

An aerial photograph of a snowy mountain slope with several skiers. The skiers are leaving tracks in the snow, and their shadows are cast on the surface. The scene is bright and clear.

Results
Jan-Mar / 2011

Telefonica

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Q1 11 Results Highlights: Distinctive profile

- **Solid start to 2011, in line with Company expectations**
- **Continued strength in revenue growth, sustained Industry leading profitability**
 - T. Latam driving organic growth, already at 45% of consolidated revenues & OIBDA
 - Monetisation of accelerating MBB penetration boosts mobile data sales (+19% y-o-y organic)
 - “Value” over “volume” commercial strategy
 - Limited OIBDA margin erosion, leveraging scale and global initiatives
- **Strong CapEx investment to meet customers' demand**
- **Full year guidance confirmed**

Financial Summary

€ in millions	Jan-Mar 2011	Jan-Mar 2010	Change y-o-y	Organic change
Revenues	15,435	13,932	+10.8%	+1.4%
OIBDA	5,574	5,114	+9.0%	-1.0%
OIBDA Margin	36.1%	36.7%	-0.6 p.p.	-0.9 p.p.
Operating Income (OI)	3,057	2,930	+4.3%	-1.3%
Net income	1,624	1,656	-1.9%	
OpCF (OIBDA-CapEx)	4,022	3,923	+2.5%	-4.9%

Revenues and OIBDA nominal growth rates impacted by:

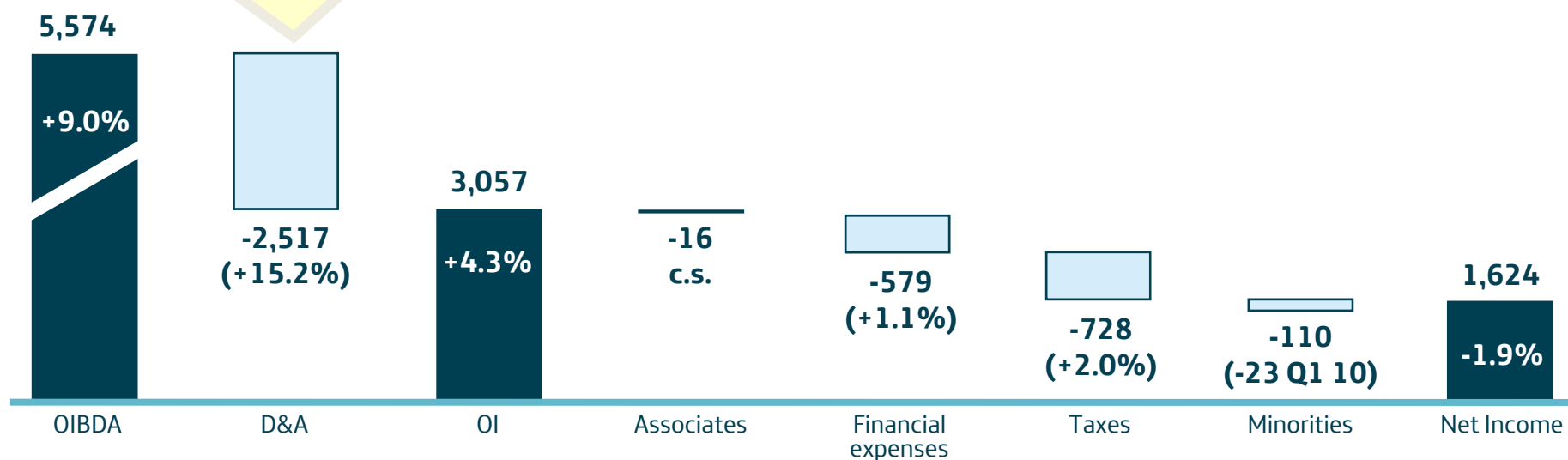
- Changes in consolidation added around 6 p.p.
- Forex added around 3 p.p.

Bottom line strongly impacted by higher D&A

January-March 2011

€ in millions (% y-o-y change)

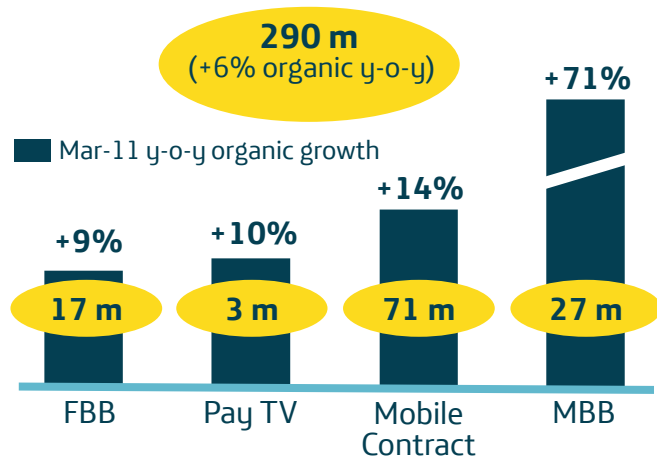
- **T. España** (21% of total): +6.1% y-o-y
 - **T.Latam** (46% of total): +24.6% y-o-y driven by Vivo (100% in Q1 11 + PPA: € 86 m)
 - **T.Europe** (32% of total): + 9.4% y-o-y
- Total PPAs: € 324 m (+12.9% y-o-y)**



Q1 11 EPS: € 0.36 (€ 0.41ex PPAs)

