An aerial photograph of a rural landscape. In the foreground, there is a large field of golden-brown crops, likely corn. To the right, a field of green crops is visible. A single, large, leafy tree stands in the middle ground, casting a long shadow across the green field. The background shows more fields and a clear sky. A dark teal rectangular box is overlaid on the right side of the image, containing text and the Telefónica logo.

Results

January-March / 2012

*Telefónica*

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# Q1 Overview: Delivering on our 2012 strategy

## Solid commercial start for 2012

- Reaping the benefits from commercial refresh since H2 11
- Acceleration in mobile accesses expansion
- Leading MBB adoption in our markets

## Significant top line improvement

- Solid revenue growth despite regulatory impacts and drag from Spain
- Robust mobile data sales
- Further revenue acceleration along the year

## Outstanding performance in Latin America, our key growth engine

- Leading mobile market growth in the region in Q1
- High single digit top line increase; widening lead in Brazil
- Already exceeding 50% of consolidated OIBDA

## Setting the new paradigm in the sector

- New approach to handsets subsidies
- Moving from voice to data-centric tariffs
- Leading services beyond connectivity through T. Digital
- Fostering an alternative ecosystem: HTML5 based smartphones ongoing development
- Focused CapEx for future growth: MBB, fiber, optimizing network deployment

## Balanced access to credit markets

- 2012 refinancing completed, over 40% of 2013 maturities prefinanced
- Focus on increasing financial flexibility

# Financial summary

€ in millions	Reported		Underlying		Organic
	Q1 12	Change y-o-y	Q1 12	Change y-o-y	Change y-o-y
<b>Revenues</b>	15,511	+0.5%	15,511	+0.5%	+0.1%
<b>OIBDA</b>	5,081	-8.8%	5,081	-7.4%	-7.6%
<b>OIBDA Margin</b>	32.8%	-3.4 p.p.	32.8%	-2.8 p.p.	-2.7 p.p.
<b>OI</b>	2,511	-17.8%	2,773	-15.8%	-15.0%
<b>Net income</b>	748	-53.9%	1,284	-26.6%	
<b>EPS</b>	0.17	-53.4%	0.29	-25.7%	
<b>OpCF (OIBDA-CapEx ex-spectrum)</b>	3,374	-16.1%	3,374	-14.2%	-16.3%
<b>CapEx(ex-spectrum)/sales</b>	11.0%	+1.0 p.p.	11.0%	+1.0 p.p.	+1.5 p.p.

Exceptional items	Q1 12	Q1 11
OIBDA	0	+89
OI	-262	-236
Net Income	-536	-125

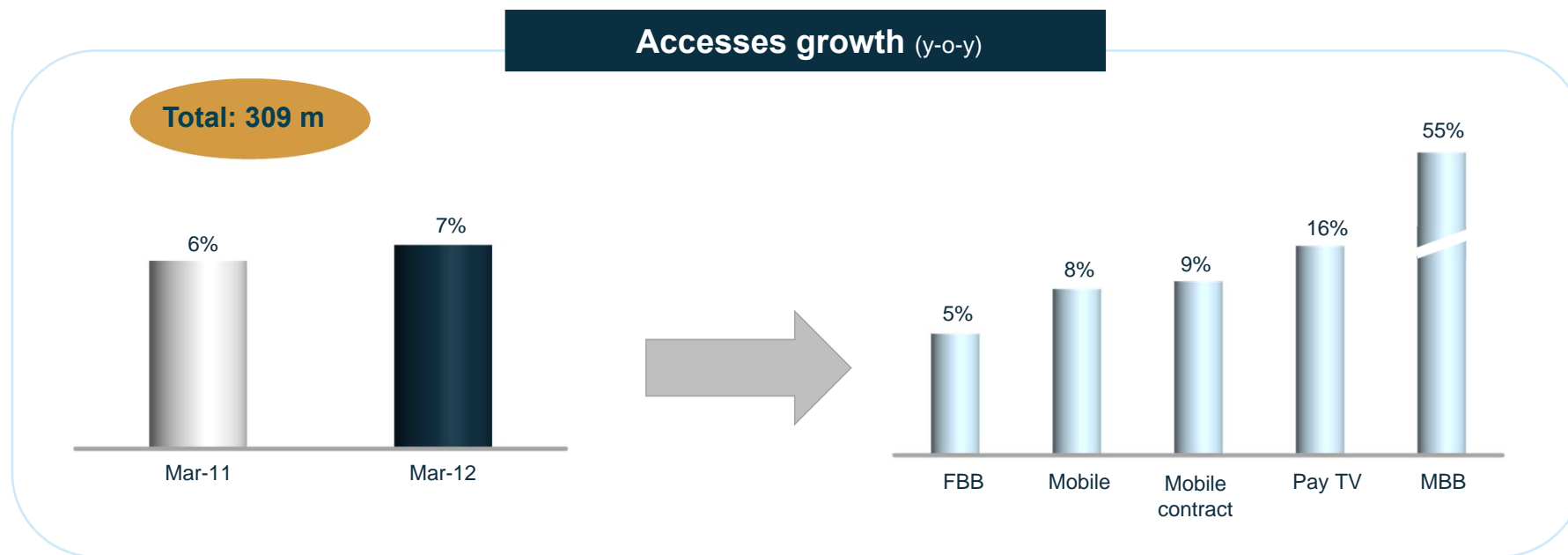
Reduction in the value of TI investment: €-337 m

**Q1 performance in line with expectations, 2012 guidance confirmed**

**Underlying growth:** Reported figures excluding major exceptional items and spectrum acquisition.

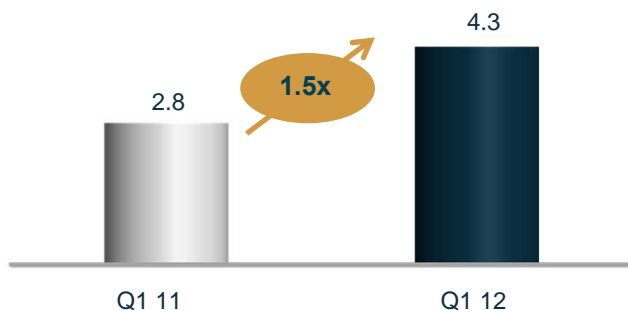
**Organic growth:** Constant exchange rates, excludes changes in the perimeter of consolidation and hyperinflation in VZ. It also excludes spectrum acquisition and exceptional items.

# Solid commercial start for 2012



## Mobile net adds

(in millions)

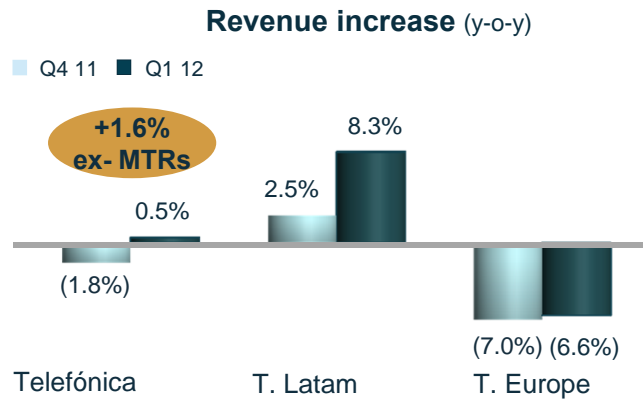


- **Smartphones** represent 81% of commercial activity in Europe
- 17% y-o-y increase in mobile gross adds coupled with churn control
- 2X mobile net adds in Latin America vs. Q1 11

Net additions excluding the impact of the disconnections of 2.0 million mobile accesses in Spain in Q1 12.

