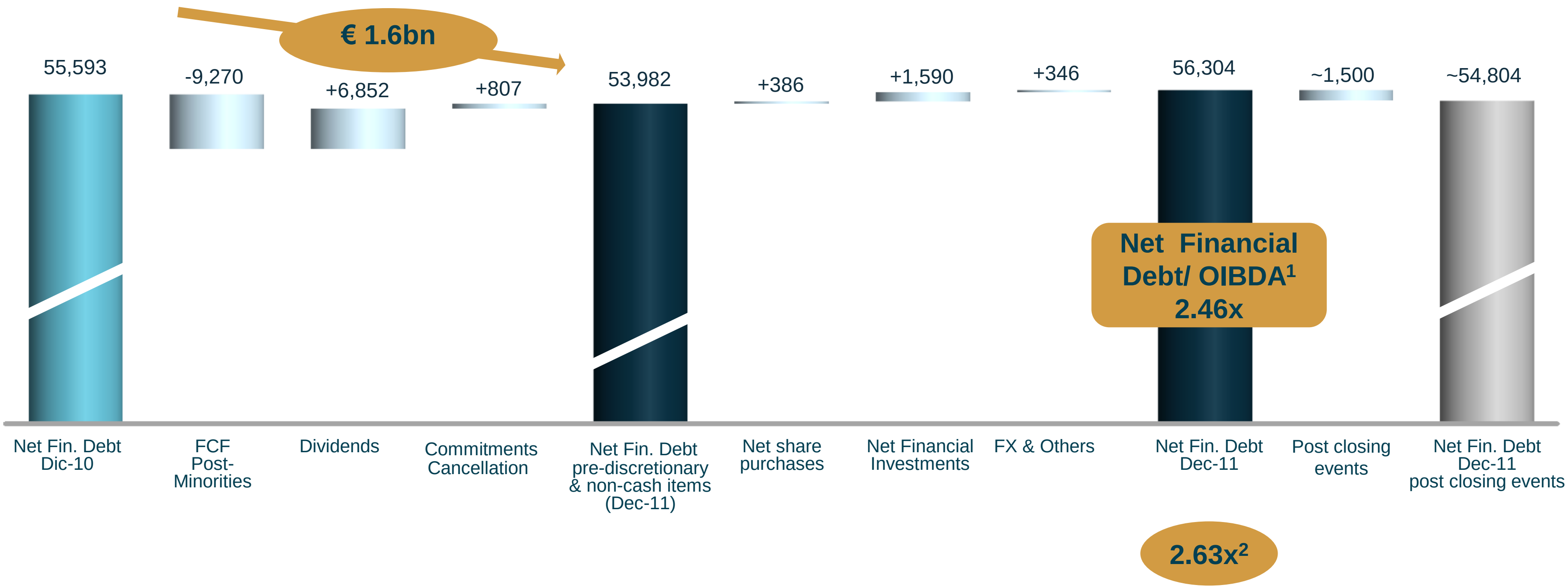
- **Improved network capabilities to support growth in mobile data and FBB** through the expansion of capacity/coverage and speed
- **Increasing service quality**
- **CapEx[1]/Sales FY 11**: 14.2% (+0.7 p.p. y-o-y)
- **Reinforcing our network through spectrum acquisition**

1. CapEx ex-spectrum

Strong FCF allows for debt reduction

Net Financial Debt evolution

€ in millions



Post closing events:

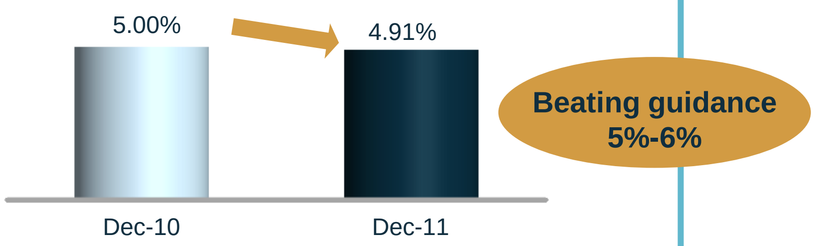
- **Colombia restructuring & sale of minority stakes**

1. Reported OIBDA ex- Redundancy Program in Spain.
2. Net Financial Debt + Commitments at 2.63x OIBDA ex-Redundancy Program in Spain & ex-Sale of Fixed Assets.

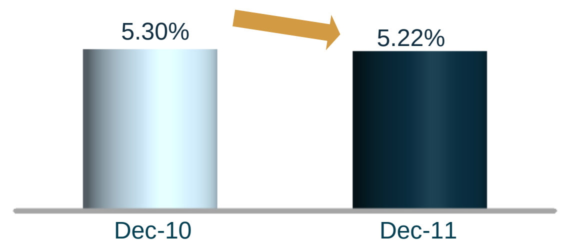
02

Active financial management to minimize cost and maximize cash preservation

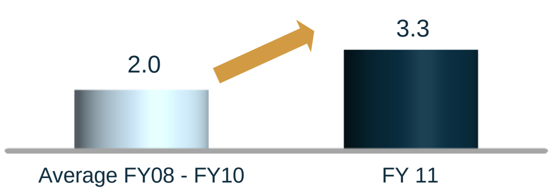
Effective Interest Cost (ex-FX)



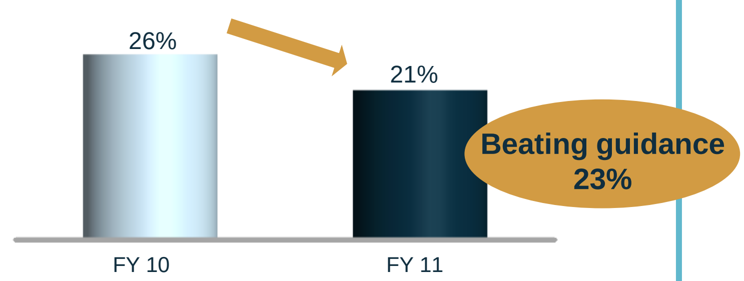
Effective Financial Cost



LatAm gross repatriation (€ Bn)



Cash tax rate [1]



Active management of WC: €1.35 Bn cash-generation

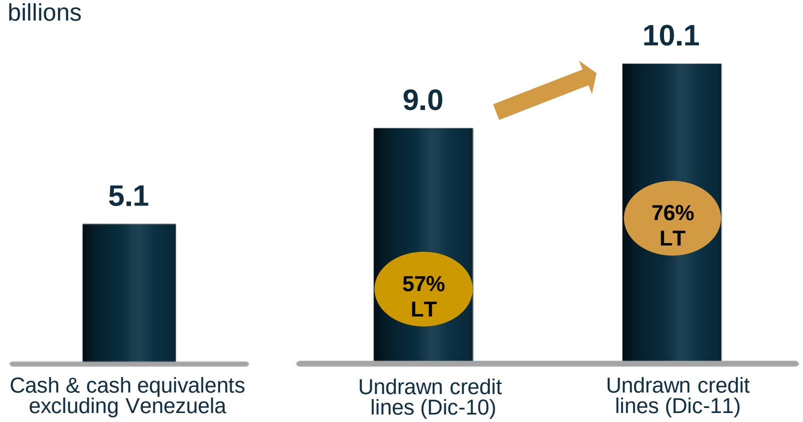
1. FY 10 cash tax rate excluding impact of revaluation of stake in Vivo; FY 11 cash tax rate adjusted by Redundancy Plan in Spain.

