Leading growth and profitability

TMT BofAML- London

June 8, 2011

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CSO

Telefónica

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ICT, one of the industries with the best growth prospects

More Customers

More Devices

More Apps & Services

More Traffic

A great opportunity to be monetised

Strengthened position to lead a growing industry

We have reinforced our asset base in an industry where scale and spectrum are key …

Through organic growth …

- **290 m** accesses (+6% organic y-o-y)
- **#5** on worldwide accesses ranking (Dec-10)

… strategic & industrial alliances …

China unicom 中国联通 | TELECOM ITALIA

… selective M&A…

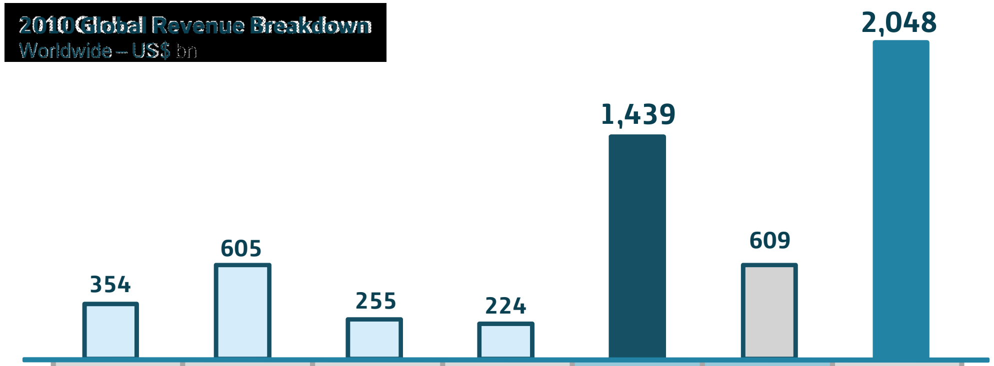
In-market consolidation	Spectrum auctions	Increase shareholding in CU
vivo, HanseNet		9.7%

… enhancing our capabilities…

P&S Global Units	OTT Companies
Financial services Video & DH	terra, jajah, tuenti

…capturing superior growth prospects in our footprint going forward

2010 Global Revenue Breakdown
Worldwide – US$ bn



	Fixed Voice	Mobile Voice	Fixed Data	Mobile Data	Telecom Industry	Serv. beyond Connectivity	Total Market
CAGR 10-13E	-4.8%	2.4%	5.1%	10.5%	**2.6%**	**5.0%**	3.3%
			Telefónica footprint growth		**3.1%**	**5.0%**	

OTT: Over the Top
Source: IDC (Jan2011) and Analysys Mason (2010)

We have a clear strategy to capture the opportunities ahead of us

Profitable mobile data growth monetisation

- Tiered pricing
- ARPU management
- Customer innovation
- Yield management

MBB Revenues
CAGR 10-13E:
+30/35%

Development of applications and new services

- Broaden our portfolio of apps and new services
- Leverage P&S global units and OTT assets

Serv. beyond connectivity
CAGR 10-13E:
>20%

Continue to enhance Fixed Broadband portfolio

- Full FBB proposals with increasingly higher bandwidth
- Full IP services from voice to video
- Full bundles

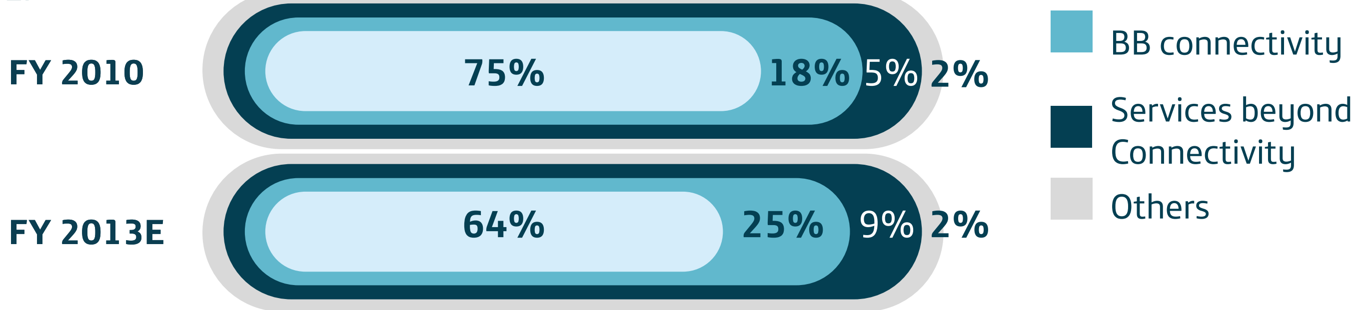
FBB Revenues
CAGR 10-13E:
+4/7%

Capturing remaining mobile and fixed voice opportunities

- Increase penetration and usage in mobile
- Defend ARPU through additional services in fixed
- Reinforce position in SME and MNC