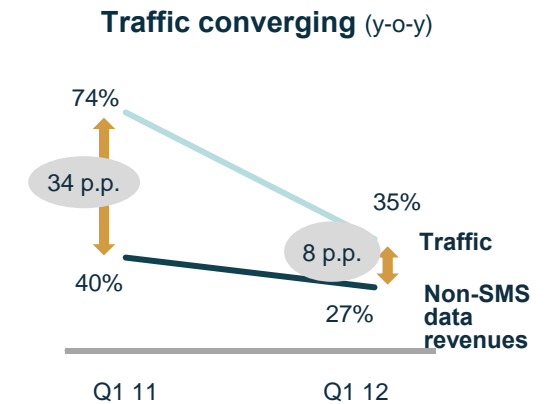
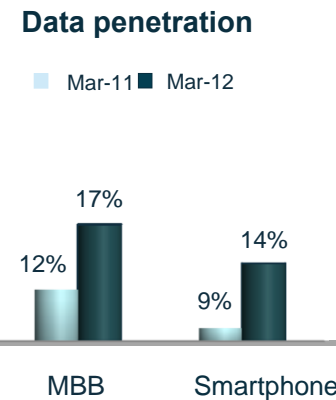
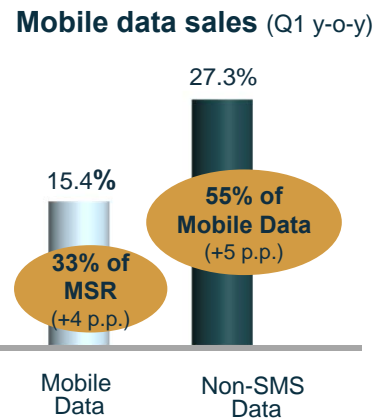
# Revenue growth driven by key strategic areas

Top line acceleration driven by T. Latam



- Improved trends across regions
- Similar contribution from Brazil (23%) and Spain (25%)

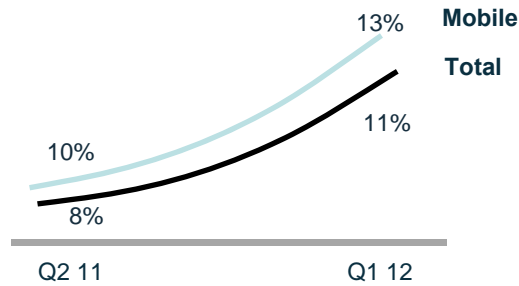
Successful data monetisation



# Outstanding performance in Latam, our key growth engine

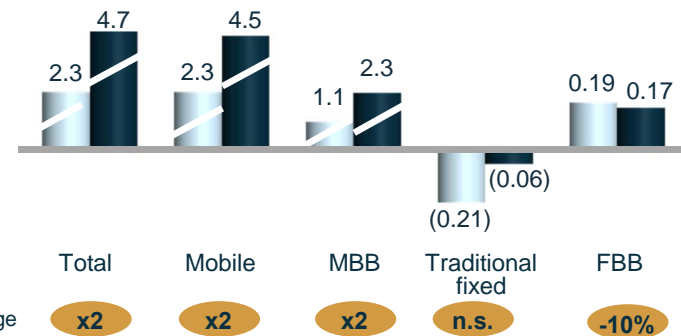
**Strong mobile net adds fuelled access expansion**

**Accesses growth** (organic y-o-y)



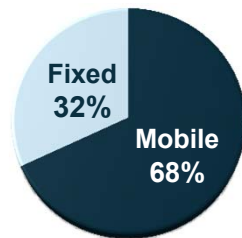
**Net Adds** (in millions)

■ Q1 11 ■ Q1 12

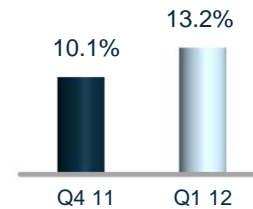


**Sustained top line ramp up driven by MSR**

**Q1 12 Latam Revenue split**



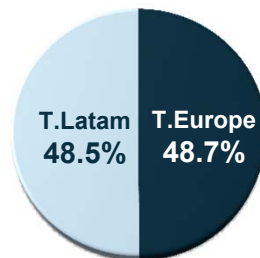
**MSR organic change** (y-o-y)



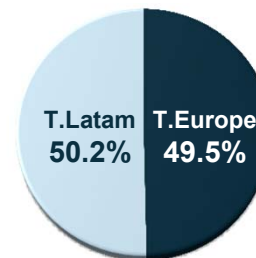
- **MSR acceleration** driven by strong data growth and outgoing voice revenues
- **Increased weight of FBB & new services** to account for 41% of fixed revenues