02

Strong liquidity position, proactive refinancing

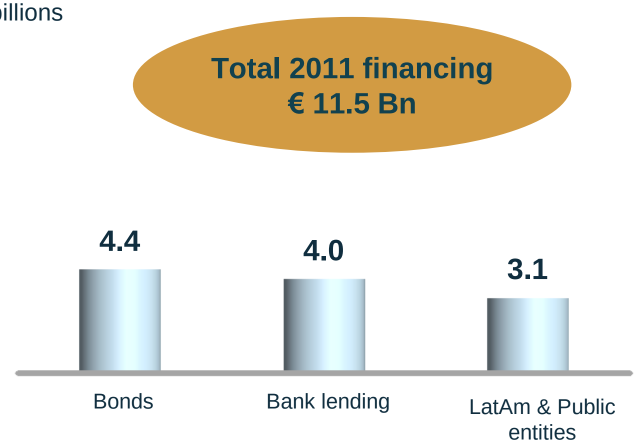
Cash & increased available credit lines

€ in billions



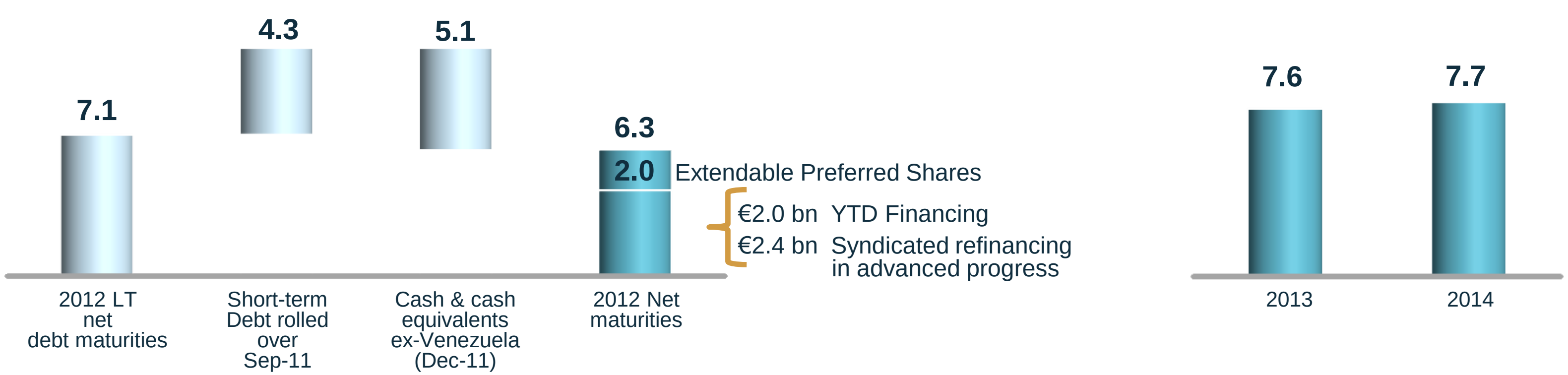
Balanced access to markets

€ in billions

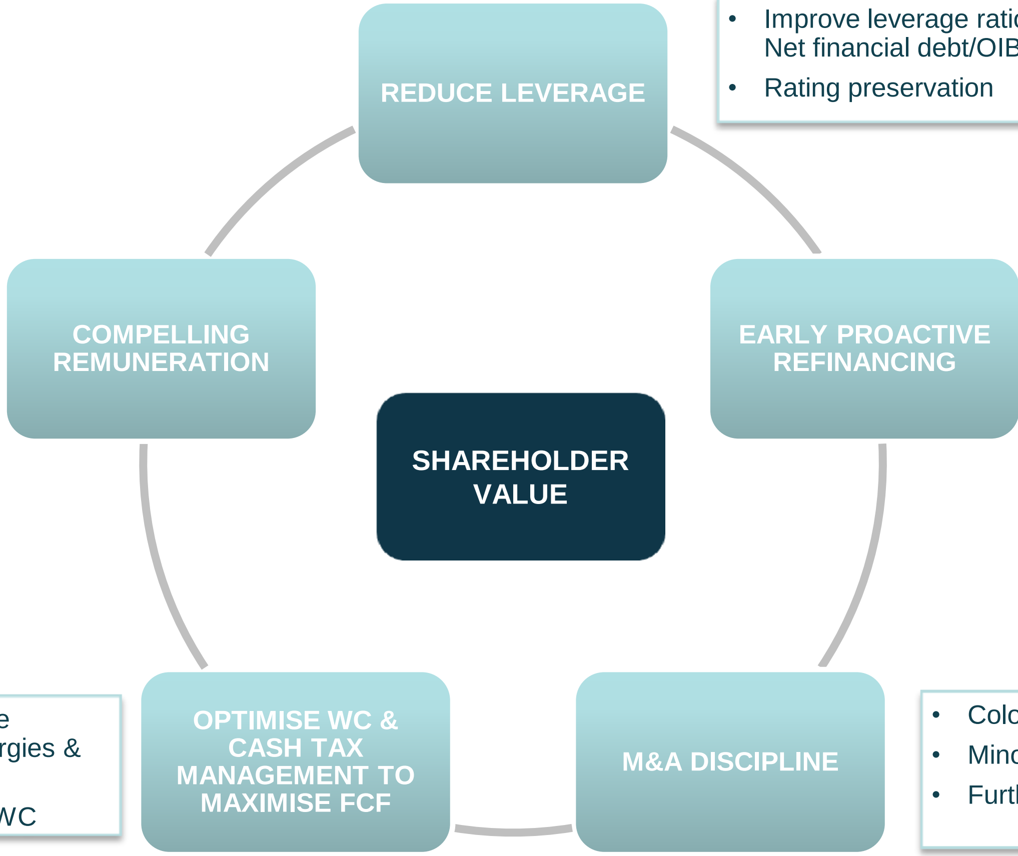


Manageable net maturities & strong refinancing effort YTD

€ in billions



02 2012 outlook: Increase financial flexibility, maximise value



Reduce leverage
- Improve leverage ratio towards target: Net financial debt/OIBDA < 2.35x [1]
- Rating preservation

Early proactive refinancing
- 2012 maturities substantially refinanced

M&A discipline
- Colombia restructuring
- Minority stakes divestment
- Further portfolio optimisation

Optimise WC & cash tax management to maximise FCF
- Beat cash tax rate guidance leveraging integration synergies & tax allowances
- Ongoing improvements in WC

Compelling remuneration
- Fully sustainable levels
- Dividend not to be paid with debt

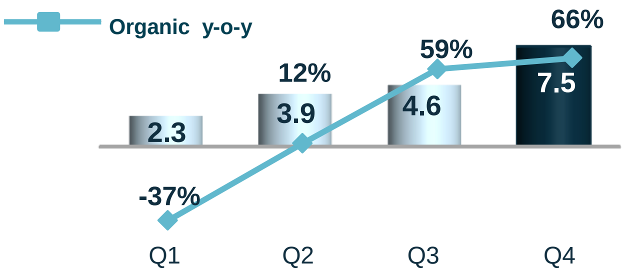
1. Equivalent to previous target of Net Debt + Commitments/OIBDA < 2.5x

