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TELEFÓNICA, S.A.

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COMUNICA

Que la Compañía va a participar en la conferencia anual de Telecom & Media organizada por Bank of America Merrill Lynch que tendrá lugar en el día de hoy en Londres, donde realizará la presentación que se acompaña.

Asimismo, la Compañía informa que la presentación será igualmente incluida en la página web de la Compañía.

Madrid, a 31 de mayo de 2012.

COMISIÓN NACIONAL DEL MERCADO DE VALORES
- MADRID -

Telefónica

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BofAML . London. May 31, 2012

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Telefónica

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Agenda: Addressing major concerns

01 **INTRODUCTION: HIGH DIVERSIFICATION, VERY DIFFERENT REALITIES**

02 **TURNAROUND PLAN IN SPAIN**

03 **PERFORMANCE IN THE UK**

04 **BALANCE BETWEEN GROWTH AND PROFITABILITY IN BRAZIL**

05 **GROUP PROFITABILITY**

06 **FINANCIAL FLEXIBILITY**

High diversification, our key strength to face very different realities

	T. LATAM **48.5%** revenues; **50.2%** OIBDA	T. EUROPE **48.7%** revenues; **49.5%** OIBDA
2012E GDP growth	3.7%	-0.3%
Competition	Rational	Intense
Accesses	Robust growth (+11%)	Stable (-1%)
Outgoing mobile voice revenue	Double digit growth due to higher accesses and usage	Double digit decline driven by usage optimization and price competition
Mobile data revenue	Double digit growth; 28% of MSR	Single digit growth; 40% of MSR
Fixed broadband revenue	Double digit growth driven by strong access growth (33% of fixed accesses)	Declining due to lower accesses (59% of fixed accesses) and ARPU on aggressive ULL
Total revenue growth	+8.3% (+2.5% in Q4 11)	-6.8% (-7.0% in Q4 11)

Significant growth levers ahead

- **Mobile voice in Latin America**
- **FBB in Latin America & Spain**
- **Mobile broadband across footprint**
- **Services beyond connectivity**

Data for T. Latam and T. Europe corresponding to Q1 12
GDP growth based on Focus Economics consensus forecasts, May 12
% y-o-y change

Turnaround plan in Spain: framework

2011 diagnosis

- **Economic crisis accelerated change in customer behavior**
- **Market value erosion driven by aggressive price competition:**
  - Promotion driven environment
  - High investments in handset subsidies
  - High portability volumes
  - Increasing churn

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- **Access loss and ARPU erosion, specially in high value segments**
- **Top line decline**
- **Pressure in profitability**

Our action plan

Recover competitiveness

- **Deep tariff refresh in FBB and Mobile businesses:**
  - Remove price-premium disadvantage and reposition customers in competitive schemes (lowering churn)
  - Integrated tariffs to increase bundle penetration vs. "pay per use" existing scheme
  - Leverage convergence to "totalize" customers
  - Foster mobile data adoption leveraging voice + data tariffs
- **Expand fiber (coverage & connections)**

Change industrial model to enhance efficiency and change market dynamics

- **New commercial model:**
  - Handset subsidy elimination for new mobile customers from March
  - Focus on retention
- **Optimize non-commercial costs:**
  - 20% headcount reduction in the fixed business: 6,500 employees in 2011-13
  - Focus on simplicity to increase efficiency and reduce "time to market"

Turnaround plan in Spain: results so far

Recover competitiveness

Fast penetration of new tariffs (consumer segment)

- **57% customers repositioned in FBB** in April-12
- **42% in contract mobile** in April-12

Limited impact in ARPU

- **FBB ARPU affected by active migration** of customers ending promotions to new portfolio
- **Positive elasticity in mobile low-end** customers

Churn reduction

- **-21% in FBB in Jan-April** led to positive FBB net adds in April-May15th
- **-39% in portability churn in Jan-April**. Positive contract portability in the first half of May

Increased penetration of mobile data

- **31% smartphone penetration (+14 p.p. y-o-y)**
- Minimum data plan at €15 (€10 in old portfolio)
- Unlimited SMS to limit OTT cannibalization

Gaining traction in fiber

- **200 k connected households as of May 15th**
- 1.3 m homes passed by March (x3 y-o-y)
- 3 m to be passed by year-end

Result:

- **Better access evolution along the year leveraging lower churn**
- **ARPU erosion from new tariffs to ease from Q4 12**

Change industrial model to enhance efficiency and change market dynamics

New commercial model

- **A more rational mobile acquisition and portability environment**: drastic reduction in subsidies in the market
- **Lower gross adds** (-21% y-o-y in Q1 12) **but strong handset upgrades** (+35% y-o-y in Q1 12)
- **Slowdown in retention costs y-o-y growth from May** (other players removed subsidies)
- **MSR impacted by increased loyalty efforts**