Access & Voice Revenues
CAGR 10-13E:
-3/-1%

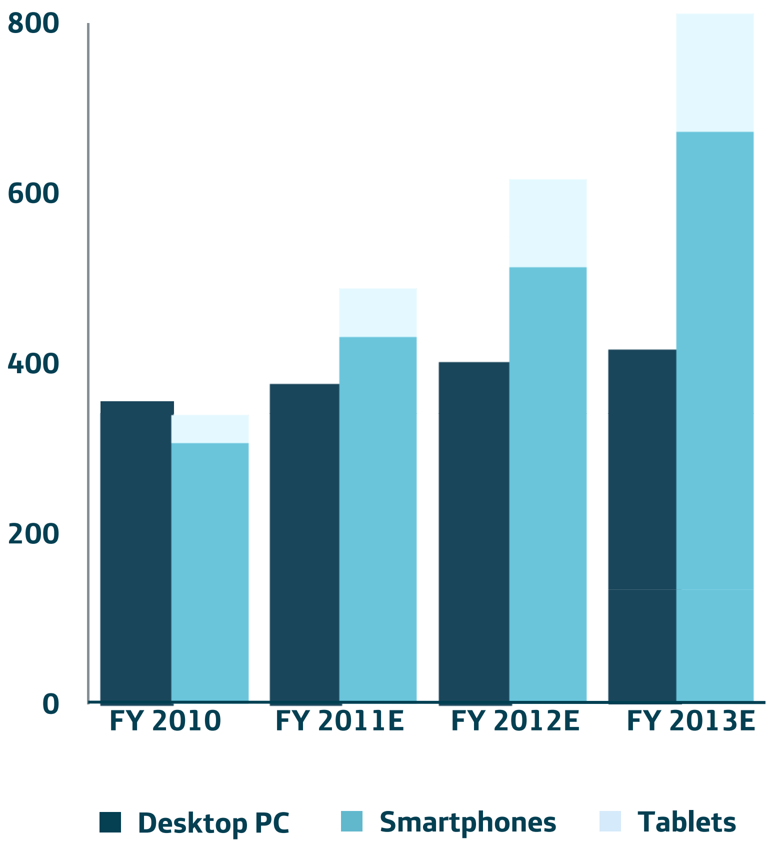
Revenue Mix
TEF



Mobile broadband is the biggest market growth opportunity today

Sales[1]

Worldwide. Millions cumulative units shipped



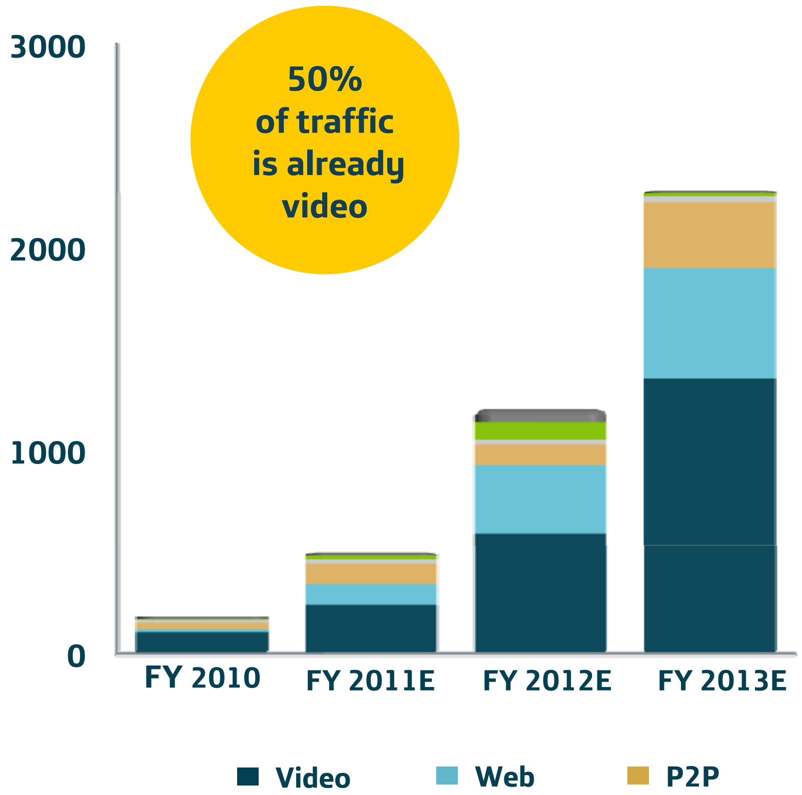
Time spent[2]

/day

Non smartphone

Mobile data traffic growth[3]