Latam: Solid operating momentum heading into 2012

Strong mobile net adds

- **Increased activity along the year**
- **Strengthened lead in contract & MBB:**
  - Largest contract base in the region: 35 m, +18% y-o-y
  - Doubling MBB accesses base y-o-y
- **Refocused prepaid approach to regain momentum**

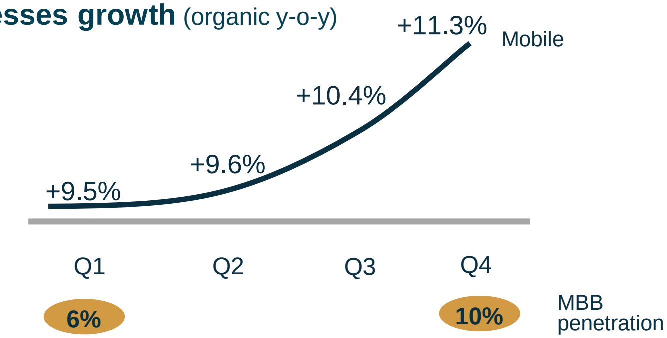
Mobile net adds (m)[1]



Robust customer growth

- **Consistent acceleration in accesses growth** (+9.6% y-o-y; +8.0% in Mar-11)
- **Double digit accesses growth in FBB** (+13% y-o-y) and **TV** (+26% y-o-y)

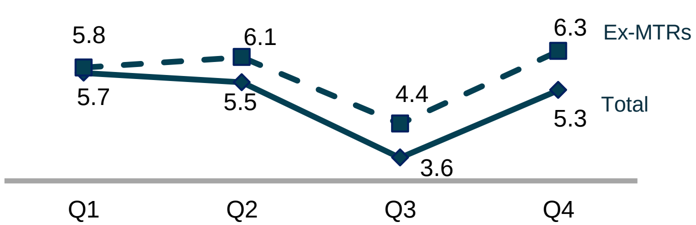
Accesses growth (organic y-o-y)



Accesses growth flowing into revenues acceleration

- **MSR acceleration in Q4 to 8.9%** y-o-y driven by outstanding commercial activity in H2 11
- Growth driven by MSR, FBB and TV

Revenue growth (organic y-o-y)



Organic growth: assumes average constant exchange rates as of FY 10 and excludes changes in the consolidation perimeter and hyperinflation accounting in Venezuela in both years.

1. Excludes the disconnection of 360k inactive prepay mobile accesses in Chile in Q3 11 and 1,034k accesses in Brazil in Q4.

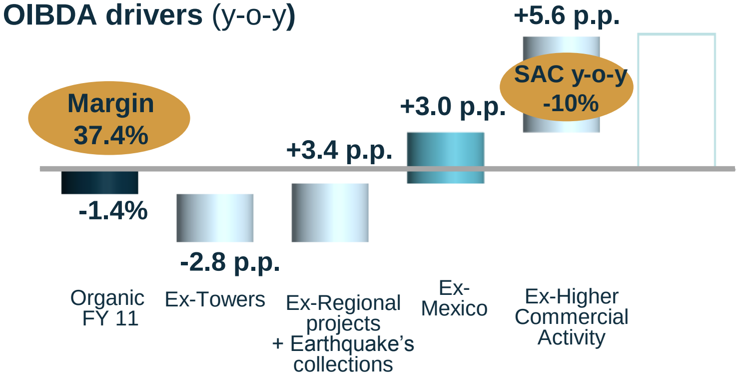
02

Increased investments for future growth in the region

Profitability impacted by commercial costs and non-recurrent items

- **Higher gross adds and different mix** impacting OIBDA y-o-y
- **Drag from Mexico**, heavily hit by unexpected interconnection cuts
- **No contribution from regional projects** in FY 11 (241 million in FY 10)

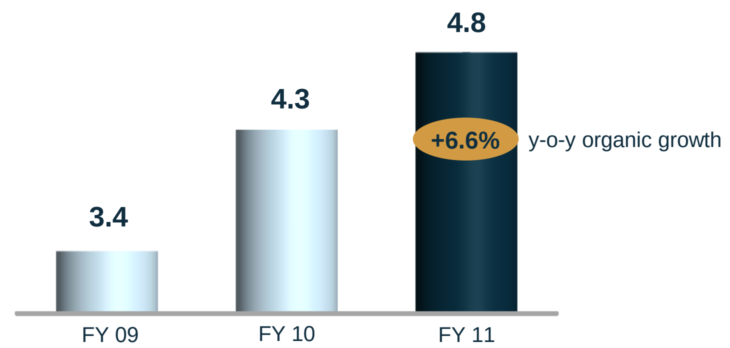
OIBDA drivers (y-o-y)



Strong CAPEX efforts bolstering growth

- **86% of CapEx for business transformation**
- **40% y-o-y organic growth in Mexico**
- **CapEx / revenues at 18.1%** (16.6% excluding spectrum; +0.2 p.p. y-o-y)

CAPEX ex-spectrum (€ bn)



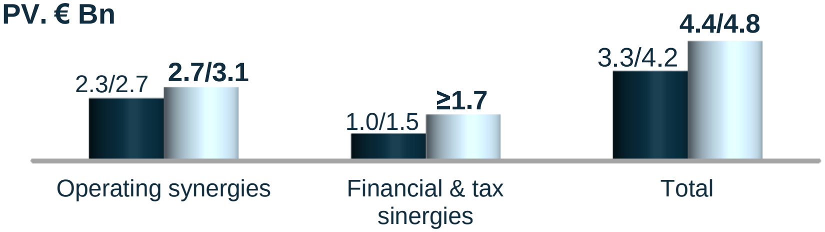
Organic growth: assumes average constant exchange rates as of FY 10 and excludes changes in the consolidation perimeter and hyperinflation accounting in Venezuela in both years.

Brazil: 2011 a year of progress on multiple fronts

- **Corporate restructuring completed**
- **Integration synergies upgraded**

Integration and transformation

NPV. € Bn

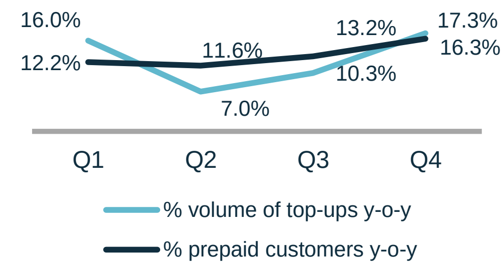


+

- **New services launched to extract value from our differential integrated assets:**
  - Integrated offer, VIVO Sempre & LD improvement, HSPA+ offer in SP, FW outside SP, PTT,1800 Mhz band, corporate, SME and consumer cross selling (Speedy +MBB)
- **Focus on long-term growth drivers:**
  - FBB & MBB, contract segment in mobile