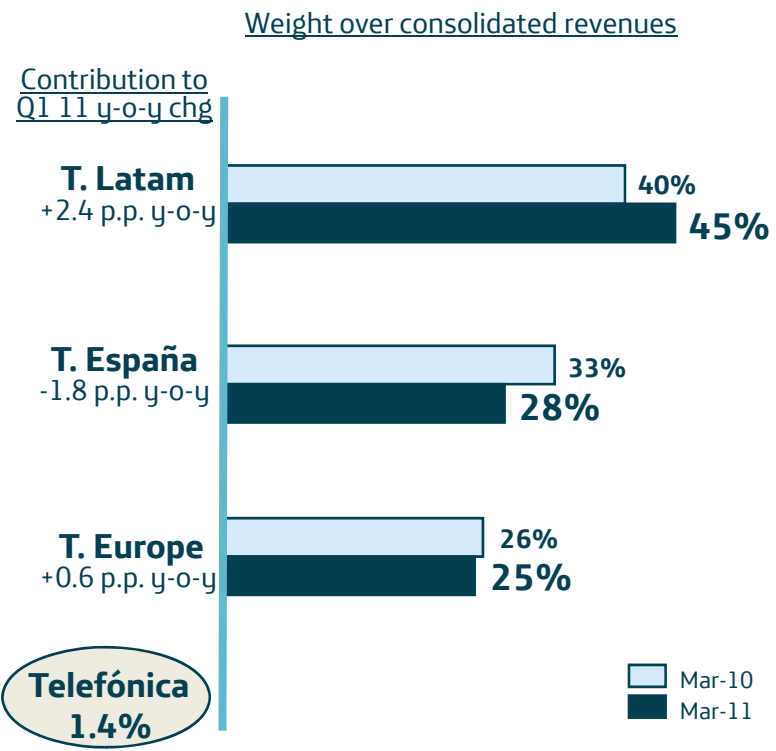
Top line growth underpinned by Latam and broadband

Total Accesses



- **“Value” over “volume” commercial strategy, focused on quality & new services:**
 - Q1 net adds driven by mobile accesses
 - Growing contract base: 57% of Q1 net adds to account for close to 1/3 of the mobile base
 - Outstanding MBB growth
 - Strong FBB performance, delivering bundles

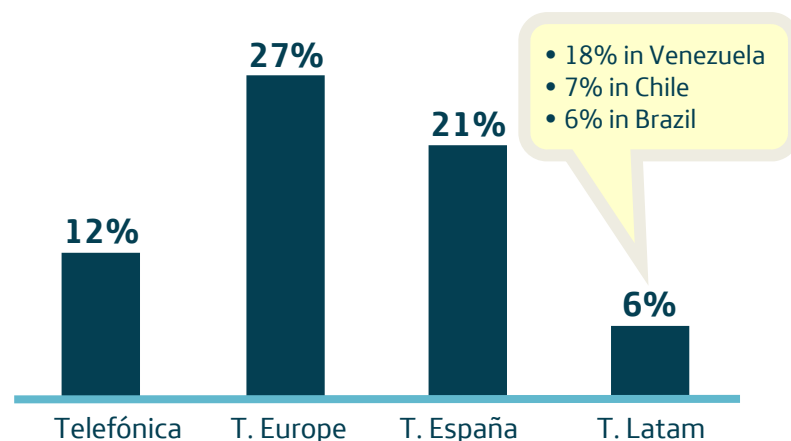
Revenue mix by regions



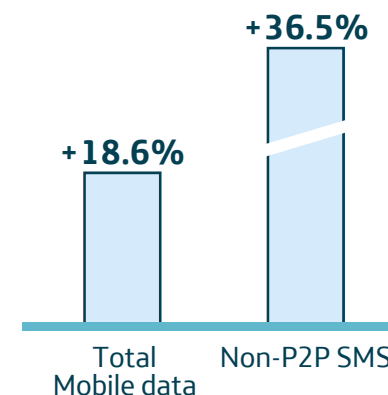
Organic revenue increase ex-MTRs to 2.4%

Smartphone adoption driving mobile data growth

MBB penetration in our mobile base (Mar-11)



Q1 11 Mobile data revenue growth (organic y-o-y)

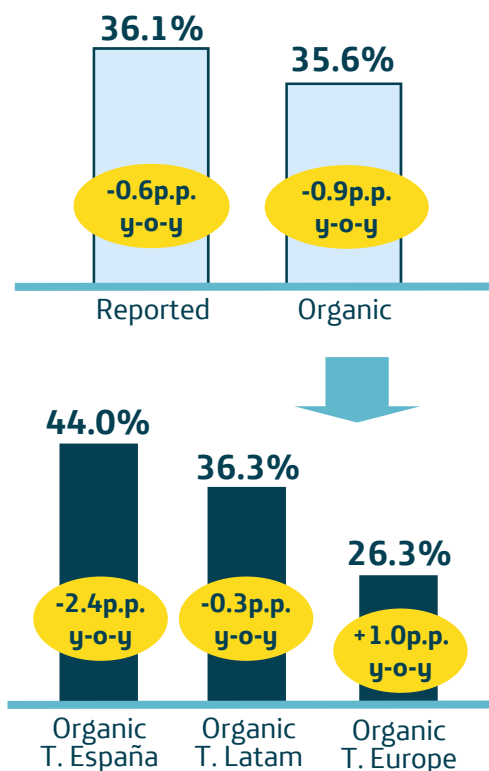


- **Enlarged and increasingly affordable range of devices**
- **Focused commercial actions**
- **Tiered pricing across operations drives profitable mobile data monetisation**

- **Mobile data revenues gaining traction** to close to 30% of MSR (26% in Q1 10)
- **Sequential improvement in non-P2P SMS growth**
- **Increase in P2P SMS sales** (up 4.8% organic y-o-y)
- **Significant upside ahead**