Worldwide. Pbps/Month

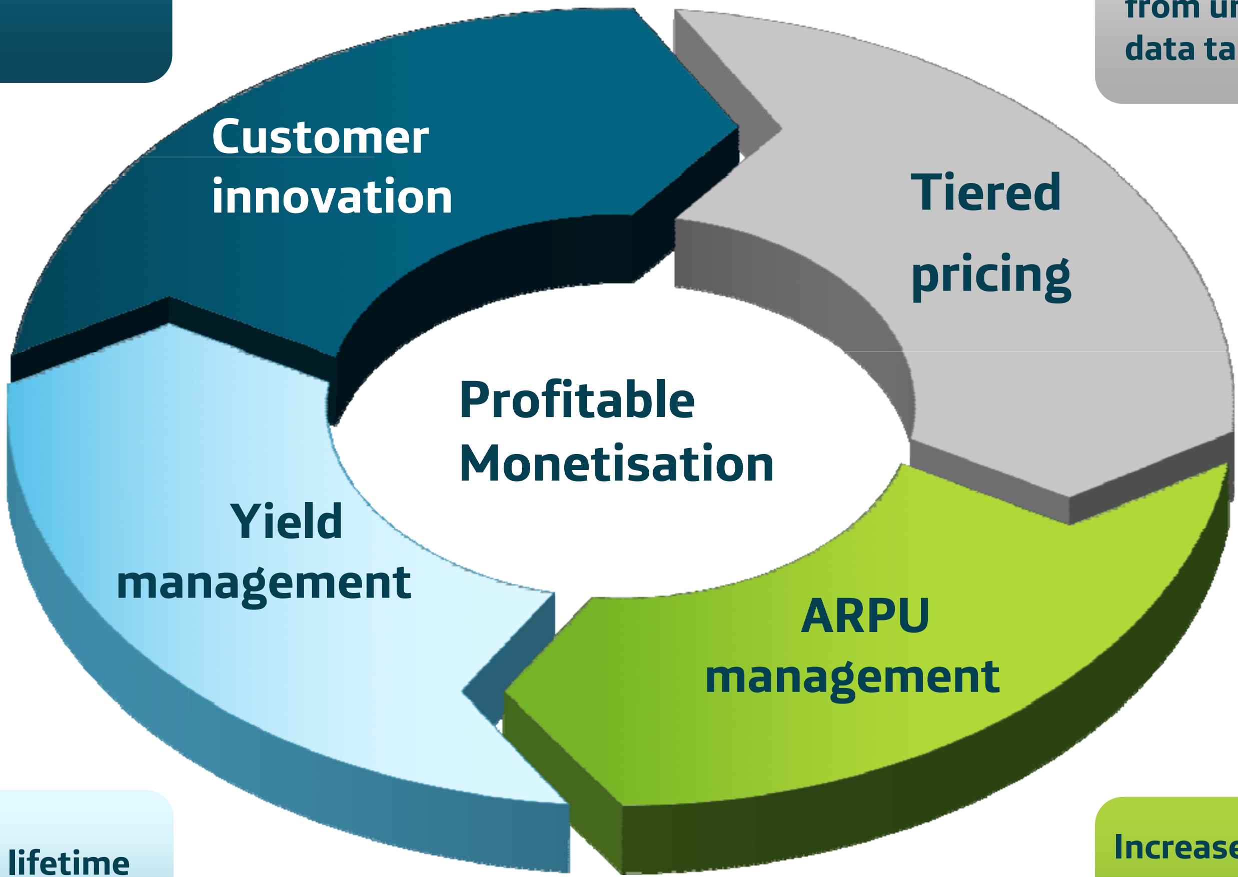


1 Morgan Stanley 2010
2 Merril Lynch. Matrix Wireless Q4; AppsFire. January 2011; Morgan Stanley Blue Paper, February 2011
3 Cisco VNI 2010-2014. June 2010