Commercial focus

Prepaid

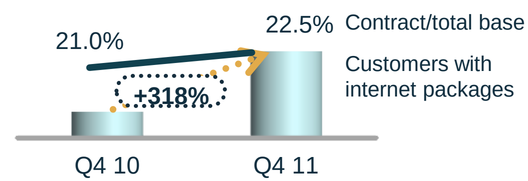


Contract & MBB

Vivo Você Ilimitado

Vivo Smartphone Ilimitado

Vivo Sempre internet



+

- **Best spectrum**
- **Best 3G mobile network:** coverage, quality and customer perception
- **Increased fiber coverage**, speeds and quality

CapEx effort

MBB

- 82% population covered by 3G, well above competitors

FBB

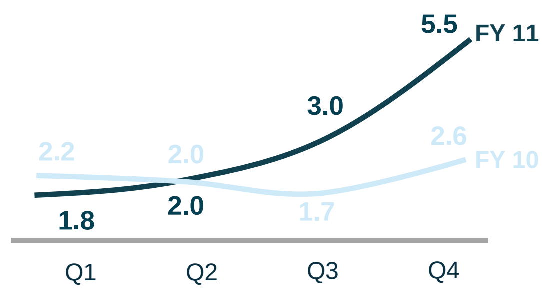
- 6,000 km of fiber in the FTTH solution

02 Brazil: Strengthened leadership and solid profitability

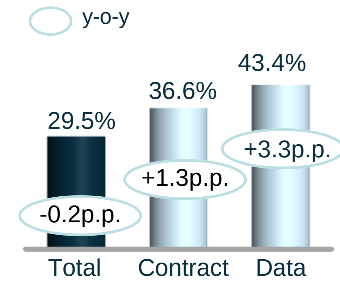
Record net adds

- **Mobile net adds x2 vs. FY 10**
- **Market share gains in high value segments**, leveraging quality, coverage and product innovation
- **Accelerating momentum in prepaid** exploiting expanded capacity in Northeast & North regions

Mobile net adds (millions)[1]



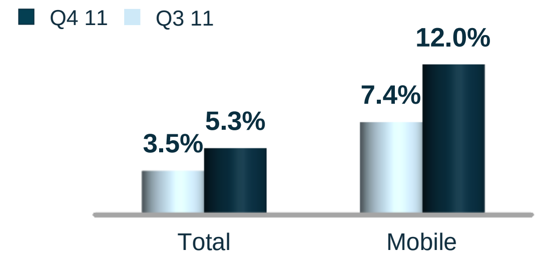
Mobile market share (Dec-11)[2]



Top line growth acceleration

- **MSR acceleration** (+15.8% y-o-y in Q4) driven by data (+42%) and growing outgoing voice revenues (+8%)
- Traditional fixed revenues impacted by substitution and price competition (-3.9% y-o-y in Q4)
- **Sound growth of FBB & TV revenues** (+16% y-o-y)
- Still limited contribution from recent product launches

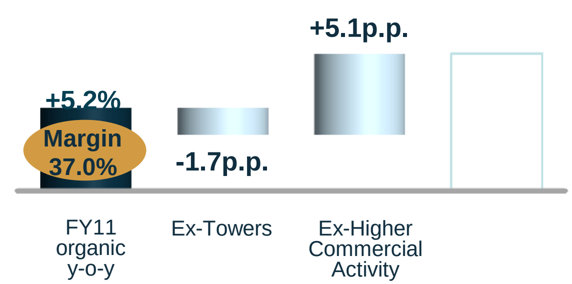
Revenue (y-o-y organic)



Strong margin and bottom line performance

- **Best in class margin** amid increased activity and strong competition
- **Synergies crystallization, meeting targets**, visible below OI
  - Net Income = 2.6x y-o-y in reported terms

OIBDA drivers (y-o-y)



1. Excludes the disconnection of 1,034k inactive prepay mobile accesses.
2. Source: Anatel. Data Market Share includes M2M and dongles.

South Region: further advances to transform the businesses

Contribution to TEF FY Revenue | Revenue FY 11 y-o-y organic

Argentina

5.1% | +14.5%

- **Solid double digit top line**
- **Healthy OIBDA growth** (+11.1% y-o-y in FY 11)
- **Strong commercial activity,** focused on growth levers:
  - Contract is 37% of mobile accesses
  - MBB base up 2.5x y-o-y
  - Mobile data revenue is 39% of MSR, in line with European countries
  - FBB accesses up 11% y-o-y
  - (FBB + IT + data) revenues = 44% of fixed revenues (+3 p.p. y-o-y)

Chile

3.7% | +4.8%

- **OIBDA margin 45% leveraged on fully integrated approach**
- **Consolidated leadership** in the market
- **Robust accesses growth** (+6% y-o-y),
  - Contract is 29% of mobile accesses
  - MBB base 1.9x y-o-y in FY 11
  - Mobile data revenue 19% of MSR
  - FBB accesses +7% y-o-y, Pay TV +15%
  - (FBB + Pay TV+ IT + data) revenues = 48% of fixed revenues (+5 p.p. y-o-y)

Peru

3.2% | +6.1%

- **Top line growth acceleration thought the year** (+7.0% in Q4 y-o-y)
- **Strong leadership** across businesses
- **Record commercial activity:**
  - Mobile accesses rose 12% y-o-y (contract +21%)
  - FBB accesses +28% y-o-y, Pay TV +16%
  - Mobile data revenue +32% y-o-y
  - (FBB + Pay TV + IT + data) revenues = 55% of fixed revenues (+5 p.p. y-o-y)

Colombia

2.5% | +4.5%

- **Consistent double digit y-o-y accesses growth:**
  - Mobile contract (+19%),
  - FBB (+12%), Pay TV (+24%)
- **Good revenue performance** with positive mobile revenue evolution and fixed business stabilization

Ecuador

0.6% | +8.4%

- **Fast growth, acceleration in Q4**
  - Revenue +12.8% y-o-y in 4Q11
  - MSR +14.9% y-o-y in Q4 11, +11.0% in FY 11

Combined OpCF FY 11 € 1.9 bn

Growth rates in financials are given in local currency.

North Region accelerating growth

Contribution to TEF FY Revenue | Revenue FY 11 y-o-y organic

Venezuela

4.3%

+11.2%

- **Commercial activity improvement in Q4; 27% MBB penetration**
- **Acceleration in top line growth** (+12.3% organic y-o-y in Q4) boosted by outgoing revenues
- **Mobile data revenue is 36% of MSR,** in line with European countries, leveraged on high quality customer base
- **Sound OIBDA margin** (43.8%) despite higher commercial activity

Central America

0.9%

+1.3%

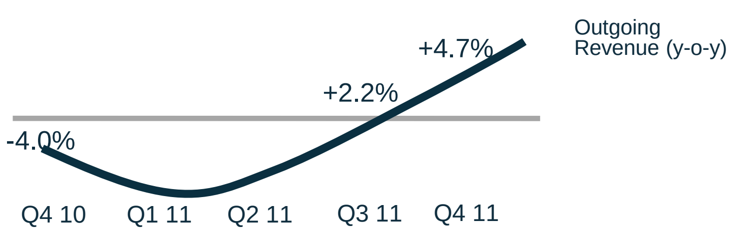
- **Successful launching of Movistar Costa Rica** with 116 thousand accesses in its first two months of commercial activity
- Consolidation of **enhanced revenue growth trend** (+2.6% organic y-o-y in Q4)
- Mobile accesses +16% organic y-o-y

Mexico

2.5%

-12.3%

- **Strong drag from MTR cut in FY 11**
- **OIBDA margin impacted by commercial activity, 3G network rollout & MTR cuts**
- **Improved outgoing revenue growth with outgoing ARPU returning to positive growth** (+0.3% y-o-y in Q4)
- **MBB tripling 2010 figure**
- **Commercial strategy focused on quality growth**



Combined OpCF Fy 11 € 0.9 bn

Growth rates in financials are given in local currency. In Venezuela, excludes also hyperinflation accounting in both years.