**Increasing exposure to growth markets**

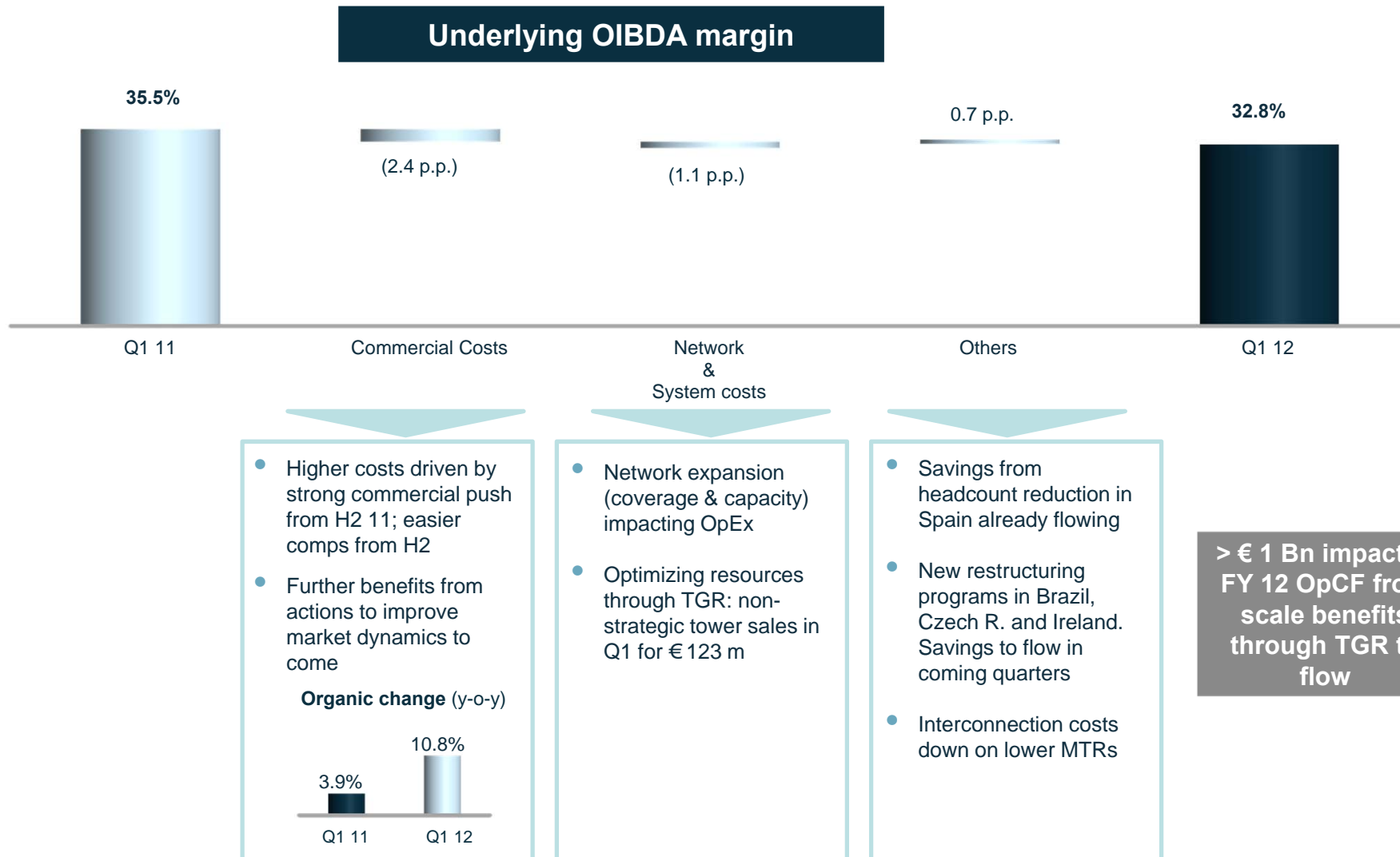
**TEF Revenue split**



**TEF Underlying OIBDA split**



# Increased customer investment impacting profitability

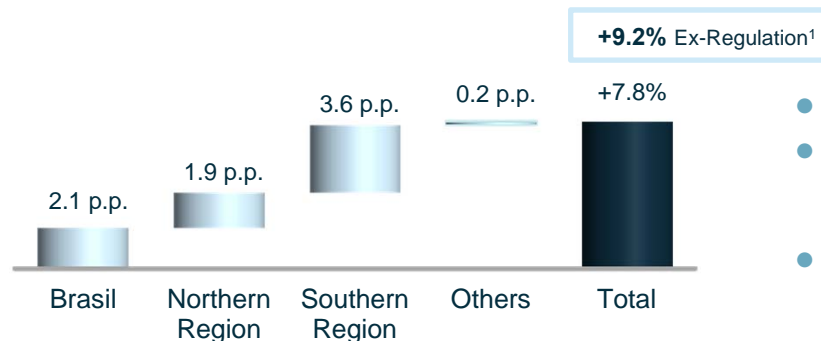




# Latam: Robust growth acceleration across regions

Top line growth in all countries

Revenue growth breakdown (y-o-y organic)



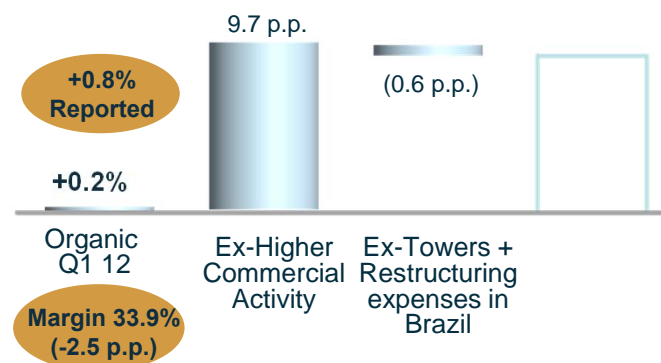
- Growth acceleration y-o-y
- Turnaround in Northern Region, Mexico consolidates its positive revenue growth ex-MTRs
- Southern Region significantly accelerating growth q-o-q

Reported



Profitability impacted by commercial costs

OIBDA drivers (y-o-y organic)



- OIBDA erosion mainly driven by commercial efforts (9.7 p.p.) and regulation (1.4 p.p.)

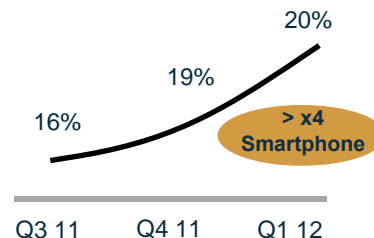
<sup>1</sup> Excludes MTRs cuts in Mexico, Brazil, Venezuela and Peru, changes on F-M retail tariffs in Brazil and Peru, and other regulatory changes in Peru.

# Brazil: Widening leadership

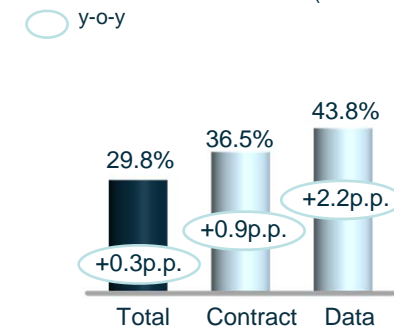
## Strengthened leadership

- **Best-ever Q1 in mobile net adds:**
  - 3.2 m vs. 1.8 m in Q1 11
- **Sustained mobile share gains y-o-y and q-o-q :**
  - Leadership expansion in all segments
  - Strong traction of new services (VIVO Sempre, VIVO Ilimitado, VIVO Fixo)
- **Best in class quality indexes across services**

Mobile accesses (y-o-y)



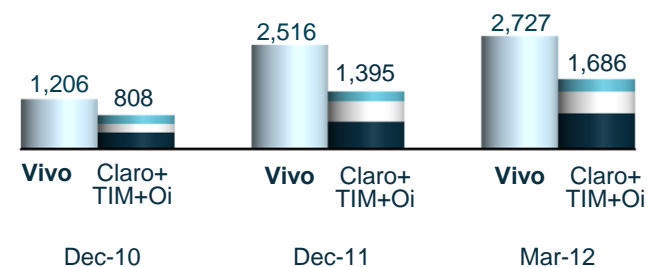
Mobile market share (Mar-12)



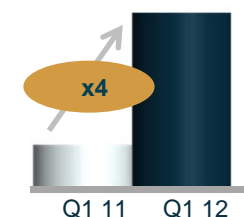
## Leading the sector transformation

- **Reinforced mobile data lead:**
  - Widening coverage gap vs. competitors
  - Leading MBB adoption to 8.4m accesses (3.7 m in Q1 11):
- **Selective fiber roll out for a superior FBB experience:**
  - 1.7m homes passed with UBB; 70k fiber connections
  - 6,000 km of fiber (FTTH)

3G sites



UBB net adds



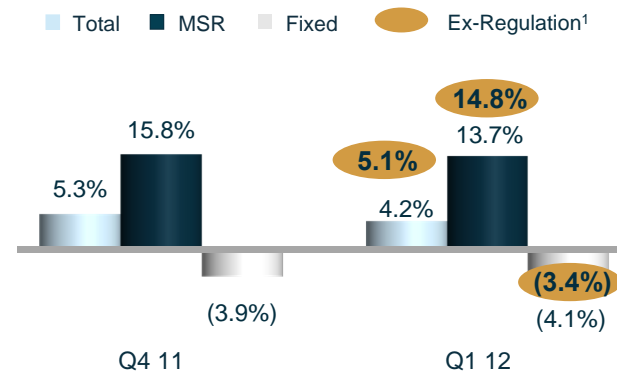
Sources: Anatel for market shares, Teleco for 3G coverage.

# Brazil: Commercial momentum flowing to financials, synergies materialised below OIBDA

## Robust top line expansion

- **Sustained double digit growth in mobile:**
  - 61% of total revenue
  - Mobile data revenues are 25% of MSR
- **Improved performance in fixed:**
  - Solid FBB & New Services evolution
  - Strengthened lead in the corporate segment: 48% of fixed revenues

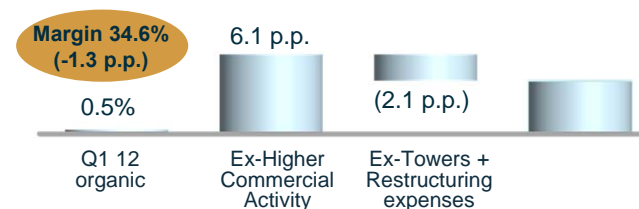
Revenue growth (organic y-o-y)



## Positive OIBDA y-o-y growth

- **Limited margin erosion** driven by higher commercial activity
- **Contained impact from regulation** (-0.8 p.p.)
- **Integration process on track:** ~10% headcount reduction, structure simplified, rebranding from mid-April

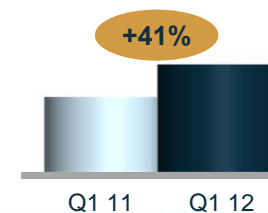
OIBDA drivers (y-o-y)



## Strong FCF

- **Boosting FCF despite higher investments in growth**
- **Optimised working capital management and integration synergies below OIBDA driving FCF generation**