Profitable mobile data monetisation is our key strategic priority

Extend smart device adoption with specialized customer care

Lead the market away from unlimited data tariffs



Maximise customer lifetime value

Increase usage of data, new services and applications

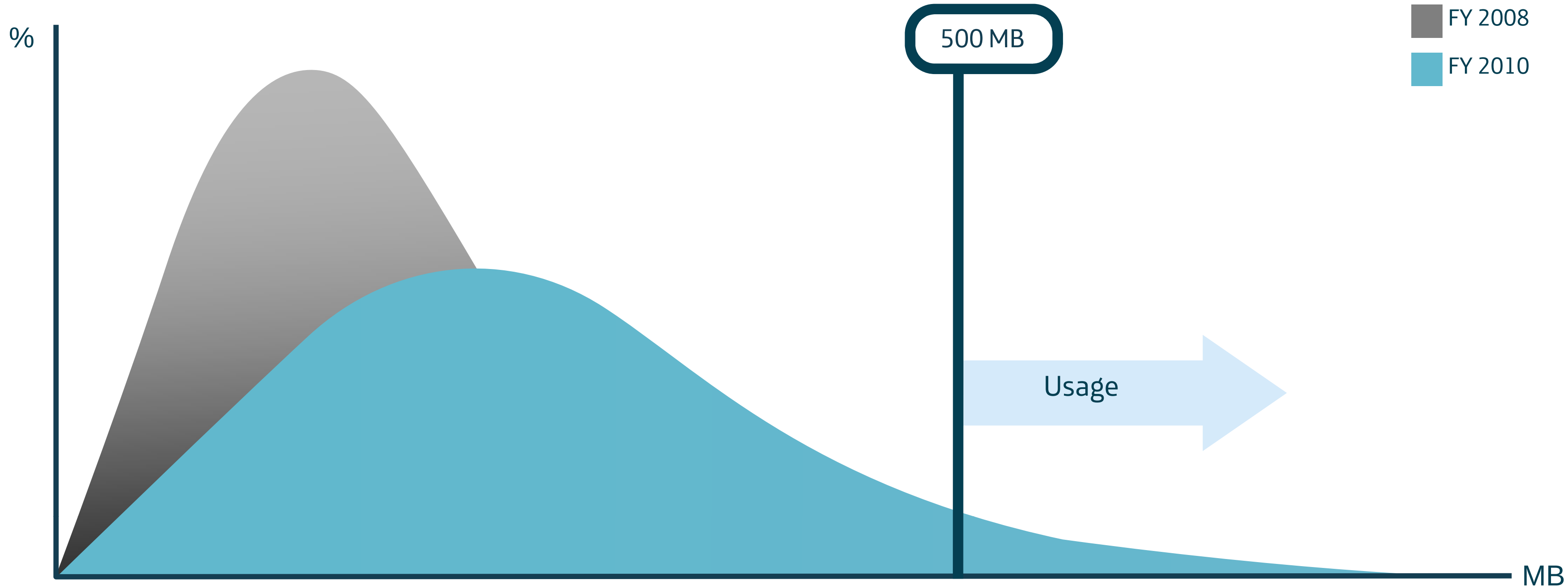
Tiered pricing is based on segmentation and customer needs

Offers based on data caps	Examples of execution
Type of service and use	**Service specific tariffs** for email, chat, social networks, browse...
Limited volume with additional bolt-ons	**Limited volume tariffs for 100 MB, 500 MB, 1GB**
Maximum speed	**Speed offers for 2, 7, 14 Mbps**
Time of the day	**MB accounted half if used in off peak hours**
Type of device	**Seamless access from screen of choice**

Tiered pricing in place in each of our markets

We are focused on profitable mobile data growth

Distribution of iPhone + Android Usage



We have improved the data experience for all

- Heavy-user[1] management freed up 7% of bandwidth[2]
- Data experience has improved for the profitable majority