Optimize non-commercial costs

- **Successful execution of ERE**:
  - 68% employees of total expected in 2011-2013 already joined the plan
  - € 56 m savings in personnel costs in Q1
- **Handset portfolio simplification on track**
- **Increase customer satisfaction** on lower claims

Result:

- **Net commercial costs savings in 2012E**
- **Benefits from ERE on fast execution: ≈ € 250 m in 2012E**

Performance in the UK

The environment

- **Aggressive competition** with unlimited data offers: “Full Monty”, “The One Plan”
- **Usage optimisation** amid challenging economic environment

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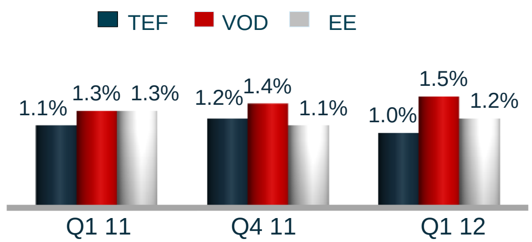
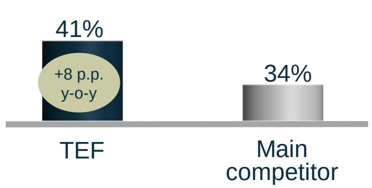
From a growing churn to the lowest rate in the market …

Contract churn



… while continuing to lead smartphone penetration

Smartphone penetration



Our action plan

Regain commercial momentum

- **Focus on existing customers, reduce churn:**
  - Higher loyalty efforts in high-value customers from Q4 11; bulk of renewals in Q1 12 at lower price points
- **Enhancing tiered data strategy:**
  - Increased data allowance on higher tariffs
  - “On&On” launched in April
- **Lower entry points**

Going forward

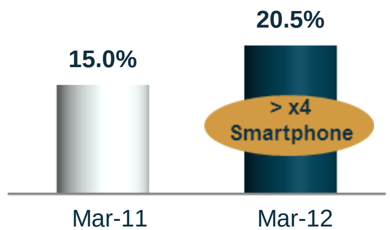
Improved margin along the year

- **Stabilisation of MSR trends ex-MTRs** leveraging better commercial momentum
- **Slowdown in commercial expenses driven by:**
  - Better churn, leading to higher efficiencies
  - Lower “out of contract” customers: -3.4 p.p. q-o-q
  - Gradually lowered handset subsidies in April
- **Further efficiencies** on the back of:
  - Q1 12 advertising expenses to phase out throughout the year
  - Higher savings in handsets leveraging global sourcing
- MTRs will drag 3 p.p. to revenue growth and 4 p.p. to OIBDA growth

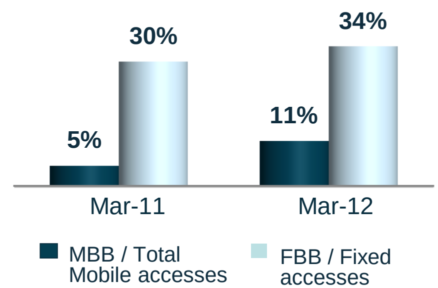
Balancing growth and profitability in Brazil (i)

Focused commercial efforts to strengthen leadership

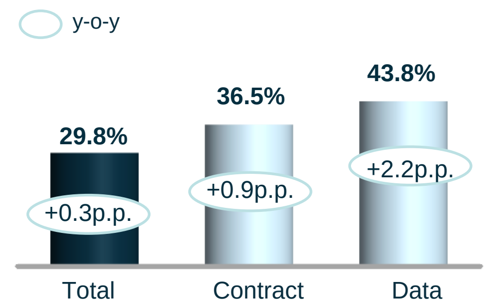
Mobile accesses growth (y-o-y)



BB penetration



Mobile market share (Mar-12)

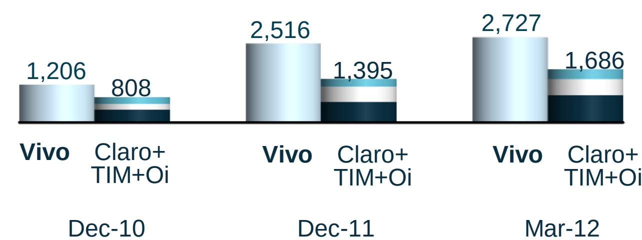


Widening OIBDA lead: 32% share

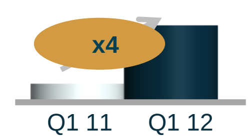
Leading the sector transformation

- **Reinforced mobile data lead:**
  - Widening coverage gap vs. competitors
  - Best quality in the market
- **Selective fiber roll out for a superior FBB experience:**
  - 1.7m homes passed with UBB; 70k fiber connections as of Mar-12
  - Further push to connect homes along the year
  - 11,000 km of fiber (FTTH) in SP State