FCF



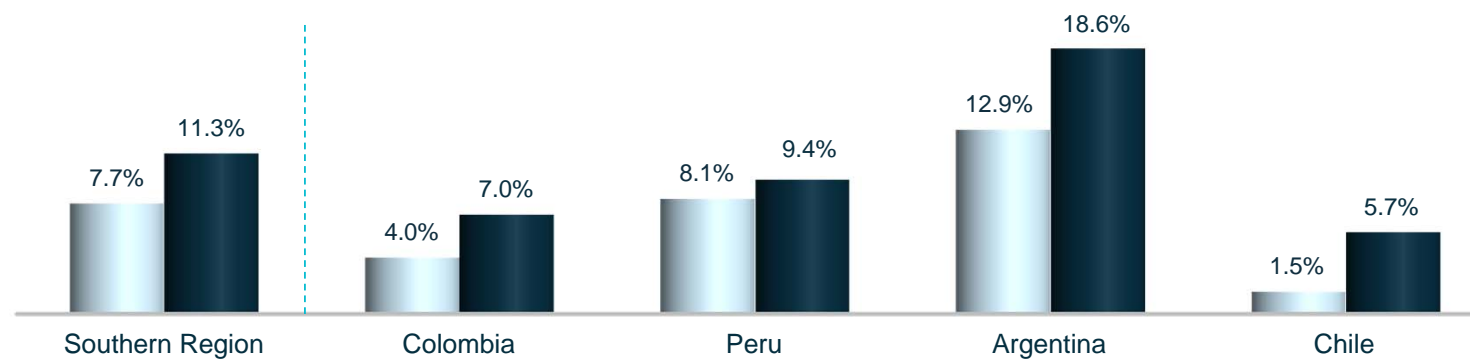
<sup>1</sup> Excludes MTRs cuts and changes on F-M retail tariffs.

# Latam: Widespread growth acceleration (i)

## Southern Region: Advances to transform the business

### Revenue breakdown ex-regulation<sup>1</sup> (y-o-y organic)

■ Q4 11 ■ Q1 12



5.6%

#### ARGENTINA:

- Solid double digit top line growth and high single digit OIBDA growth (+8.2% y-o-y)



4.0%

#### CHILE:

- Strong commercial activity penalising OIBDA margin (38.9%)



3.7%

#### PERU:

- Solid commercial momentum and OIBDA expansion (+0.3% y-o-y)



2.8%

#### COLOMBIA:

- Strong revenue performance; corporate restructuring to drive efficiencies

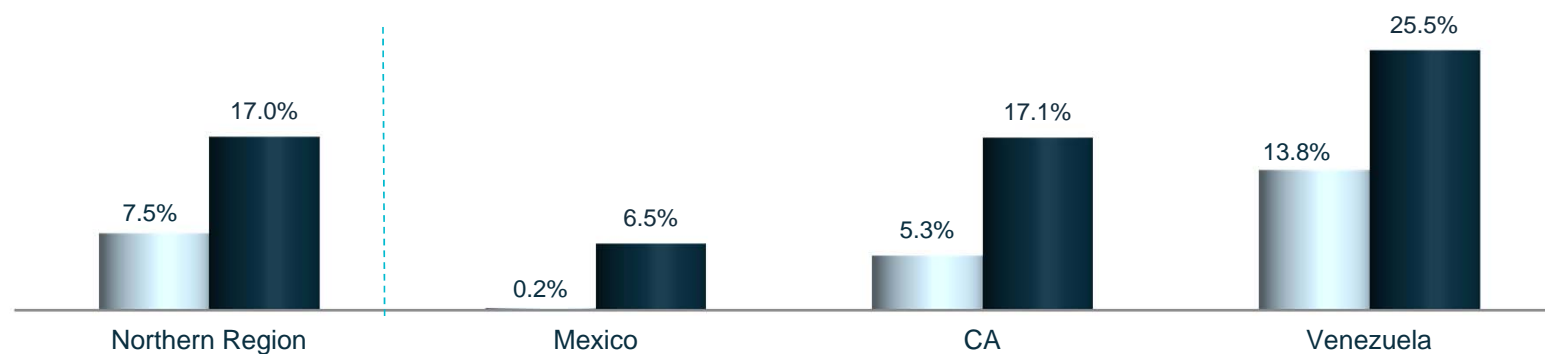
<sup>1</sup> Excludes MTRs cuts, changes on F-M retail tariffs and other regulatory changes in Peru.

# Latam: Widespread growth acceleration (ii)

## Northern Region: Consolidating positive trends

### Revenue breakdown ex-regulation<sup>1</sup> (y-o-y organic)

■ Q4 11 ■ Q1 12



4.3%

#### VENEZUELA:

- Impressive operational performance, benchmark OIBDA margin (43.3%)



2.5%

#### MEXICO:

- Visible results from turnaround actions: improved revenue trend
- Outgoing ARPU +10.4% y-o-y (vs. +0.3% in Q4 11)

1.1%

#### CENTRAL AMERICA:

- Strong revenue acceleration on the back of enhanced commercial positioning
- Start-up operations in Costa Rica dragging € 15 m in OIBDA in the quarter

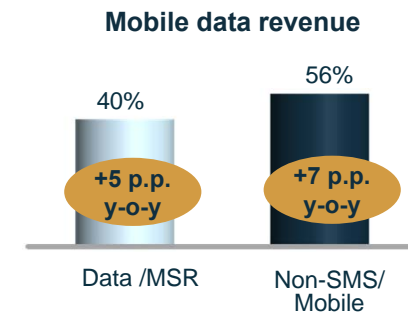
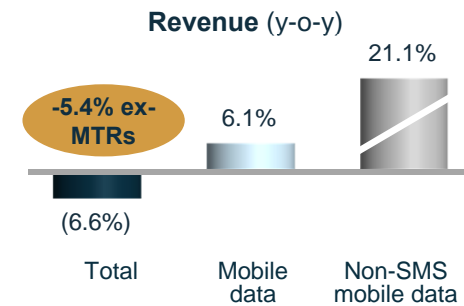
**Organic growth:** assumes average constant exchange rates and excludes changes in the consolidation perimeter and hyperinflation accounting in Venezuela in both years.

<sup>1</sup> Excludes MTRs cuts.

# T. Europe: Building momentum on commercial refresh

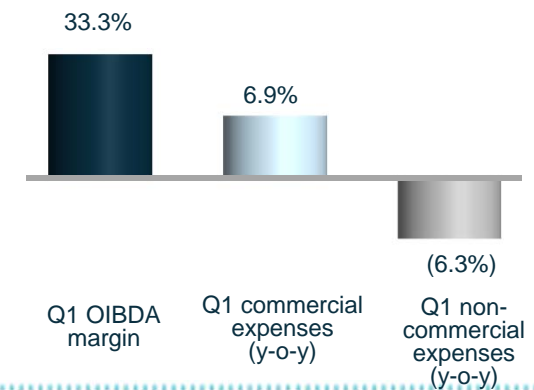
**Focused commercial activity towards a data centric model**

- **Mobile customer base expansion leveraging new propositions:**
  - Smartphone were 81% of handset sales in Q1
  - Contract segment at 58% of total base (+3 p.p. y-o-y)
- **FBB accesses close to 60% of traditional fixed**
- **Robust data revenue growth:**
  - Smartphone penetration at 30% of base (+9 p.p. y-o-y)
  - Integrated plans across footprint
- **Top line pressure** driven by voice usage optimization, price competition and MTR drag