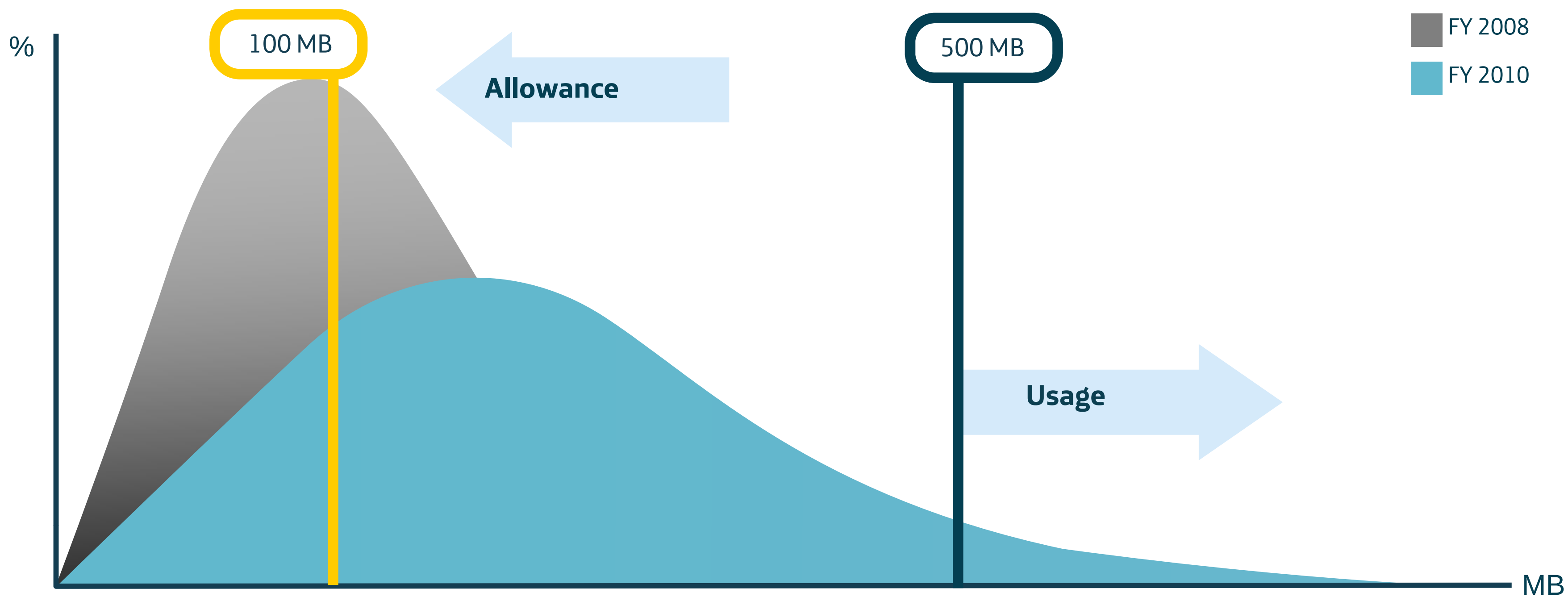
Customers already pay for data usage

- Almost 50% of smartphone users[3] are on capped tariffs
- 3% reach the threshold where we contact them
- Of these customers c. 25% are buying an additional bolt-on

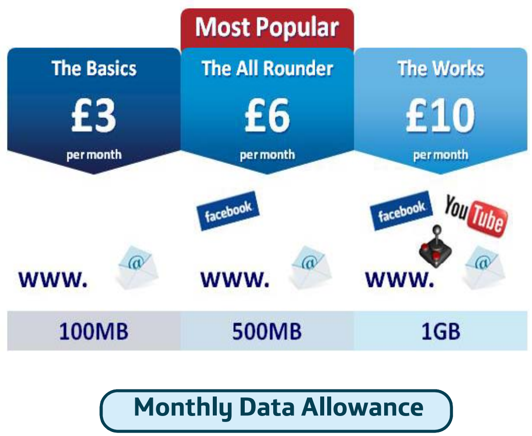
1 Monthly usage exceeding 3GB
2 All MBB traffic: Nov-10 vs. Oct-10
3 Consumer contract segment

New tariffs position us to accelerate penetration and monetisation

Distribution of iPhone + Android Usage



New tariffs	
	▪ New tariffs offer "entry level" data to drive penetration, greater flexibility, as well as packages for heavier users ▪ Lowest data allowance is now at 100MB ▪ Bolt-on adoption is c. 80% in the mid £6 tariff.



Yield management to reinforce customer profitability

Smartphone profitability

Short term

Significant ARPU uplift due to higher data usage from **early adopters**

Higher profit than non smartphones

Mid to long term

ARPU uplift softening driven by **mass market**

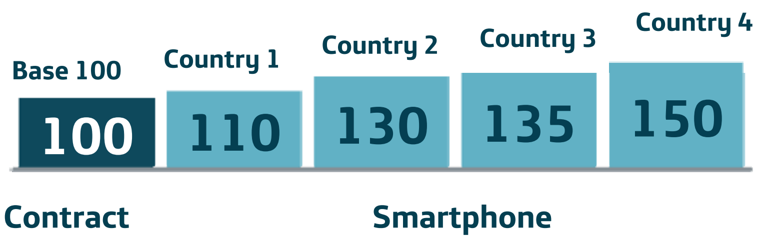
Increased profit through network and service costs decrease and SAC&SRC aligned to customer spent

- **Acquisition:** manage tariffs, channels, handsets
- **Customer lifetime:** better understanding customer profitability and active management of profit drivers per customer
- **High level strategies:** optimization of retail activities, network development and commercial policies