02

2012 outlook: Ramp-up in growth leveraging best asset portfolio in Latin America

Growth acceleration in 2012 as basis are firmly set

Sustain strong operating momentum leveraging a single brand

- Consolidate mobile leadership in all segments
- Sustain FBB position in SP
- Capture fixed voice & FBB value for-money opportunity outside SP

Maximize integration benefits

- Exploit operational & financial/fiscal synergies to free resources for valuable growth drivers
- Fully on track with targets

Strengthening competitive advantages in quality & coverage

- Focus on fixed network quality & FBB
- Consolidate the lead of our mobile network
- HSPA+ and 4G spectrum offer

Further growth leveraging diversification in the region

- **Foster FBB & MBB penetration** (bundles/tiered pricing)
- **Commercial strategies tailored to local conditions**
- **Integration synergies**
- **Sustained CapEx** (coverage, speeds, service quality)

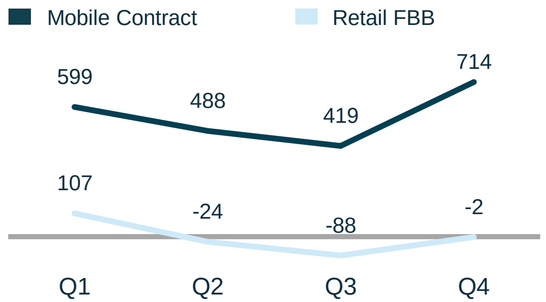
- Capture MBB opportunity and growth potential in FBB with focus on VAS (i.e: OTT-Video)
- Defend revenue market leadership
- Fully capture FBB & MBB opportunity and exploit value of TV leveraging premium content
- Reinforce commercial strategy to consolidate accesses and revenue growth
- Continue to deliver outstanding operational performance
- Turnaround financial performance & enhance quality of the base leveraging new commercial and pricing strategy

T. Europe: Improving commercial momentum, leading MBB adoption in our markets

Ramp-up in commercial activity

- **Leverage on new commercial proposition** results on commercial turnaround
- **Focus on value customers**

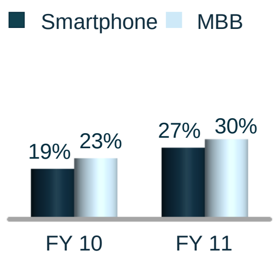
T. Europe FY 11 net adds (thousands)



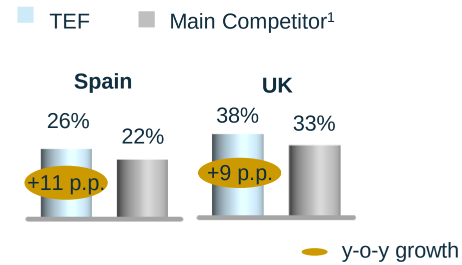
MBB lead

- Increased **smartphone penetration underpins base expansion**
- Higher quality base sets basis for future growth

Data penetration



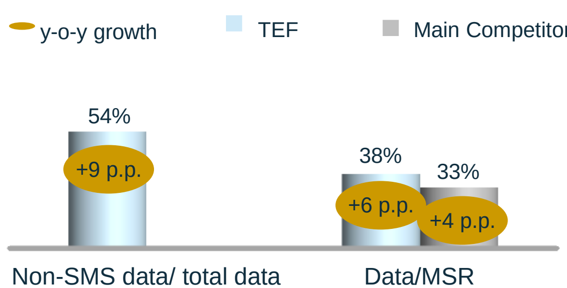
Smartphone penetration (Dec-11)



Strong mobile data revenues

- **Better revenue mix**, with non-SMS data revenues representing 54% of total data
- **Non-SMS data revenues up 30% y-o-y** in FY 11

Data revenues



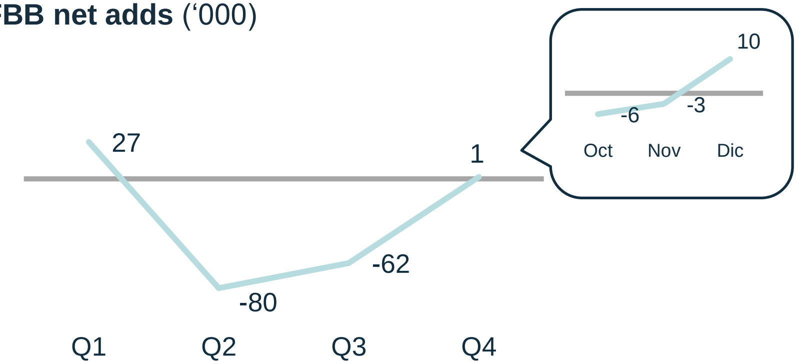
1. Last published data available from competitor, based on attached rates.

02 Spain: New offerings already paying-off

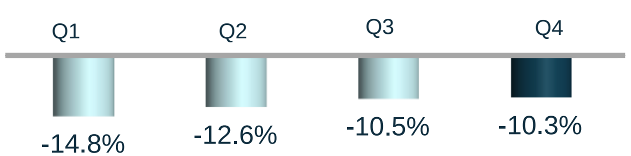
Turnaround of FBB net adds, ARPU trends continue improving

- **Back to positive net adds in Q4**
- **Inflection point in FBB churn, down y-o-y in Q4 11**
- **Preference for high-end offering; price take up levels above previous promotions:**
  - 2/3 of gross adds and migrations in €24.9 offer

FBB net adds (‘000)



Connectivity ARPU (y-o-y change)

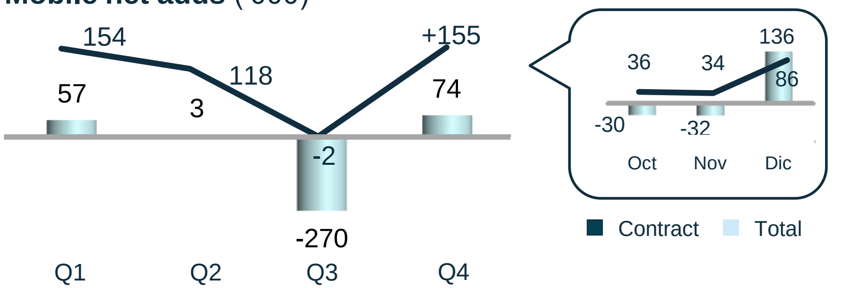


- **Traditional fixed accesses improving trends**

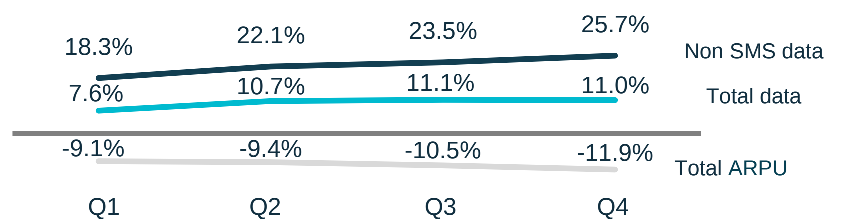
Record mobile net adds since Q4, very healthy data ARPU