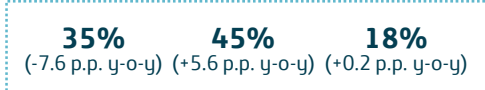
Balancing growth and profitability

Q1 11 OIBDA margin



- **Contained OIBDA margin erosion compatible with:**
 - Strong smartphone adoption
 - Higher commercial costs (+4% organic y-o-y)
 - Increase in network & IT expenses (up 7% organic y-o-y)
 - Weak performance in Spain
- **Benefiting from:**
 - Sequential improvement in cost contention
 - Integrated management model
 - Group scale & Global initiatives

Contribution to Telefónica Q1 11 OIBDA



Q1 11 performance in-line with year-end targets

	2011 Guidance	Q1 11
Revenues	Up to 2%	1.4% <input checked="" type="checkbox"/>
OIBDA Margin	Upper 30s Limited erosion y-o-y	35.6% (-0.9 p.p) <input checked="" type="checkbox"/>
CapEx	~ 9,000	1,412 <input checked="" type="checkbox"/>

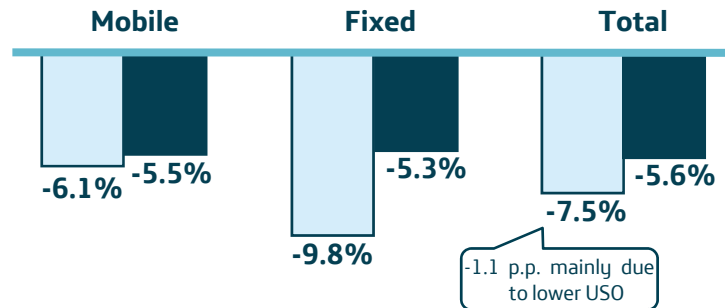
Growth to accelerate throughout the year

T. España: Continued weakness, slightly better top line performance

Revenues

(y-o-y change)

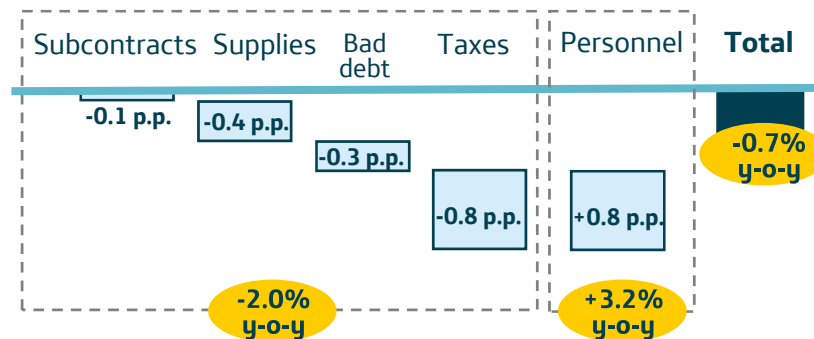
□ Q4 10 ■ Q1 11



- Sequential improvement across businesses
- Value oriented commercial strategy among tough price competition:
 - Focused on MBB and contract
 - FBB retail market share at 53%

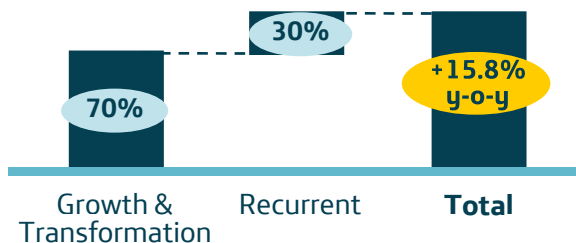
Q1 11 OpEx breakdown

(y-o-y change)



