

# Leading growth and profitability



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*Telefonica*

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**02** **Solid start to 2011**

**03** **Conclusions**

# 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 ...



... selective M&A...

In-market consolidation



Spectrum auctions



Increase shareholding in CU  
9.7%

... enhancing our capabilities...

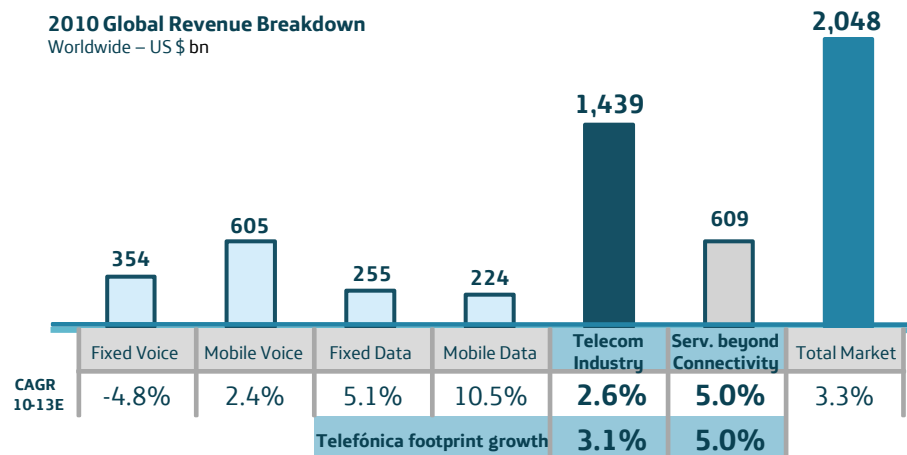
P&S Global Units



OTT Companies



...capturing superior growth prospects in our footprint going forward



# 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



## Development of applications and new services

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



## Continue to enhance Fixed Broadband portfolio

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



## Capturing remaining mobile and fixed voice opportunities

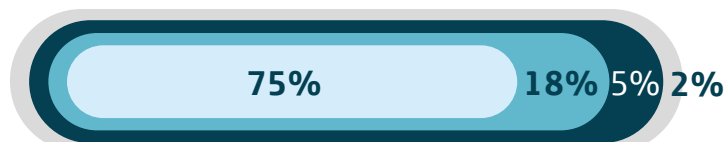
- Increase penetration and usage in mobile
- Defend ARPU through additional services in fixed
- Reinforce position in SME and MNC



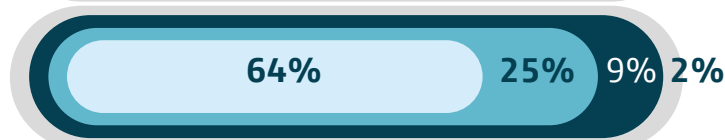
## Revenue Mix

TEF

FY 2010



FY 2013E



- Access & Voice
- BB connectivity
- Services beyond Connectivity
- Others

# Profitable mobile data monetisation is our key strategic priority

<b>Innovation</b>	<ul style="list-style-type: none"> <li>Focus on customer experience</li> <li>Innovative network services and specialized customer care</li> <li>Balanced and affordable range of devices</li> </ul>
<b>Tiered Pricing</b>	<ul style="list-style-type: none"> <li>Already in place in each of our markets</li> <li>Offers based on data caps:             <ul style="list-style-type: none"> <li>Limited volume and additional bolt-ons/ maximum speed/ time of the day / type of device, service and use ...</li> </ul> </li> </ul>
<b>ARPU Management</b>	<ul style="list-style-type: none"> <li>Bundles of connectivity and services</li> <li>Multiscreen / Multiplatform access</li> <li>Shared services</li> </ul>
<b>Yield Management</b>	<ul style="list-style-type: none"> <li>Reinforce profitability</li> </ul>

**Profitability**

**Short term:**

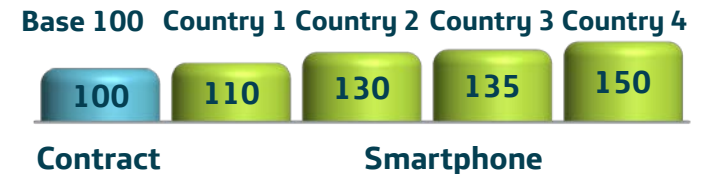
- Significant ARPU uplift** due to higher data usage from **early adopters**
- Higher profit** than non smartphones