- **I**mprovement across segments driven by new contract and prepay service portfolio
  - Significant **improvement in contract, already 70%** of total base (+2 p.p. y-o-y)
- Best ever quarterly MBB net adds (400K; +33% y-o-y)

Mobile net adds (‘000)



ARPU (y-o-y change)



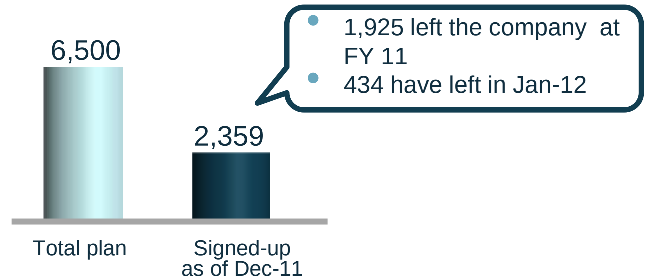
- **Strong data ARPU** as customers move towards higher value tariffs
- **Voice ARPU driven by further usage optimization in Q4 -**weaker economy-, **MTR cut** (-10% in Oct.) **and new tariffs**

Spain: Significant progress in strategic areas in 2011

Benefits from new collective bargaining, fast execution of Redundancy Program

- **Wage increase below CPI,** leveraging increased flexibility
- **36% of potential headcount reduction already executed**, beating targets
- ~ 1,980 employees to join the plan in FY 12E
- **~ € 200 m savings** in FY 12E

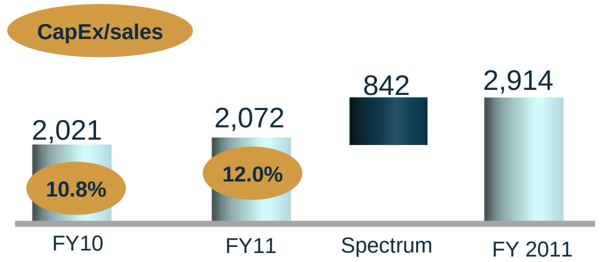
Headcount reduction



Targeted investment in growth levers

- **Ramp-up in fiber roll-out in Q4 adapted to market conditions and regulatory framework**
- **Enhanced coverage & capacity in MBB**
- **Strong investments to ensure the best spectrum in the market**

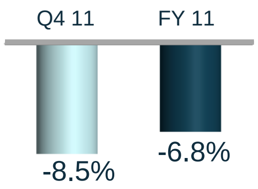
CapEx (€ in millons)



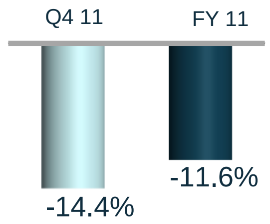
Q4 financials hit by a weaker economy & stronger commercial activity

- **Improved trend in fixed revenues** (-5.4% in Q4; -6.2% in Q3) due to access, IT & Data
- **MSR deterioration** (-11.2% in Q4 ex-MTR and one-offs) impacted by a lower voice ARPU
  - Strong data revenue, up 10.9% in FY 11
- **Lower handset sales** (-14.5% in Q4 11)
- **Limited cost savings from workforce reduction in 2011**

Revenue (y-o-y)



OIBDA (y-o-y)

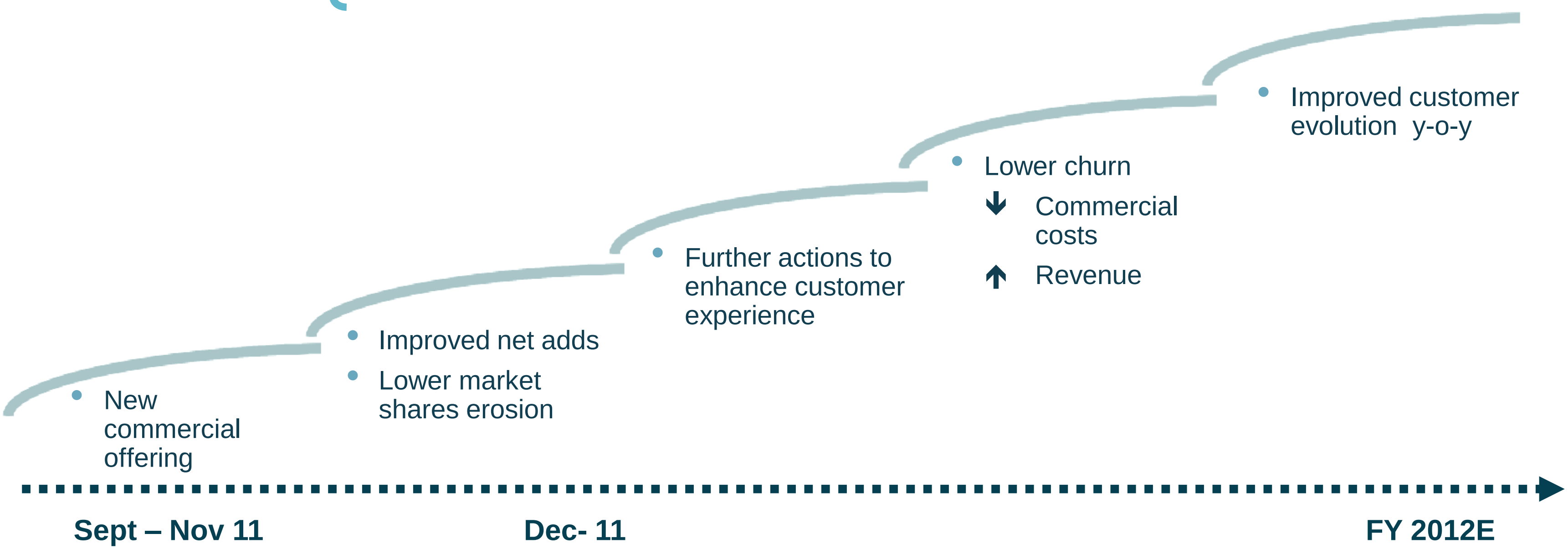


All data in comparable terms: y-o-y changes.