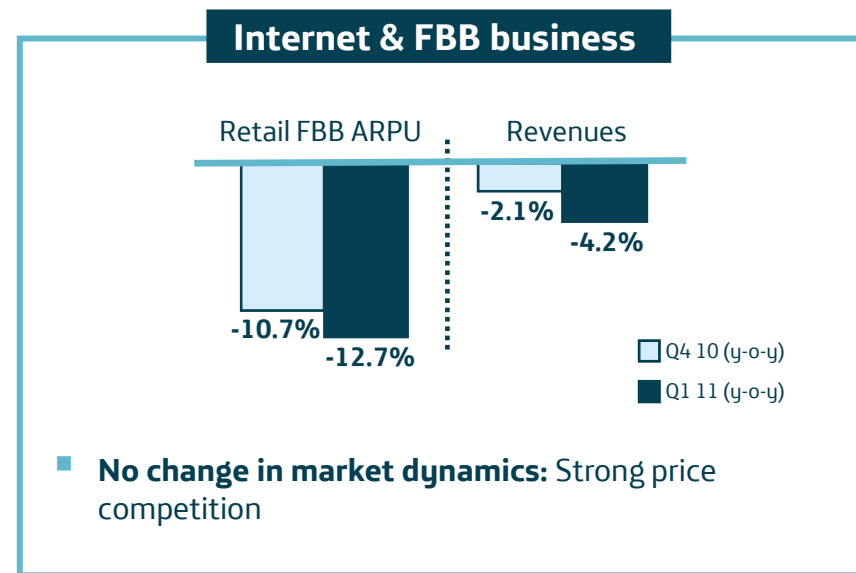
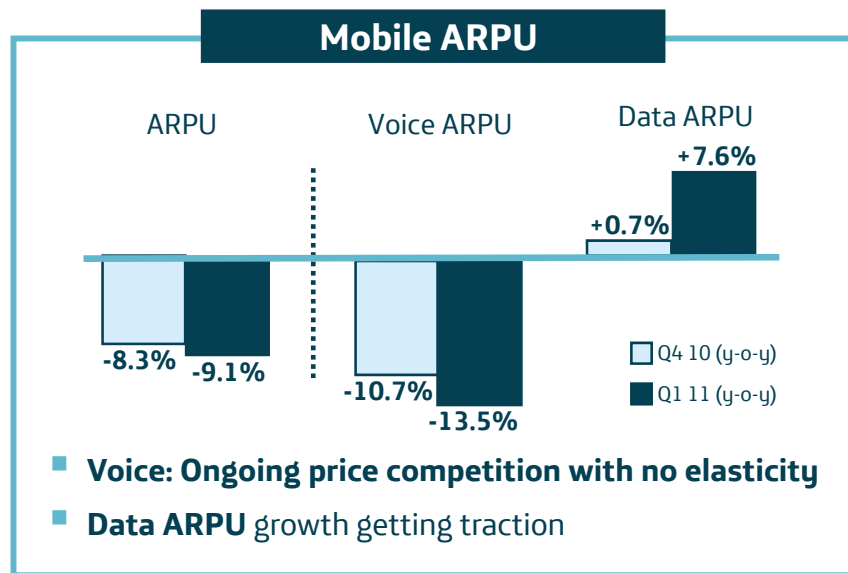
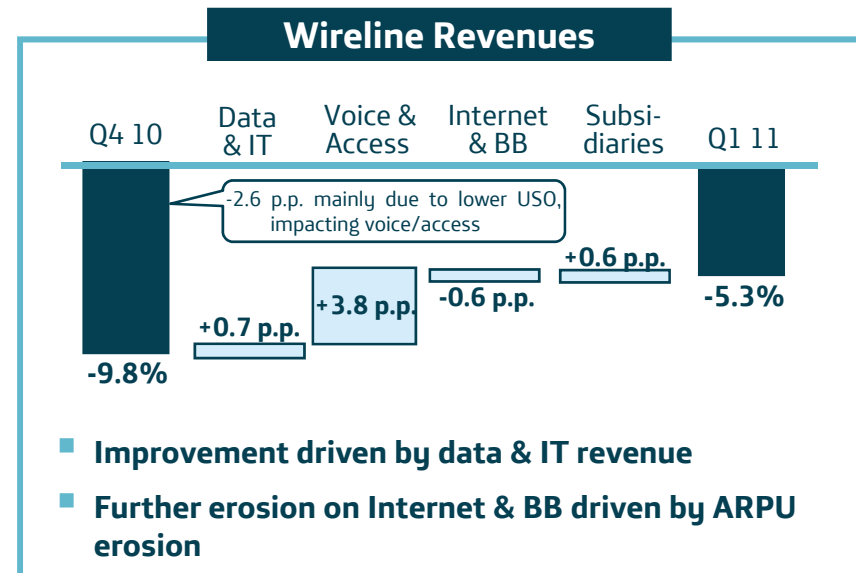
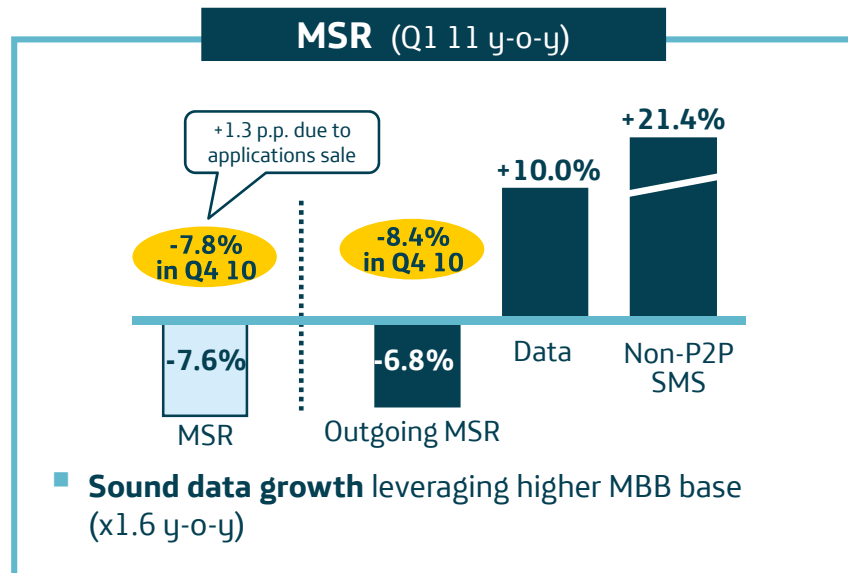
- Cost line virtually frozen despite:
 - Higher personnel costs (CPI revision)
 - Increased commercial costs on growing smartphone sales
- Positive bad debt evolution
- Negotiations with unions just started

Q1 11 CapEx



- Strategic areas driving increased CapEx, enhancing the quality gap:
 - Selective fibre roll-out and VDSL
 - Expanding MBB capacity & coverage
- Growth to slowdown in coming quarters on different execution path vs. 2010

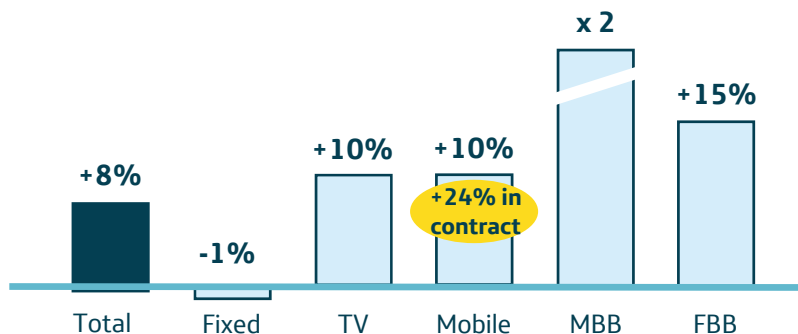
Solid momentum on data across businesses