3G sites



UBB net adds

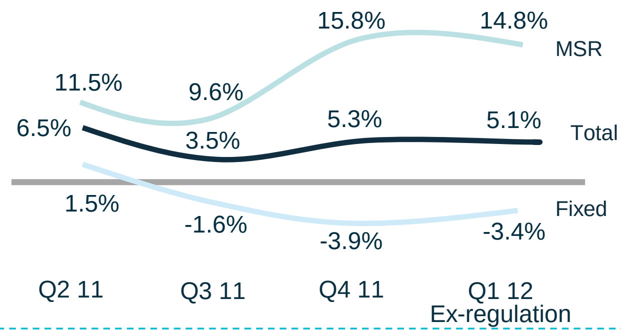


Sources: Anatel for market shares, Teleco for 3G coverage

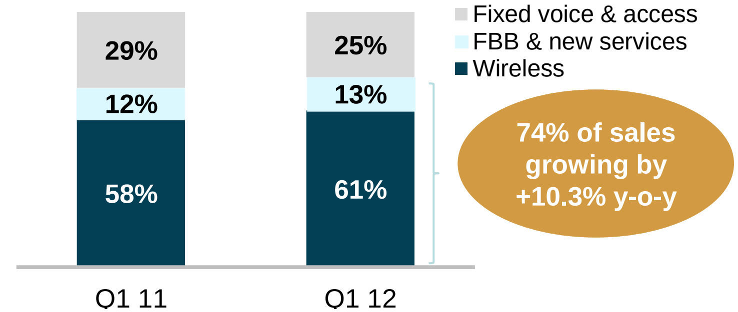
Balancing growth and profitability in Brazil (ii)

Revenue
+5.1%
organic ex-regulation

Revenue growth (organic y-o-y)

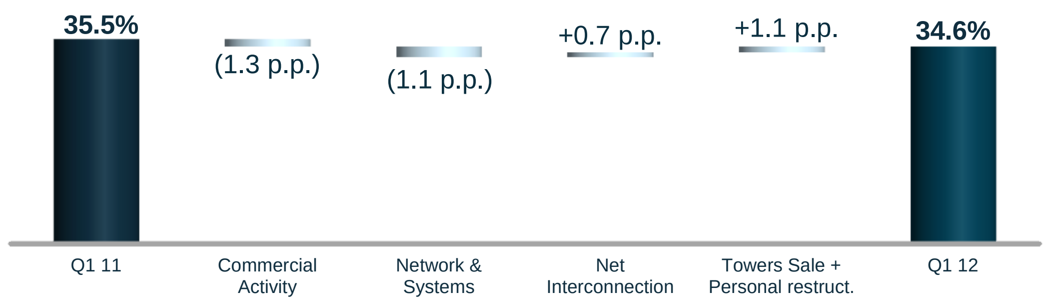


Revenue breakdown (organic y-o-y)



OIBDA
+0.5%
organic

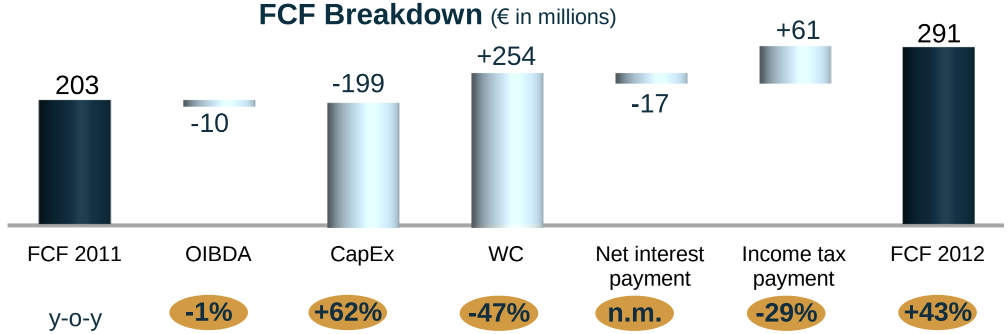
OIBDA Margin Breakdown



- 10% headcount reduction, with a payback < 1 year
- Short term efforts on advertising and network and systems for future growth

FCF
+43%

FCF Breakdown (€ in millions)