**OIBDA primarily hit by strong commercial costs**

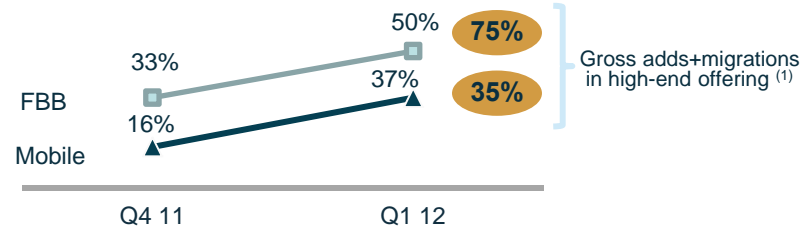
- **OIBDA driven by revenue pressure and strong customer investment to defend/increase market share and lead MBB:**
  - Cost contention initiatives drive OpEx decline: -1.6% y-o-y in Q1
- **Transforming the commercial model:**
  - Successful "My Handy" model in Germany
  - No acquisition subsidies in Spain from March



# Spain: Executing our transformation plan (i)

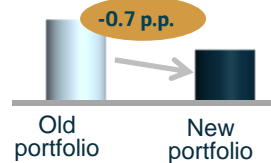
Fast take-up of new tariff portfolio driving churn reduction

## Penetration in the consumer segment

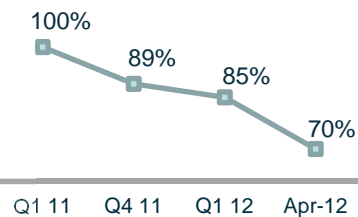


## Churn

Q1 Mobile contract consumer segment



FBB. Base 100



## ARPU (y-o-y)

- Limited impact in **mobile ARPU** from new tariffs
- **FBB ARPU** (-9.0% y-o-y in Q1) affected by active migration of customers to new tariffs to further reduce churn
- **Benefits from further fiber roll-out to come:**
  - 15% of households passed; 1.3 m (x3 vs. Q1 11)
  - 177 k households connected

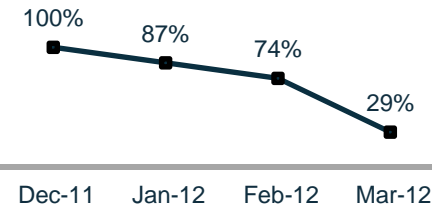
Note: All data excluding the impact of the disconnection of 2.0 million mobile accesses in Spain in Q1 12.  
 (1) FBB customer in €24.9 tariffs, Mobile contract customers in tariffs >€30.

# Spain: Executing our transformation plan (ii)

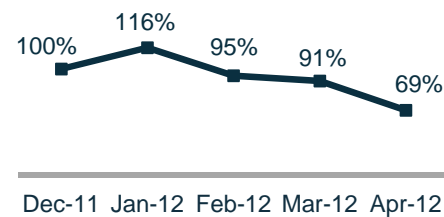
A new industrial model to enhance market dynamics

- **Handset subsidy elimination for new mobile customers from March will lead to:**
  - Lower portability volumes: portability was around 10% of the market in 2011
  - Significant decline in commercial costs
  - Higher customer loyalty and ARPU
- **Impact so far:**
  - Sequential decline in portability churn
  - Sharp drop in March gross adds as Movistar was the sole player in the market with no subsidy
  - Handset upgrades: +35% y-o-y in Q1
- **April data shows further improvements in churn and improved results from portability as other competitors also removes subsidies**

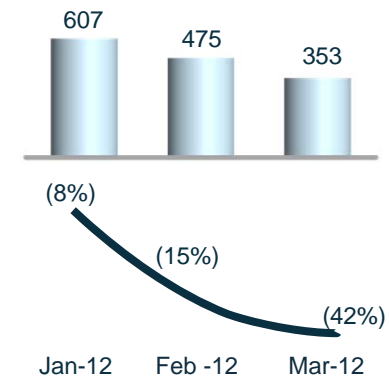
Costs of subsidies in acquisition  
Base 100



Portability churn  
Base 100



Q1 12 Gross additions  
(‘000; y-o-y)



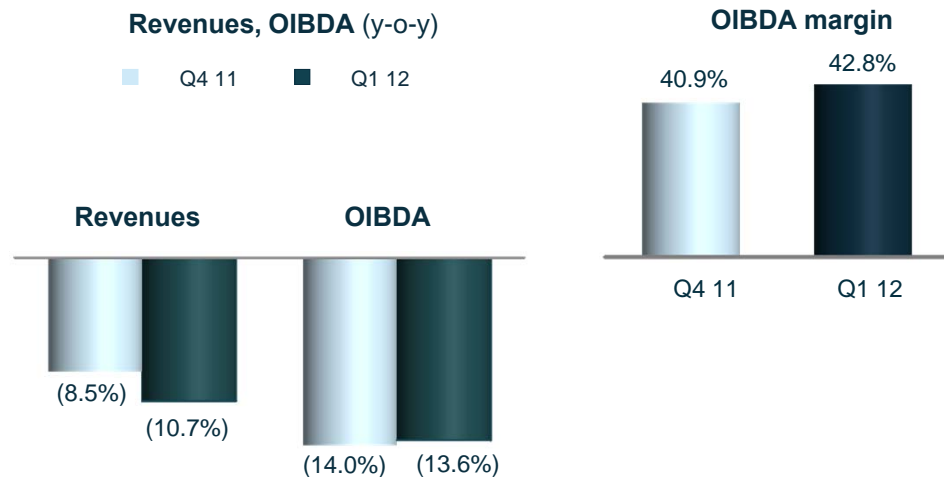
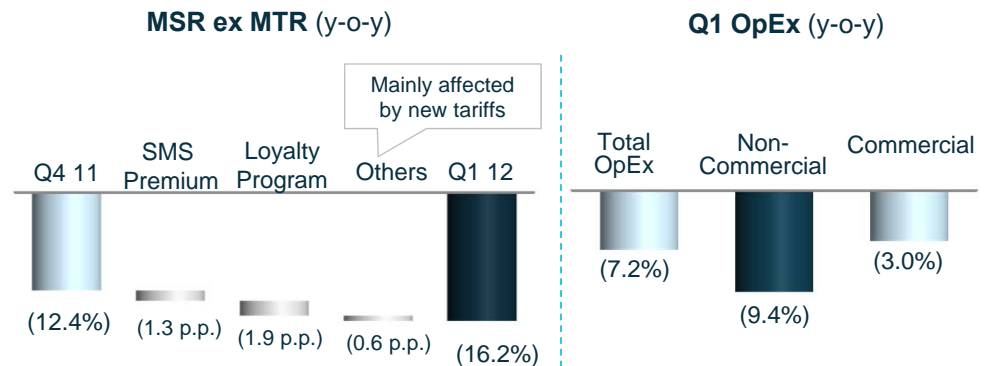
Note: All data excluding the impact of the disconnection of 2.0 million mobile accesses in Spain in Q1 12.



# Spain: Further efficiency gains across the board

Limited OIBDA deterioration q-o-q on strong cost reductions to offset top line pressure

- **Top line performance impacted by a challenging environment**
- **MSR deterioration** due to usage optimization, lower prices & regulation, new commercial policy on SMS premium (revenue -61% y-o-y) and increased commercial efforts (“loyalty program”)
- **Resilient fixed revenues** despite rapid customer repositioning (Q1: -6.9%; Q4: -6.2% y-o-y)
- **Savings from workforce reduction** already flowing: €56 m in Q1
  - 4,401 employees have joined so far (68% of total expected)
  - 3,149 employees already left
- New commercial approach to drive **further commercial costs cuts**
- **Sale of 500 towers in rural areas:** €28 m



Q4 11 data in comparable terms.