T.Latam: Strong growth, sustained healthy profitability

Accesses

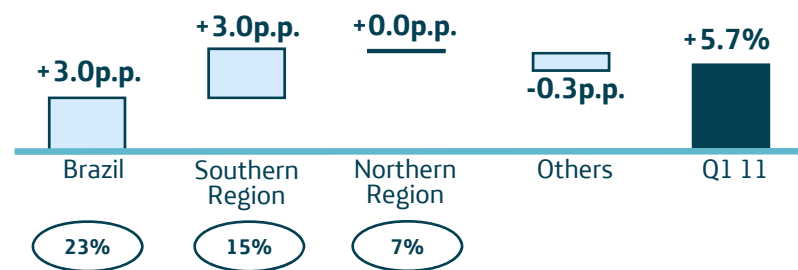
(Mar-11 organic y-o-y growth)



Revenue

(Q1 11 organic y-o-y growth)

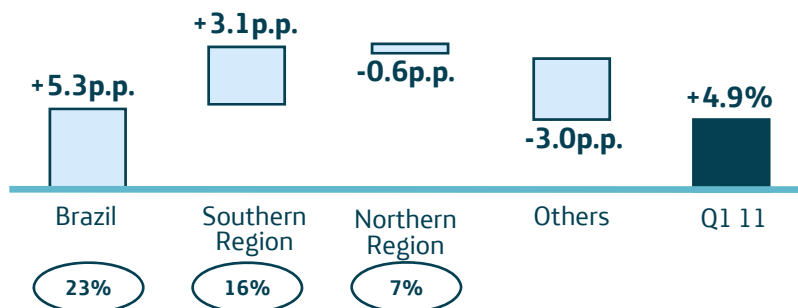
Contribution to Telefónica revenue



OIBDA

(Q1 11 organic y-o-y growth)

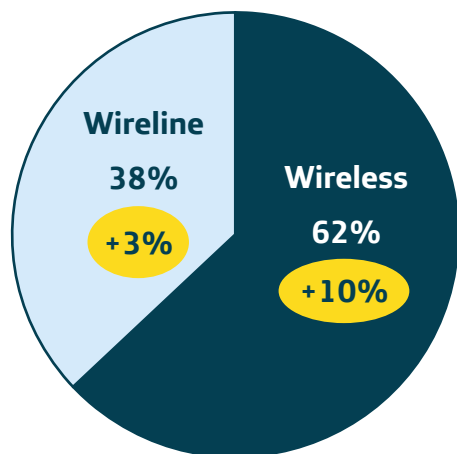
Contribution to Telefónica OIBDA



- **Solid commercial momentum**
- **Healthy revenue & OIBDA growth:**
 - Outstanding performance in Brazil
 - Consistent growth in the Southern Region
 - Weak results in Mexico flattening contribution from the Northern Region
 - Lower contribution from regional initiatives dragging y-o-y growth
- **Flattish OIBDA margin** (36.2%; -0.3 p.p. y-o-y organic) **despite fast accesses growth**

T.Latam: Solid top line across businesses

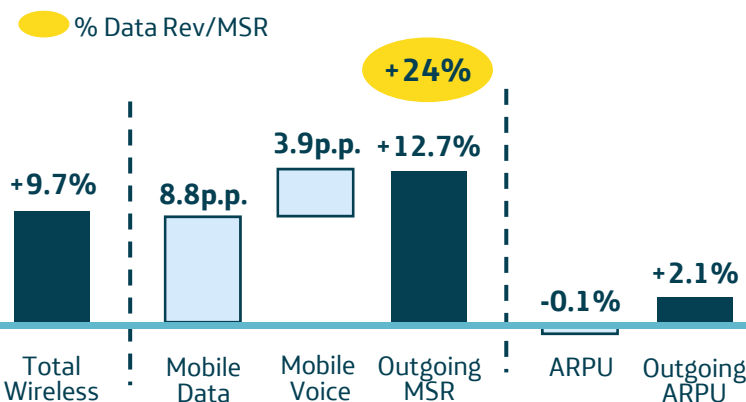
Revenue Mix



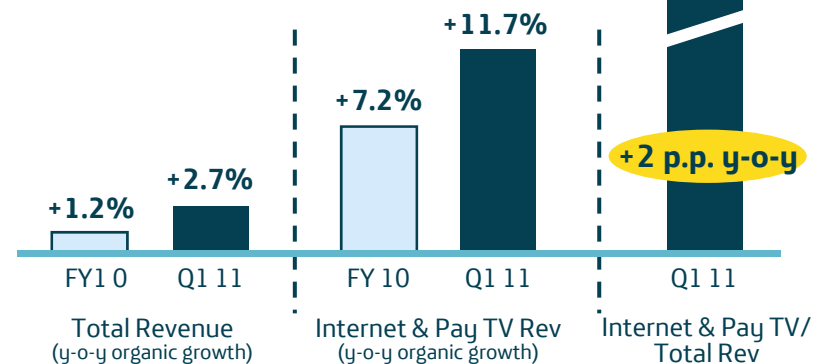
● y-o-y organic growth

- Data services driving growth in both businesses
- Mobile voice keeps growing
- Sequential acceleration in wireline revenue growth