CLV uplift

TEF. 2010

Illustrative

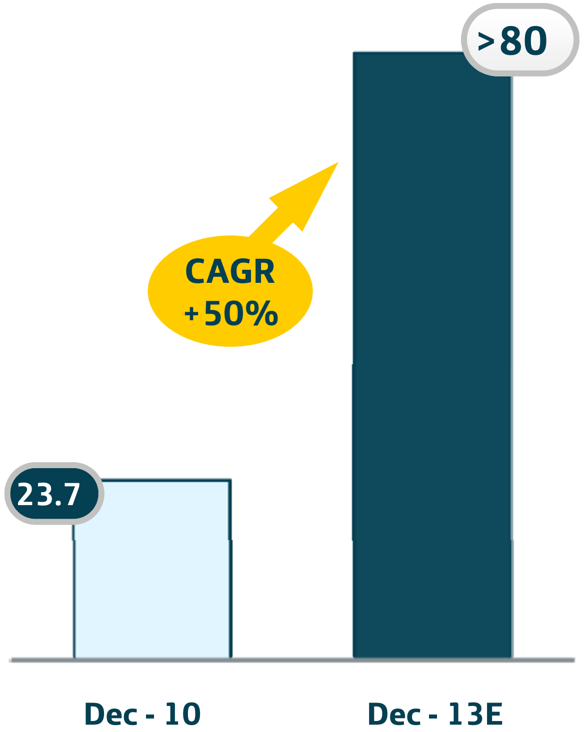


CLV: Customer Lifetime Value

Mobile broadband is the major growth driver for Telefónica revenues

MBB Accesses

TEF. Millions



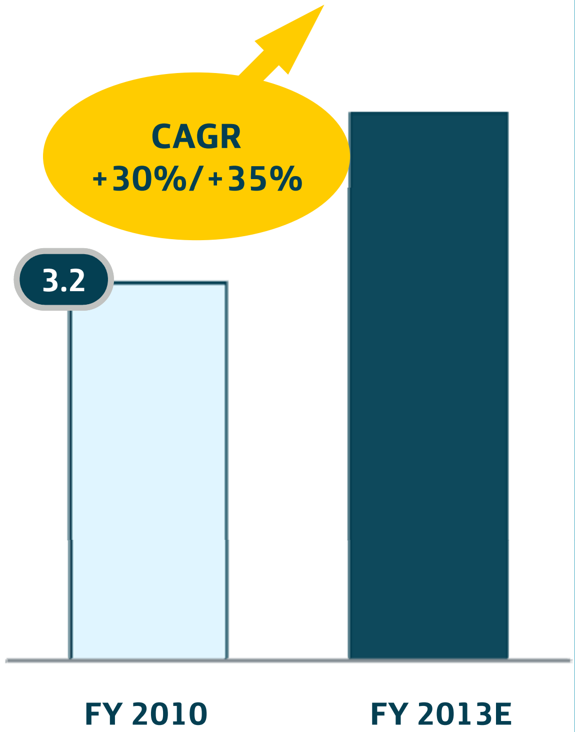
MBB Penetration

TEF.

11% | ~30%

MBB Revenues[1]

TEF. €bn



MBB Revenues

TEF. % /Total Revenues

5% | 11%

[1] Figures for guidance assume constant FX (average FY 2010), excludes hyperinflationary accounting in Venezuela and changes in consolidation perimeter

MBB Penetration: MBB accesses with data attached rate/Total mobile customer base

MBB Revenues from smartphones, smart devices and connectivity MBB, mobile mail, MBB equipment (PCMCIAs, Dongles), roaming and WAP browsing. SMS and M2M excluded

Our transformation strategy to enable growth and maximize efficiency

Best in class Networks

- **Leveraging fixed and mobile technologies** to meet customer demands
- **Managing efficiently coverage and traffic growth**

IT as a key transformation accelerator

- Highly resilient 6 **Global Data Centers**
- **Global Applications** when applicable focused on business requirements

Online Company

- **Increase online processes** to improve engagement with our costumers, employees and vendors
- Process and system **end-to-end integration**

Continuous focus on efficiency improvement

+

Global Functions
(P&S development, R&D, Finance & Global procurement, IT & Technology)

Strategic and Industrial Alliances

Further leveraging our scale

We are expanding our value oriented customer base to deliver a solid long term guidance

Accesses 2013E (million) — **340**

CAGR 10-13E — **~+6%**

- **MBB** — **+50%**
- **FBB** — **+7%**
- **Mobile** — **+5%**
- **Fixed** — **-1%**

Revenues
CAGR 10/13E — **+1/4%**

OIBDA margin
2011 – 2013E — **Upper 30s**
Limited erosion, from 2010

CapEx
Cumulative 2011 – 2013E — **< €27 bn**

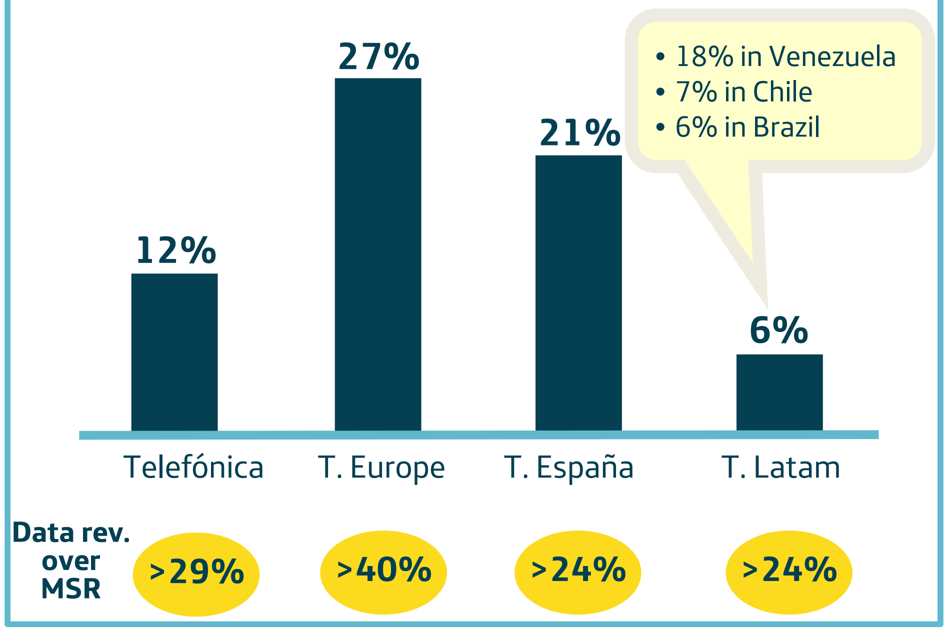
1/3 CapEx
to capture the digital world opportunity (UBB+ MBB)