# UK: Regaining momentum

## Recovering commercial momentum

- **Increased volume & value** in a very competitive market:
  - Highest contract net adds since Q3 10 on solid gross adds (+8% y-o-y)
  - Contract mix at 50% (+2 p.p. y-o-y)
- **Increased share of gross adds** without “all you can eat” data offers (E)
- New “**On&on**” tariffs, reinforcing 2011’s launch of tiered data tariffs

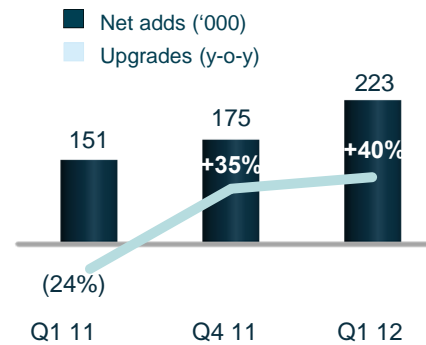
## Stabilising revenue trends

- **Improved q-o-q revenue trends in voice; SMS stabilisation**
- **Solid non-SMS data revenues**, up 17% y-o-y
- Revenues primarily impacted by usage optimisation and lower entry price points

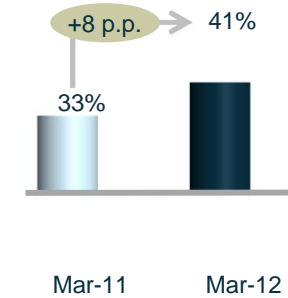
## Significant customer investment

- **Margin erosion driven by higher volumes of retention and acquisition**
- **Commercial expenses to moderate** going forward:
  - Best contract churn in more than 2 years
  - Percentage of out of contract customers down 3.4 p.p. q-o-q

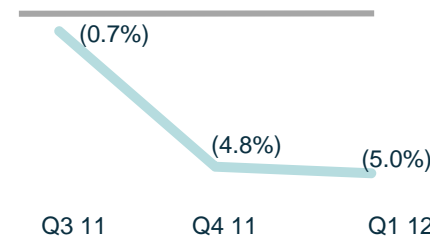
### Contract segment



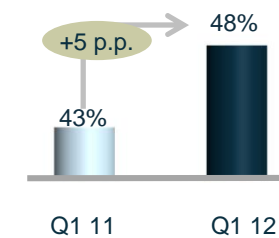
### Smartphone penetration



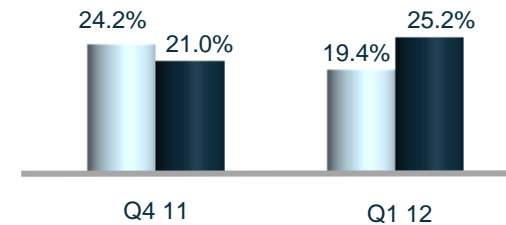
### MSR (ex-MTRs; y-o-y)



### Data revenues/MSR



- OIBDA margin
- Commercial expenses (y-o-y)

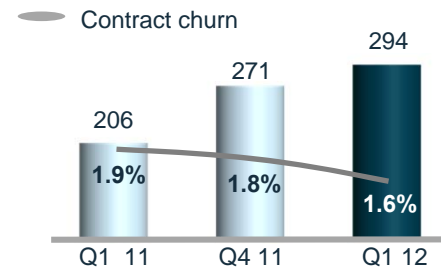


# Germany: Successful strategy driving growth

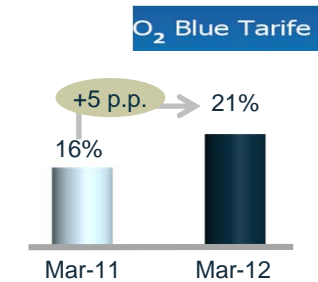
## Best-ever quarter contract net adds

- **Smartphone share leadership** (95% over total shipments)
- **Strong business segment and partner trading activity**
- **Contract is 51% of base** (up 3 p.p. y-o-y)
- Consistent churn improvement

Contract net adds ('000)



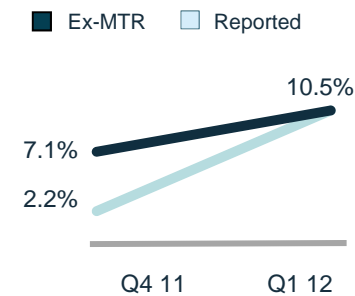
Smartphone penetration



## Data monetisation driving revenue growth

- **MSR acceleration leveraging:**
  - Successful data monetisation
  - Contract ARPU growth
  - MTR cuts annualisation in Q1
- **Better revenue mix**, mobile data is 44% of MSR (+5 p.p. y-o-y)

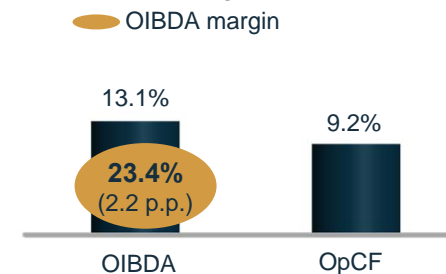
MSR growth (y-o-y)



## Strong profitability, LTE on track

- **Profitable improvement as revenue growth flows to OIBDA**, market investment offset by efficiency
- **Agreement for using DT fiber network** further supports data growth

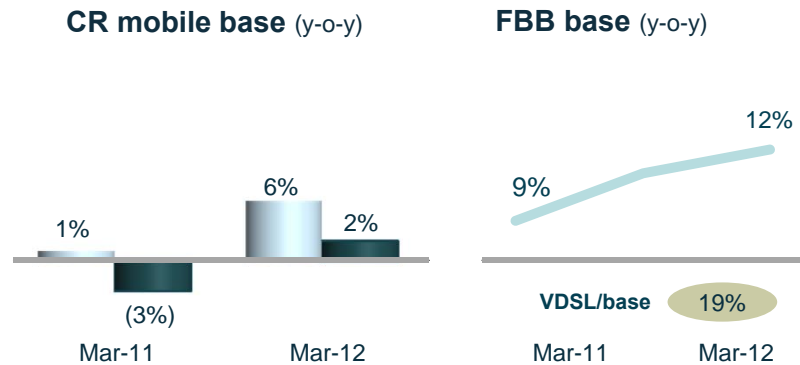
Profitability (y-o-y)



# Czech R.: Further improvement in financial performance

## Sustained customer growth

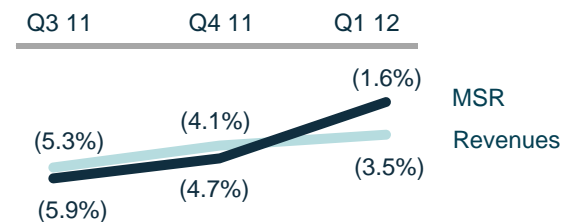
- **Contract mix at 62%** (+2 p.p. vs Mar-11)
  - **Improved contract churn** (-0.2 p.p. y-o-y)
  - **Gaining traction on MBB**, penetration at 16% (+3 p.p. y-o-y)
- **VDSL** supports FBB ARPU and enhances churn



## Revenue trends continue to improve

- 3<sup>rd</sup> consecutive quarter of improved trends on:
  - **Mobile residential spend stabilisation**
  - **Better mobile data revenues**
  - **Solid growth in Slovakia** (MSR ex-MTRs up 34% y-o-y)
- Fixed revenues hit by price pressure, ICT phasing

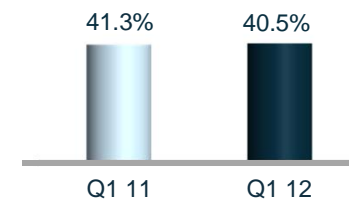
## Czech Republic Group (y-o-y)