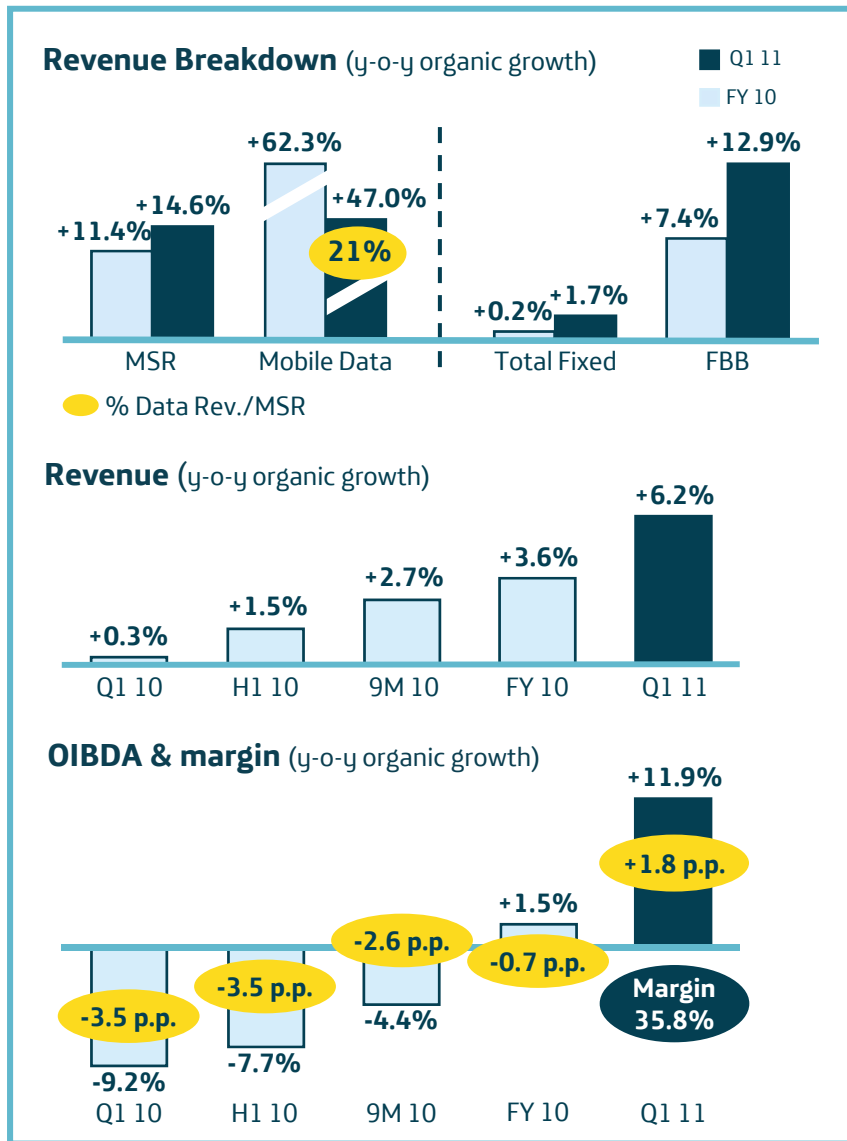
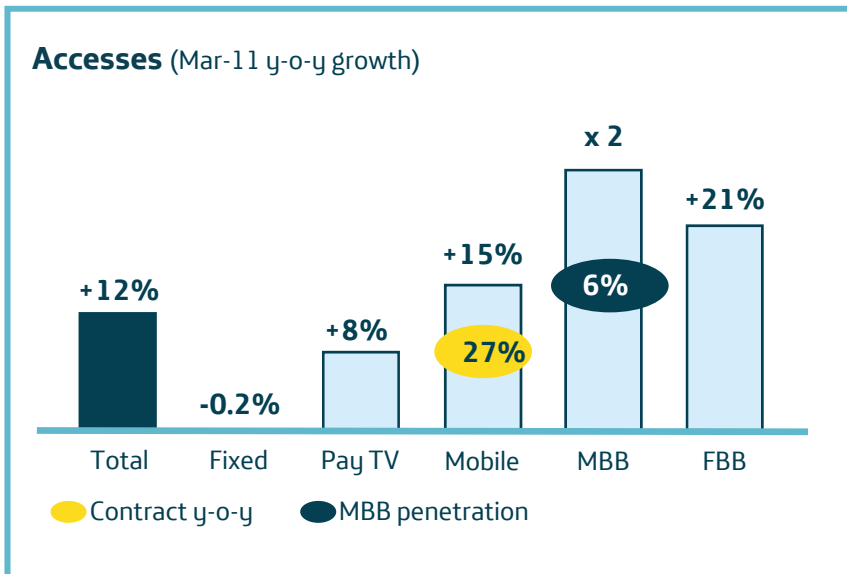
Wireless Revenue (y-o-y organic growth)



Wireline Revenue



Brazil: Outperforming market peers



- **Improved operational & financial performance after the acquisition of 50% of Brasilcel:**
 - Ramp-up in top line & enhanced OIBDA margin
- **Merger of shares of Vivo Participações into Telesp approved by EGMs:**
 - Significant synergies to crystallize before year end

Contribution to
Telefónica
Revenue

Sound momentum in key operations

North Region

Mexico



2.7%

- **Strengthened MBB positioning:** MBB accesses (x4 y-o-y)
- **Weak MSR on decreasing revenues in prepaid segment, impacting also OIBDA**
- **Repositioning of commercial offer on track**

Venezuela



3.3%

- **Commercial offer refocused** to address all market segments
- **Solid MSR growth** pushed by outgoing voice and data
- **Strong OIBDA margin (45.9%)**

South Region

Argentina



4.9%

- **Double digit growth in revenue and OIBDA**
- **Healthy expansion of FBB and mobile accesses.**
Stabilization of fixed telephony accesses

Chile



3.7%

- **Robust growth in all financial metrics with OIBDA margin increase**
- **Strong mobile access growth** driven by contract & MBB

Peru



3.2%

- **Top line growth acceleration with OIBDA margin expansion**
- **Strong commercial momentum** across businesses

Colombia



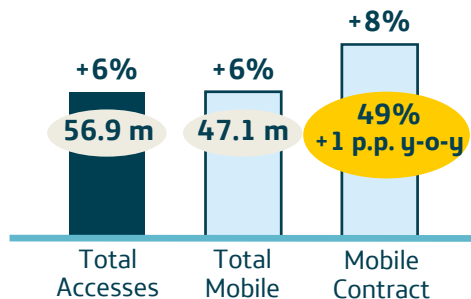
2.4%

- **Consolidation of revenue growth trend** mainly driven by MSR
- **Steady accesses growth** despite tough competition