Spain: A clear roadmap to turn around commercial momentum and improve financial performance in 2012

ACTIONS

- Focus on customer satisfaction leveraging new commercial propositions and enhanced customer experience
- New price points will allow us to increase effectiveness of commercial costs
- Continue to execute Redundancy Program according with plans: savings from the beginning of the year
- Sustained investment in MBB and fiber

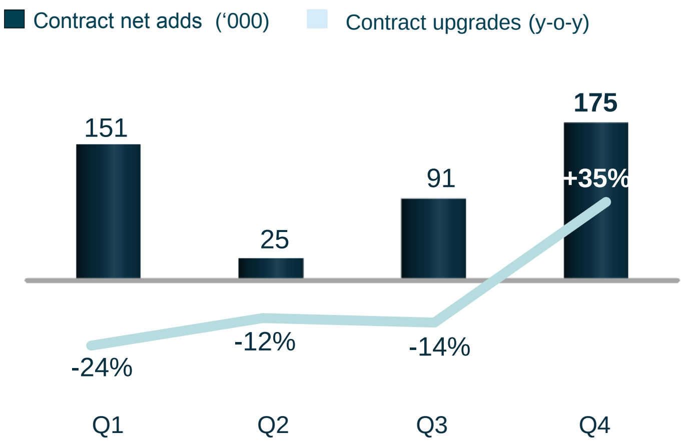


02

UK: Stronger finish to the year in commercial terms

Increased commercial momentum in H2…

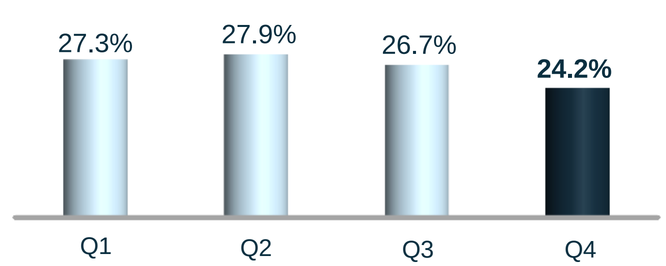
- **Commercial refocus from August** to face a challenging economy and increased competition
- **Best quarterly contract net adds in Q4 11**
- **Stable contract churn** at 1.2% in Q4 driven by targeted investments in retention
- **Strong increase in upgrades in Q4**
- **Success of Tesco Mobile**[1] as the UK market polarizes between volume vs. value



… impacting commercial costs

- **Pressure in H2 OIBDA driven by:**
  - Weaker revenues ex MTRs: Q4 MSR -4.8% y-o-y; -4.1 p.p. q-o-q
  - Increased commercial activity

OIBDA margin



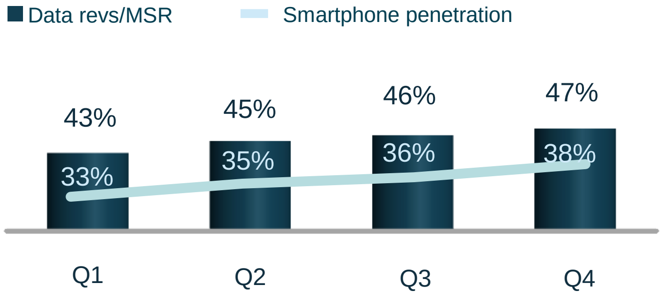
1. Not included in T. UK mobile customer base

02

UK: Robust mobile data offset by adverse market conditions

Sustained leadership in smartphone adoption

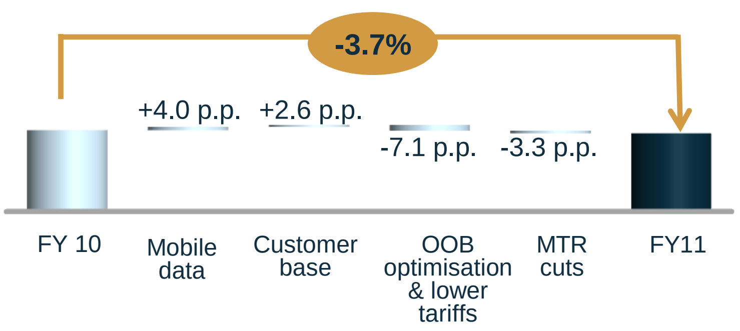
- **Increased smartphone penetration** (+9 p.p. y-o-y)
- **>80% consumer contract data** base on **tiered plans**
  - >80% choosing higher-priced plans
  - Smartphone contract shipments over 95% of total in Q4
- **Robust growth in non-SMS data revenues** (+33.1% y-o-y in FY 11)



Top line pressure

- **Adapting price points** to macro environment and intense competition
- **Integrated tariffs revenues** are 74.5% of contract MSR in Q4 (+2.7 p.p. y-o-y)
- Drag from MTR cuts

MSR (y-o-y)

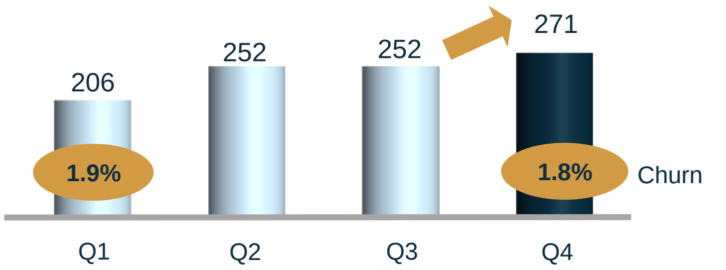


Germany: a story of success in a profitable market

Strong trading momentum maintained

- **O2 Blue tariff** re-launched in H2 11
- **Contract churn** improvement
- Continued success in partner & business channels

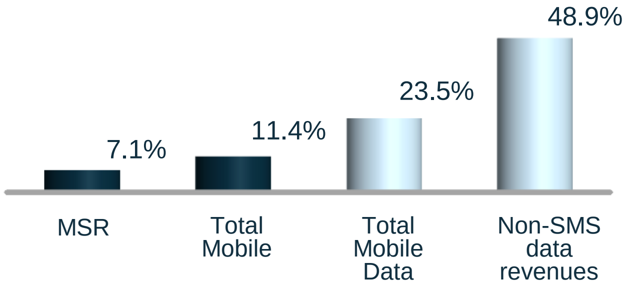
FY 11 Contract net adds ('000)



Market leading revenue growth

- **Leader in smartphone adoption**: 90% of sales in Q4
  - MBB penetration at 26%, 6 p.p. y-o-y
- Mobile data revenue at 41% of MSR (+8 p.p. y-o-y)
- Sustained MSR growth in Q4 (+7.1% y-o-y ex-MTRs). Sequential trend impacted by very strong performance prior period

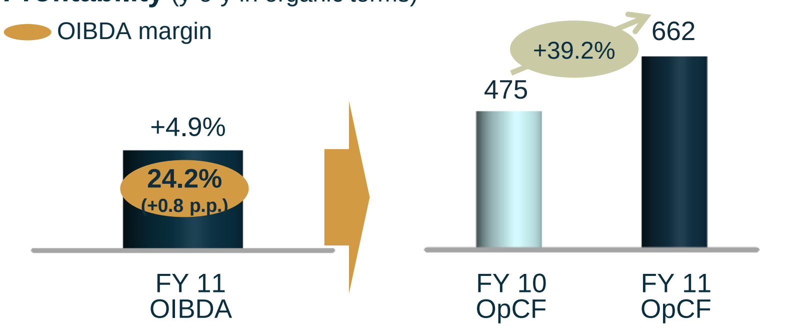
Mobile revenue growth FY 11 (y-o-y, ex MTRs)



Further margin expansion, strong OpCF

- **Full benefits from business restructuring** & ongoing efficiencies in Q4 11 (26.1% OIBDA margin)

Profitability (y-o-y in organic terms)



Organic terms excludes spectrum acquisition in 2010 (€1,379 m) and restructuring costs (€ 202 m).