CapEx/ Sales peak in FY 2011E

According to guidance criteria

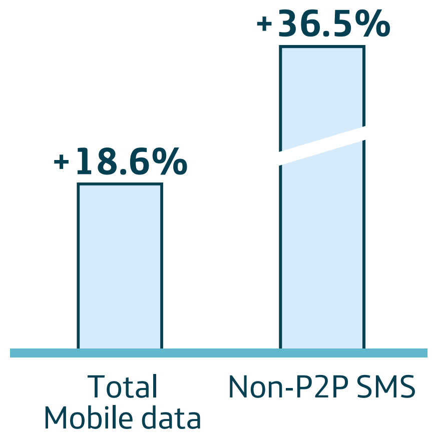
Smartphone adoption driving mobile data growth

MBB penetration in our mobile base (Mar-11)



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

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



- **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**

MBB penetration: MBB accesses with data attached rate/Total mobile customer base.
Aggregate figures for Group mobile service revenue, mobile data revenue, P2P SMS and non-P2P SMS data revenue.

Solid business and financial trends supporting shareholders returns and solvency

Not to be paid with debt

Shareholder remuneration

- € 1.6 DPS for FY 2011E (14.3% y-o-y)
- € 1.75 DPS minimum target for FY 2012E
- €1.75 minimum annual shareholder remuneration beyond 2012

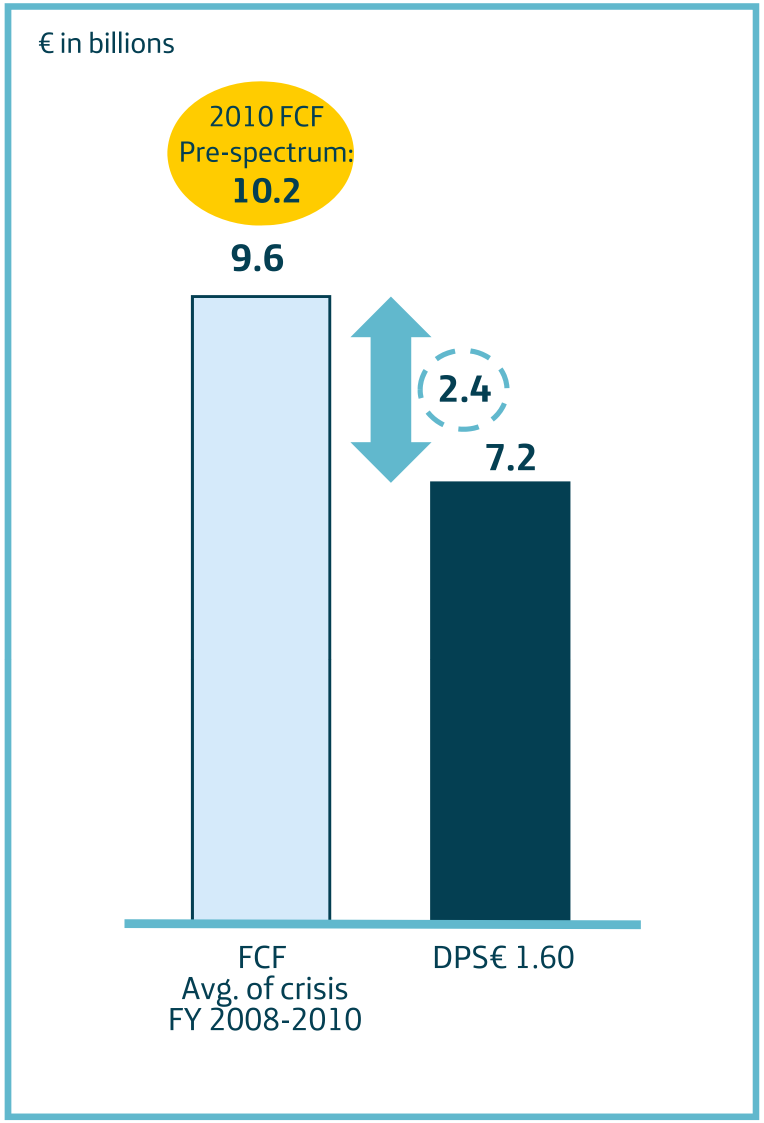
Solvency Protection

- Net debt + cash commitments within the range 2.0 to 2.5x OIBDA

Predictable M&A strategy

- Spectrum auction in current markets to foster growth
- Product & Service innovation to further strengthen our growth capabilities