T.Europe: driving market dynamics, delivering growth

Accesses (Mar-11 y-o-y organic growth)

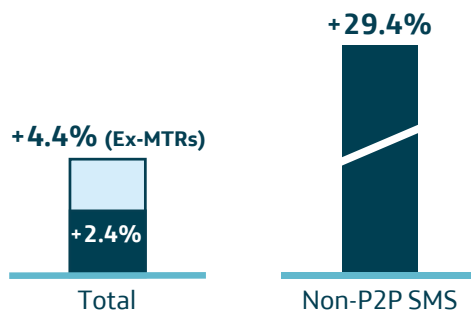
● % over total mobile base



Continued customer growth, focusing on value, MBB and new business areas:

- Strong contract net adds at 446 k (+2% y-o-y)
- Sustained low level contract churn
- 67% Q1 contract handsets sales were smartphones
- MBB penetration at 27% (+3 p.p. vs. Dec-10)

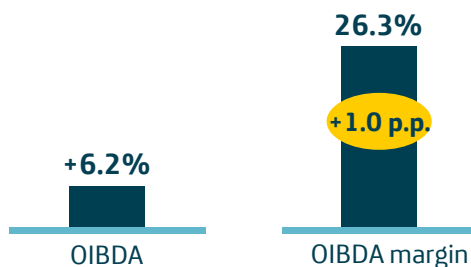
Revenue (Q1 11 y-o-y organic growth)



Top line growth driven by increased MBB penetration and tiered pricing:

- Non- P2P SMS revenue growth acceleration, driving mobile data revenue (+11.7% organic y-o-y)
- Continued drag from regulation, further MTR cuts in UK from Q2 11

Profitability (Q1 11 y-o-y organic growth)



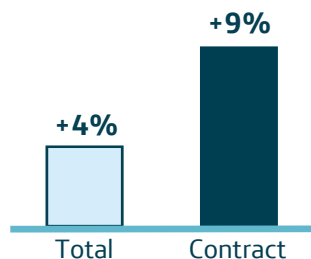
Profitable data growth with efficiency improvements:

- Network sharing and more efficient network rollout also benefiting cash flow generation

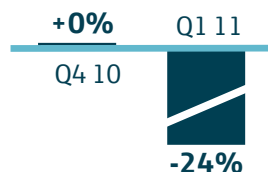
T. UK: value growth, benchmark financial performance

Mobile customer KPIs (y-o-y growth)

Customers (Mar-11 y-o-y)



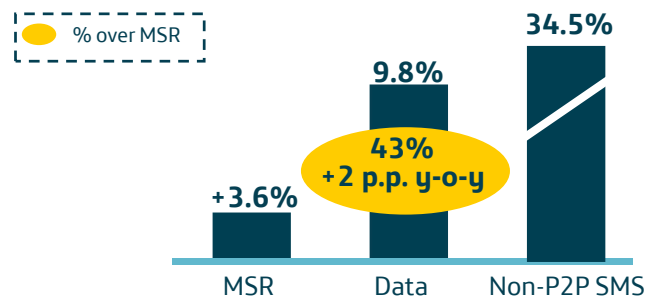
Contract upgrades



Selective approach to a competitive market:

- Best in class contract churn at 1.1%
- Contract base is 48% over total (+2 p.p. y-o-y)
- 82% of contract handsets sold in Q1 11 were smartphones
- Smartphone penetration¹ at 33% (+4 p.p. vs. Dec-10)

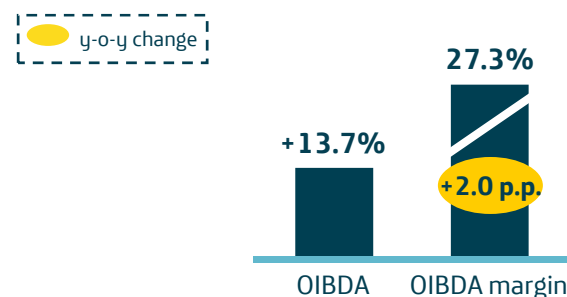
Revenue Q1 11 (y-o-y growth)



Healthy growth leveraging a solid framework in place for mobile data monetisation:

- Encouraging trends from new data refresh in March: bolt-on adoption is c. 80% in the mid £6 tariff
- Handset sales and fixed revenues also driving growth to 5.3% y-o-y

Profitability Q1 11 (y-o-y growth)



Focus on customer lifetime value along with smart market investment:

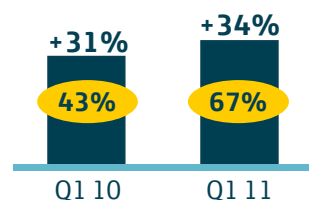
- Lower upgrades in the quarter and interconnection cost benefit
- CapEx evolution (-3.2% y-o-y) mainly benefiting from spectrum refarming
- Progressing well with the restructuring program

T. Germany: Growth acceleration, leveraging integration

Customer KPIs (y-o-y growth)

● % Contract net adds

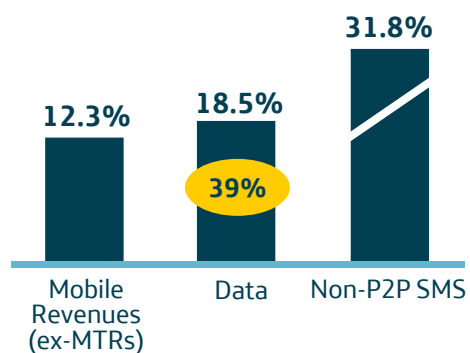
Contract Mobile Net Adds (y-o-y)