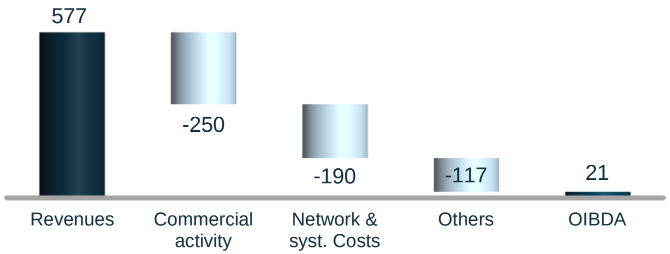


- Robust FCF growth despite higher investments
- Optimized WC management and integration synergies below OIBDA driving FCF generation

Group profitability: improvement expected in H2

T. LATAM

Q1 y-o-y change in reported terms. € in millions



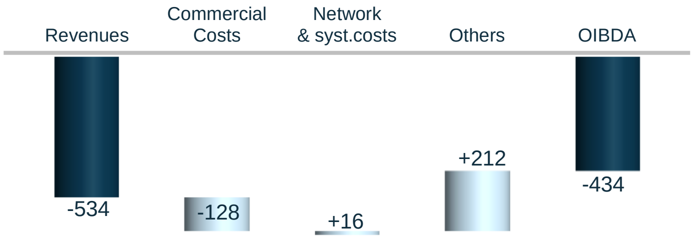
- **Stronger commercial momentum, increased focus on MBB sales from Q3 11:**
  - Total net adds x2 y-o-y in Q1 12
  - Leading mobile net adds in the region

Net adds (m)	Q1 11	Q1 12
Mobile	2.3	4.5
MBB	1.1	2.3

- **Network & system costs driven by expanded networks:**
  - 3G base stations up 60% y-o-y in Q1
  - +27,000 Kms of fiber for backbone in progress in Brazil
- **Others:**
  - Restructuring costs, partially offset by non-strategic tower sales
  - Further overhead costs reductions

T. EUROPE

Q1 y-o-y change in reported terms. € in millions



- **Top line pressure partially mitigated by non-commercial cost cutting:**
  - Headcount reduction in Spain, Czech Republic and Ireland
  - Optimizing resources, TGR generating additional savings
  - Lower interconnection costs on MTR cuts
  - Further overhead costs reductions
- **Higher commercial activity to reduce churn and increase smartphone adoption:**
  - Smartphones were 81% of handset sales
  - Focus on upgrades in UK
  - Limited impact from new commercial model in Spain in Q1

- Accesses growth to lead further top line acceleration along the year
- Easier y-o-y- comparison in commercial costs from H2
- Operating synergies in Brazil to become visible in H2

- Better revenue performance in H2
- Higher cost efficiencies from Q2 across markets

Fully committed to enhance financial flexibility

Reduce leverage via portfolio management

- **Already achieved: €1.6bn**
  - Colombia restructuring, Hispasat, non- strategic towers, Zon
- **In progress: ≥€1.5bn**
  - Atento, PT, Rumbo, non-strategic towers
- **Portfolio management next actions:**
  - Launching preparations for IPO of TEF Germany
  - Analyzing potential listing alternatives for Latin American businesses
  - Monitoring market conditions to make selective asset monetisations

Shareholder remuneration mix

- **2012 total shareholder remuneration maintained at €1.50/share, including €1.30/share dividend:**
  - €0.40/share in cash dividend to be paid in November 2012
  - €0.90/share in scrip dividend to be paid in May 2013
  - €0.20/share buyback, to be completed by May 2013. Treasury shares acquired will be cancelled
- **2013 total shareholder remuneration maintained at €1.50/share:**
  - Dividend/SBB mix to be decided considering market conditions and investor preferences at that time

Early proactive refinancing, enhanced liquidity

- **Balanced accesses to credit markets**
  - €7.5 bn financing in Q1 12
  - € 0.4 bn of 2013-15 bonds repurchased YTD
- **All 2012 maturities refinanced**
- **>40% of 2013 maturities prefinanced**
- **€ 6.3 bn cash position ex-VZ**
- **€ 11.4 bn undrawn credit lines:**
  - + €1.3 bn since Dec-11
  - € 9.7 bn long term

- Net financial debt / OIBDA < 2.35x by YE

Closing remarks

- **We benefit from a strong diversification, with an increased exposure to the growing Latin American markets (>50% of OIBDA)**
- **Our efforts to become more competitive and regain momentum in Spain and the UK are on track. Benefits to become more visible throughout the year**
- **Vivo will deliver profitable growth, while continuing to lead the market**
- **We are determined to increase financial flexibility and will accelerate portfolio management actions**
- **2012 guidance reiterated, including shareholder remuneration commitments**