FCF exceeding dividend payments



Sustained OIBDA growth trend

Regions with positive organic growth in FY 2010 offset Spain decrease

Spain € -0.8 bn

Latam € +0.8 bn

Europe € +0.1 bn

Additional FCF from VIVO acquisition: € 0.2 bn[1]

No critical reliance on uncertain CF

- Venezuela FCF in FY 2010: € 0.3 bn
- Interest payments savings vs. accrual (FY 2010): €0.4 bn

Room for higher CapEx

- FY 2011E organic maximum CapEx increase: € 0.5 bn
- Spectrum acquisition

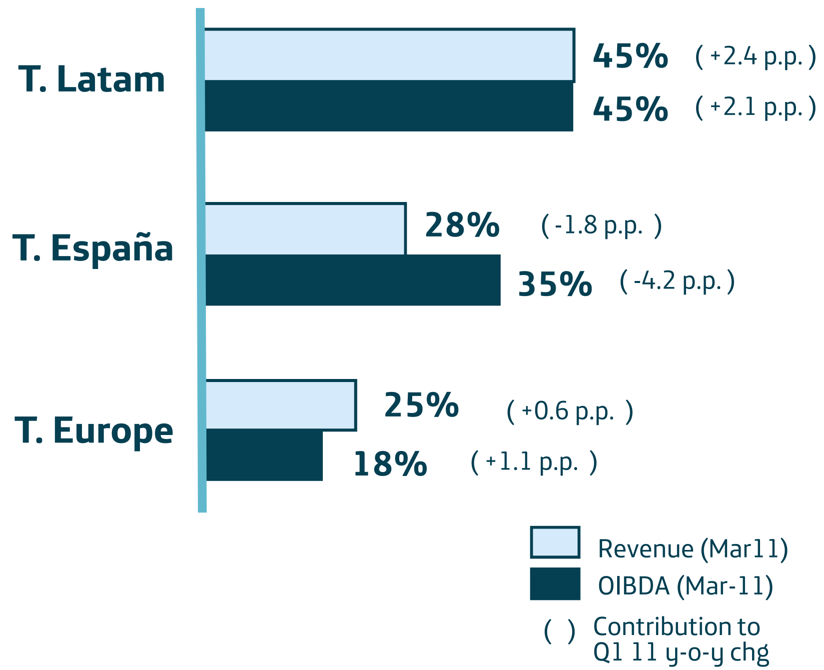
[1] Proportional FY 2010 Vivo's FCF acquired less annualised interest expenses after taxes

Solid start to 2011

€ in millions	Jan-Mar 2011	Change y-o-y	Organic change
Revenues	15,435	**+10.8%**	**+1.4%**
OIBDA	5,574	**+9.0%**	**-1.0%**
OIBDA Margin	36.1%	**-0.6 p.p.**	**-0.9 p.p.**
Operating Income (OI)	3,057	**+4.3%**	**-1.3%**
Net income	1,624	**-1.9%**	**Higher D&A, taxes, fin. expenses and minorities**
OpCF (OIBDA-CapEx)	4,022	**+2.5%**	**-4.9%**

Q1 11 EPS: € 0.36 (€ 0.41ex PPAs)

Broad diversification



Organic growth: assumes constant average exchange rates as of Q1 10 and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in Q1 10 the consolidation of Vivo, HanseNet and Tuenti are included whereas the results of Manx Telecom are excluded. In OIBDA terms, in Q1 11, the positive impact from the partial reduction of our economic exposure to Portugal Telecom is excluded from organic growth calculation. In addition, results from the Costa Rica operation are excluded from organic growth. Telefónica's CapEx excludes investments in spectrum, the Real Estate Efficiency Programme at T. España, and the real estate commitments associated with Telefónica's new headquarters in Barcelona.

Q1 11 performance in-line with year-end targets

	2011 Guidance	Q1 11	
Revenues	Up to 2%	1.4%	✓
OIBDA Margin	Upper 30s Limited erosion y-o-y	35.6% (-0.9 p.p)	✓
CapEx	~ 9,000	1,412	✓

Growth to accelerate throughout the year

Figures according to guidance criteria.

Conclusions

- We are better **positioned to lead our growing industry: the right scale, capabilities and strategy**
- We are **focused on value growth and on capturing new services opportunities**
- We continue **transforming our company to enable growth and maximize efficiency**
- We maintain a **solid financial position while investing in our business and committing best in class shareholder's remuneration**
- We have posted a **solid start to year driven by strong execution**

Telefónica