- Total customer base up 9% y-o-y to 24 million
- Strong contract net adds and lower churn (-0.1 p.p. y-o-y)
- Sustained push in MBB penetration to 22% of our mobile base
- Further expansion in prepay segment (+11% y-o-y)
- Cross-selling opportunities ahead as HanseNet integration finalised

Revenue (Q1 11 y-o-y organic growth)

● % over MSR



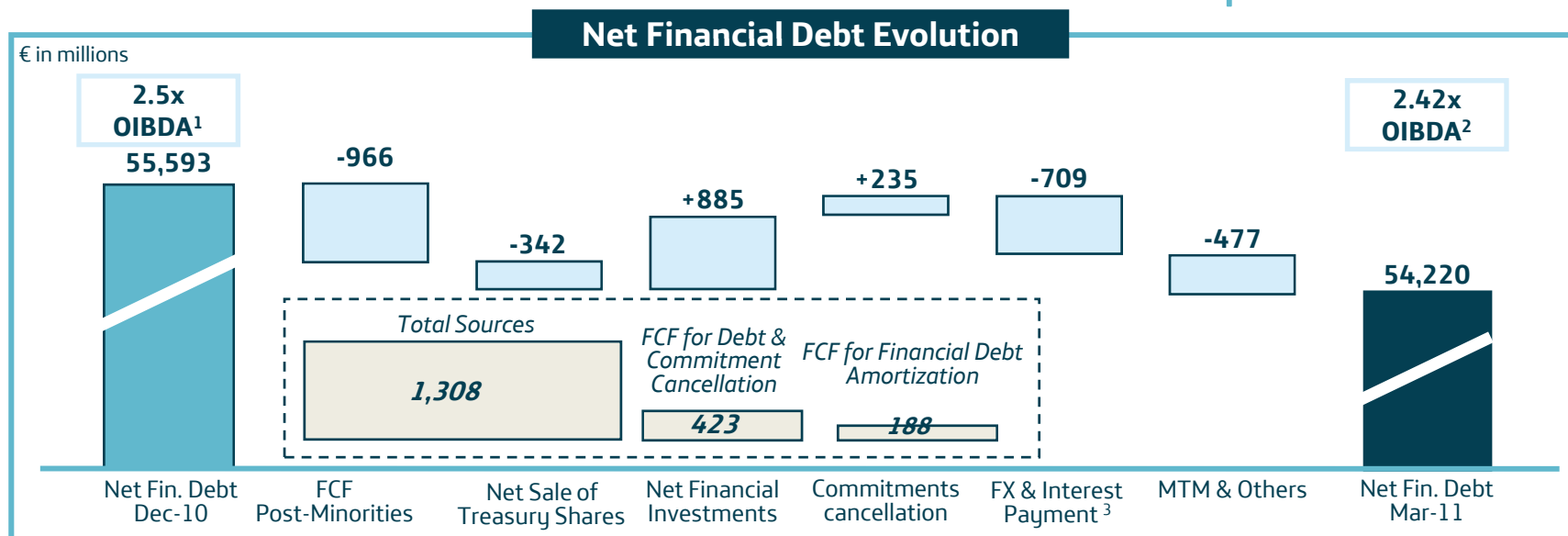
- **Revenues up 1.9% y-o-y despite strong regulatory headwinds:**
 - MTR cuts dragged 6.1 p.p. of total mobile revenue growth
 - Benefit from hardware sales through "My Handy"
- **2/3 of new contract customers signed for a data package in Q1**

OIBDA margin (y-o-y organic change)



- **Stable margins y-o-y despite strong push in contract & MBB**
- **Progress in restructuring to deliver more efficiency gains from Q2**
- **LTE roll-out in line with strategy**

Net Debt reduced and contained financial expenses

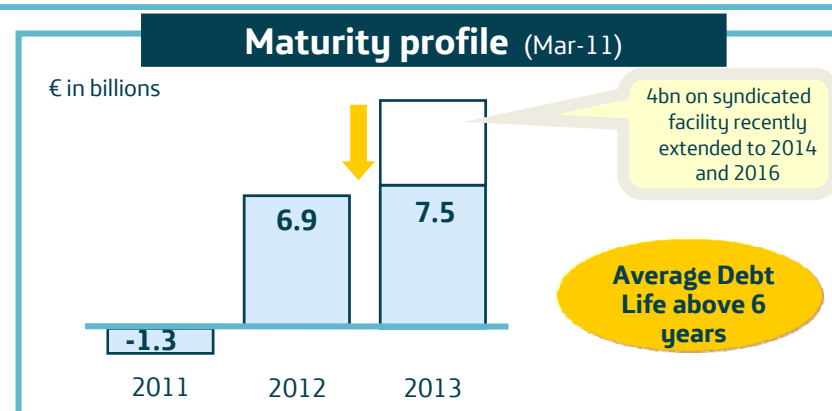


Financial Expenses

€ in millions

Net interest expenses	-577
FX results	-2
Total Financial Results	-579
Total Average Net Debt	55,635
Effective cost	4.23%

Q1 11



- **Net financial debt reduced by € 1.4 bn** while leverage target, including commitments, kept within target range (2.42x)
- **Above € 7.5 bn balanced refinancing and average maturity restored above 6 years**, in line with our target
- **Existing forward starting swaps for fixing rates in the long-term** and expected increase of short term rates to increase the effective interest rate in coming quarters

Closing remarks

- **Solid start to year driven by strong execution**
- **Commercial push focus on value and MBB**
- **Steady revenue growth, benefiting from our diversification**
- **Sustained industry-leading profitability**
- **Robust cash flow generation**
- **2011 outlook confirmed**



Distinctive profile

Telefónica