## Robust OIBDA margin

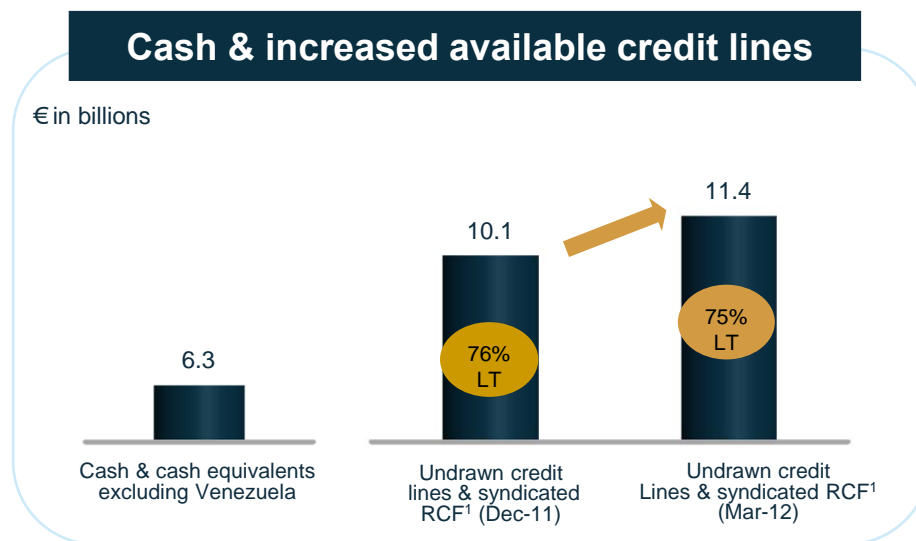
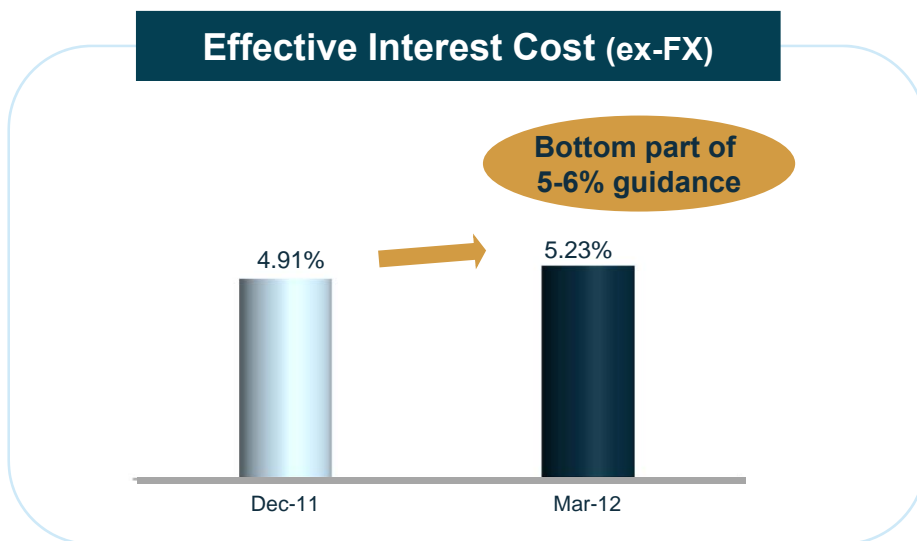
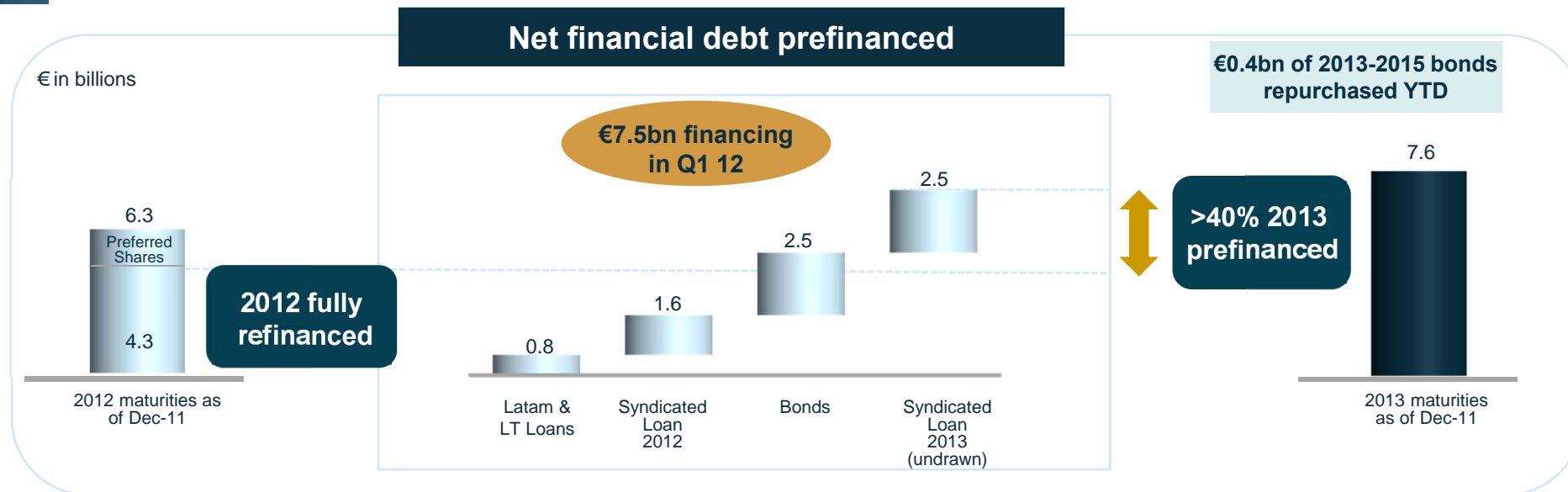
- **Limited y-o-y erosion** (-0.8 p.p.) despite increased commercial costs:
  - **Successful efforts to deliver efficiencies** through transformation of organisation
  - Sale of non-core assets offsetting further restructuring expenses recorded in Q1 12
- OpCF of € 162 m in Q1 12