2012 outlook: Strengthening positions in two key markets

Significant customer investments, better revenue dynamics

High-value customer attraction & retention

- Recover momentum towards stabilisation of revenue share
- Segmented approach to reduce churn
- Maintain highest exposure to mobile data in the market

Continued focus on customer experience

- Strengthened customer satisfaction leadership
- Further network investments to maintain our differentiated performance[1]

O2 network: the highest 3G data download speeds, highest levels of responsiveness & lowest levels of latency

Capturing new business opportunities

- Lead the digital services adoption
- Focus on innovation and execution of new and existing revenue streams:
  - O2 Wallet, Priority Moments, Media

We aim to continue outperforming in a profitable market

Sustaining market momentum

- Push data penetration, building high value smartphone base
- New tariffs launched for mobile & FBB
- Ongoing revenue improvement from stable MTR framework & increased scale

Focus on customer relationship

- Most satisfied[2] customer base in the last 5 years
- Multichannel approach
- Exploiting customer base through a converged brand strategy

Strengthening network quality

- Sustainable benefits from network collaboration with DT
- Ongoing LTE roll-out in cities with a profitable approach
- LTE smartphone launch

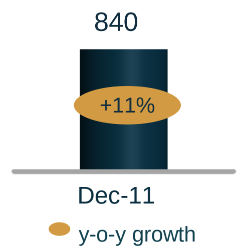
1. External survey by Ofcom, May 2011.
2. Kundenmonitor Deutschland 2011.

Czech R.: Outstanding OpCF, sustained improving trends

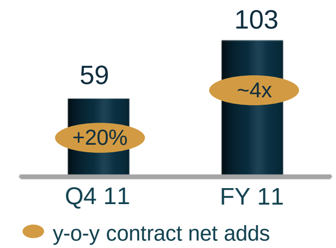
Robust commercial momentum

- **Contract mix** 62% driven by MBB (16% penetration, up 4 p.p. y-o-y)
- Solid prepay net adds boosted by Xmas campaign
- **Enhanced churn in fixed and mobile**
- **DSL helps to protect existing base, managing fixed BB ARPU & enhance churn**

FBB base ('000)



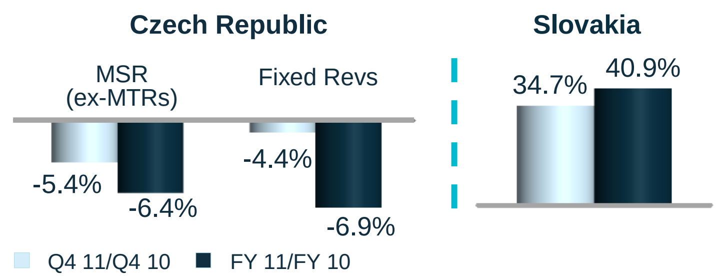
Mobile net adds ('000)



2nd quarter of top-line sequential improvement

- Better mobile revenues driven by **stabilisation of consumer spend**
- Fixed revenue improved due to ICT
- Proven approach shown in financials

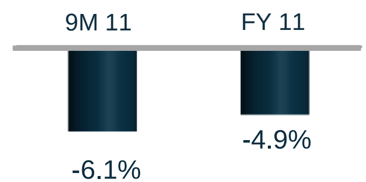
Revenue (y-o-y change)



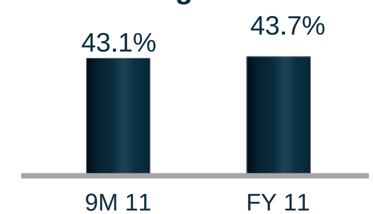
Efficiencies drive healthy OIBDA margin

- Savings from restructuring programs
- **Positive and growing OIBDA in Slovakia**
- **Top quality cash generation**; OpCF of € 702 m in 2011

OIBDA (y-o-y change)



OIBDA margin



Growth rates in financials are given in constant currency terms.

02

Making the most from our new global units

TELEFÓNICA DIGITAL

- **Launch a new range of digital services in high potential marketplaces:**
  - Financial services: Mastercard JV in Latam; mobile wallet in Europe
  - M2M: OnStar agreement , largest ever deal for TEF in General Motors markets outside North America and China
  - Video & Digital Home: multiscreen functionalities & Videoclub services in Pay TV offers
- **Increase competitiveness and protect our core business:**
  - Coordinate new MBB offers in more data-centric environments
  - Business intelligence & customer insight
- **Strengthen relationships with digital partners**

TELEFÓNICA GLOBAL RESOURCES

- **Increase savings in procurement:**
  - Global handset portfolio: from 234 handsets to < 100. 80% of global portfolio negotiated globally
  - Simplification &global standardization of specifications for increased aggregation
- **Increase efficiency in Network & IT:**
  - Consolidation towards global NOCs[1] and IT
  - Sale of non-strategic towers and network sharing
- **Double digit growth in MNC revenues** in FY 12E

>€1 Bn benefits in FY 12E

1. Network operating centres.

02

Closing remarks

- **Our business has the right fundamentals for sustained profitable growth**
- **We have recorded a promising commercial momentum heading to 2012**
- **In 2012 we are prioritising investments to drive forward growth**
- **We are determined to increase financial flexibility**
- **We are fully committed to very attractive shareholder remuneration targets**

Organic growth: In financial terms, it assumes constant average exchange rates as of January-December 2010, and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in January-December 2010 the consolidation of Vivo, HanseNet and Tuenti are included whereas the revaluation of our pre-existing stake in VIVO accounted for in Q3 10 and the results of Manx Telecom are excluded from organic growth calculation. In addition, excluded from OIBDA and OI in 2010 is the impact of the capital gain from the sale of Manx Telecom booked in the second quarter of 2010, and the one-off restructuring expenses, most of which were associated with workforce adjustment plans and firm commitments relating to the Telefónica Foundation's social activities, registered in the second half of 2010. In OIBDA terms, in January-December 2011 the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded, as well the workforce provision related to the Redundancy Program approved in Spain. Results from the Costa Rica operation are excluded from the organic growth calculation. Telefónica's CapEx excludes the Real Estate Efficiency Programme at T. España, the real estate commitments associated with Telefónica's new headquarters in Barcelona and investments in spectrum. Net additions exclude accesses disconnections made in the second quarter of 2010 and in the third and fourth quarters of 2011.2011 financial results and accesses include from the second quarter of the year and retroactively from January 1st, 2011, the full consolidation of TVA, company that was already part of Telefónica's perimeter since the fourth quarter of 2007. In addition, 2011 results include from September (retroactive effect August 1st) the global consolidation of Acens Technologies.

Underlying growth: All figures in million euros, net of taxes and minorities. In 2011: Workforce Reduction Plan in Spain (-1,870), PT capital gain (+184), reduction in the value of TI investment and operating synergies achieved (-481), deferred tax liability related with PPA on Vivo's acquisition (+952), PPAs (-790) and others (-86). In 2010: VIVO's capital gain (+3,476), non recurrent restructuring expenses (-862), tax asset reassessment (-450), PPAs (-847) and others (-133).