## OIBDA margin



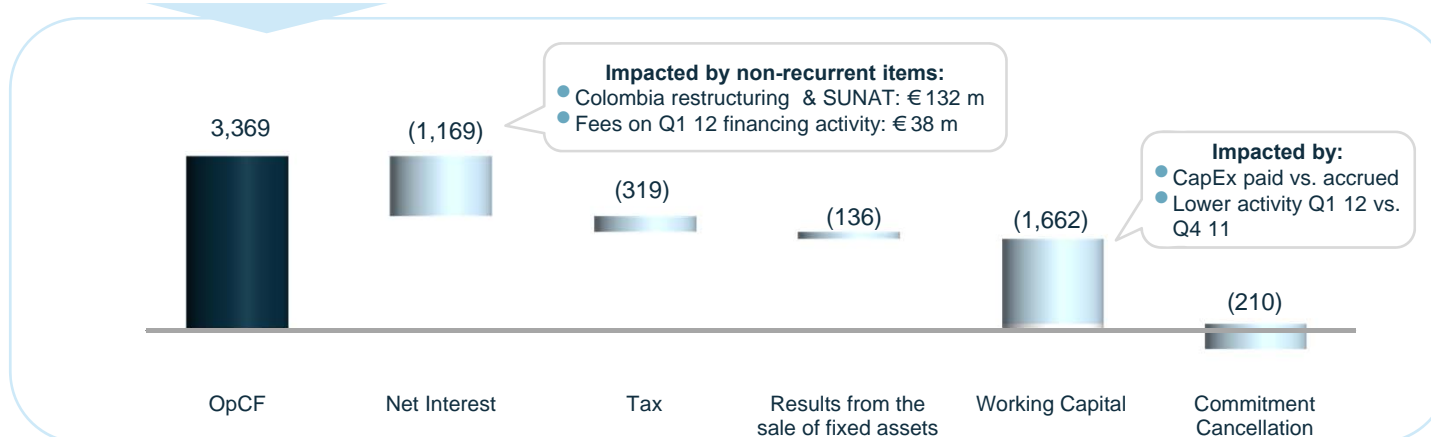
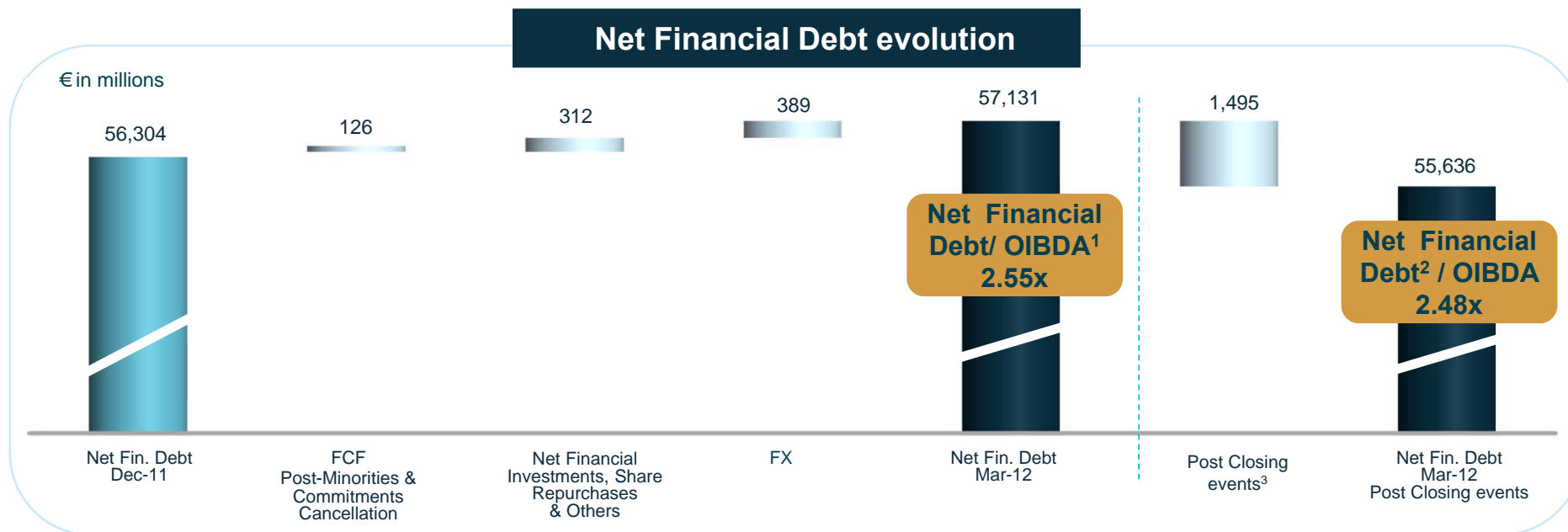
Note: All y-o-y in constant currency.

# Balanced access to credit markets, 2012 refinancing completed



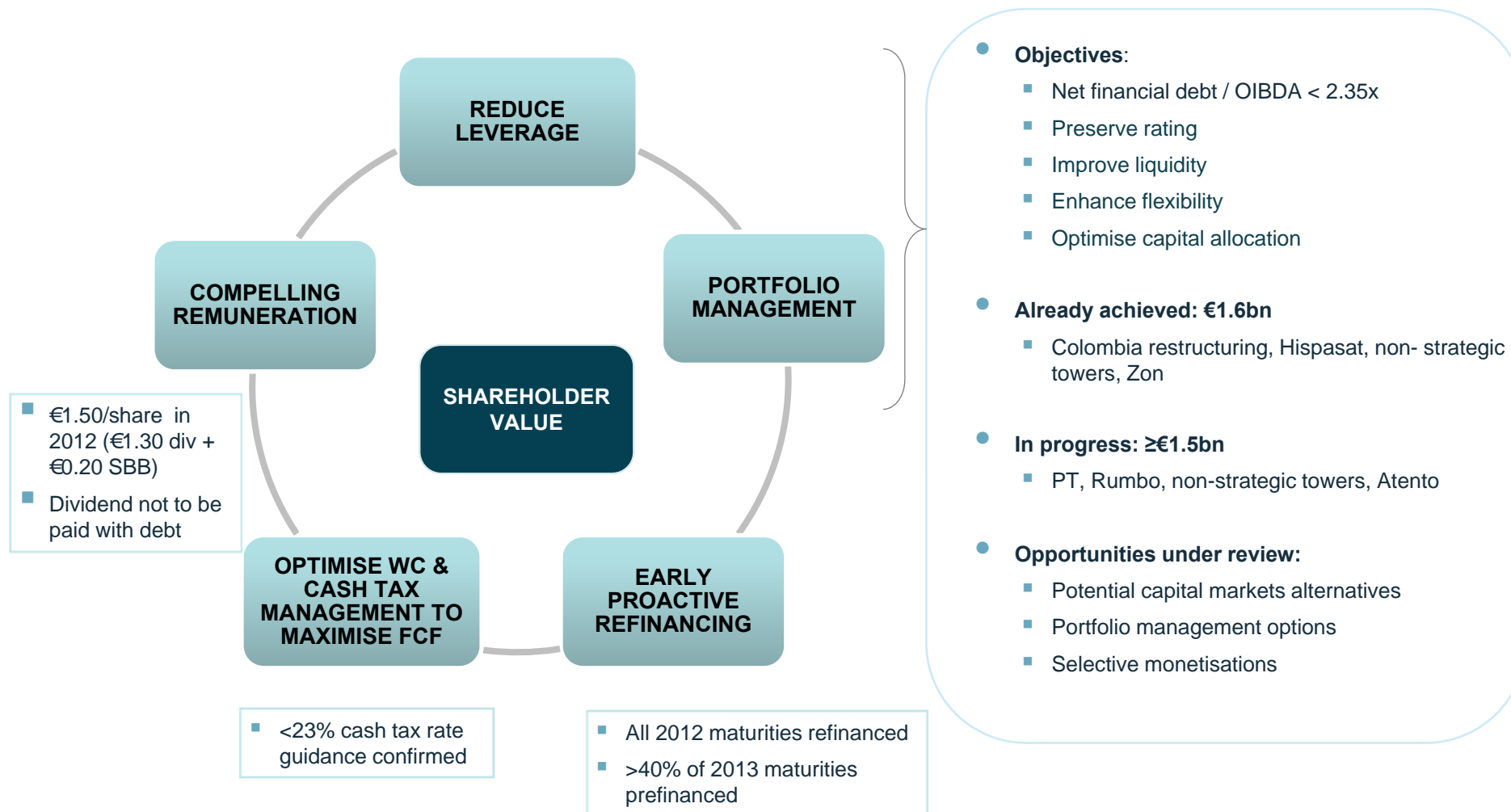
1. RCF: Revolving Credit Facility.

# Implementing measures to reduce our debt



1. OIBDA 12 months rolling ex-Redundancy Program in Spain in 2011.  
 2. Net Financial Debt ex-Redundancy Program in Spain and adjusted by Post Closing events.  
 3. Post Closing events include Colombia restructuring and other minority stakes disposals (Hispasat, PT and Zon).

# Further actions to enhance financial flexibility



## Concluding remarks: Delivering on our 2012 strategy

- **Solid commercial start for 2012**
- **Significant top line improvement**
- **Outstanding performance in Latin America**
- **Setting the new paradigm in the sector**
- **Balanced access to credit markets**
- **2012 outlook reiterated, progressive improvement along the year**





# Telefonica

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**Organic growth:** In financial terms, it assumes constant average exchange rates as of January- March 2011 and excludes hyperinflation accounting in Venezuela. In addition, the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded in OIBDA and OI in Q1 11 (+89 million euros). Telefónica's CapEx excludes investments in spectrum and, in Q1 11, the real estate commitments associated with Telefónica's new headquarters in Barcelona.

**Underlying growth:** Reported figures excluding exceptional items and spectrum acquisition. All figures in million euros, net of taxes and minorities. Q1 12: reduction in the value of TI investment and operating synergies achieved (-337) and PPAs (-199). Q1 11: PT capital gain (+89), PPAs (-215).