**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

## CLV uplift

TEF. 2010



Illustrative

# Beyond connectivity we are reinforcing our service ecosystem

## 7 Verticals



**Video & DH**



**Applications**



**Financial services**



**eHealth**



**Security**



**M2M**



**Cloud**

## 7 Companies



**Jajah**

Unified communications



**Tuenti**

Social network



**Terra**

Media content and services



**Rumbo**

eTravel



**TIS**

Security



**TLS**

eLearning



**T Solutions**

Enterprise solutions

**ONE PLATFORM - ONE SERVICE**

# 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**



## Global Functions

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

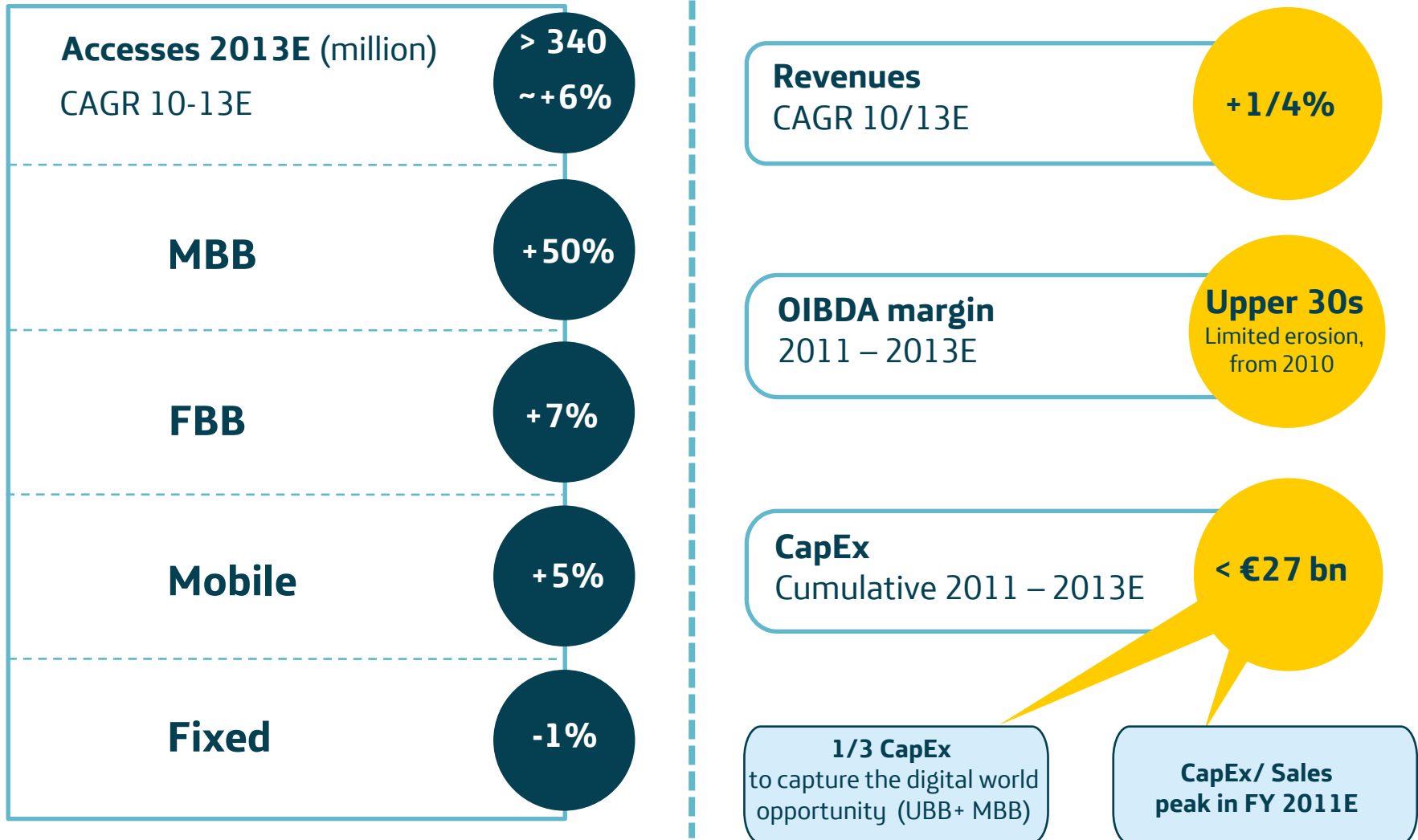
## Strategic and Industrial Alliances

**Continuous focus on efficiency improvement**

**Further leveraging our scale**



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



# 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

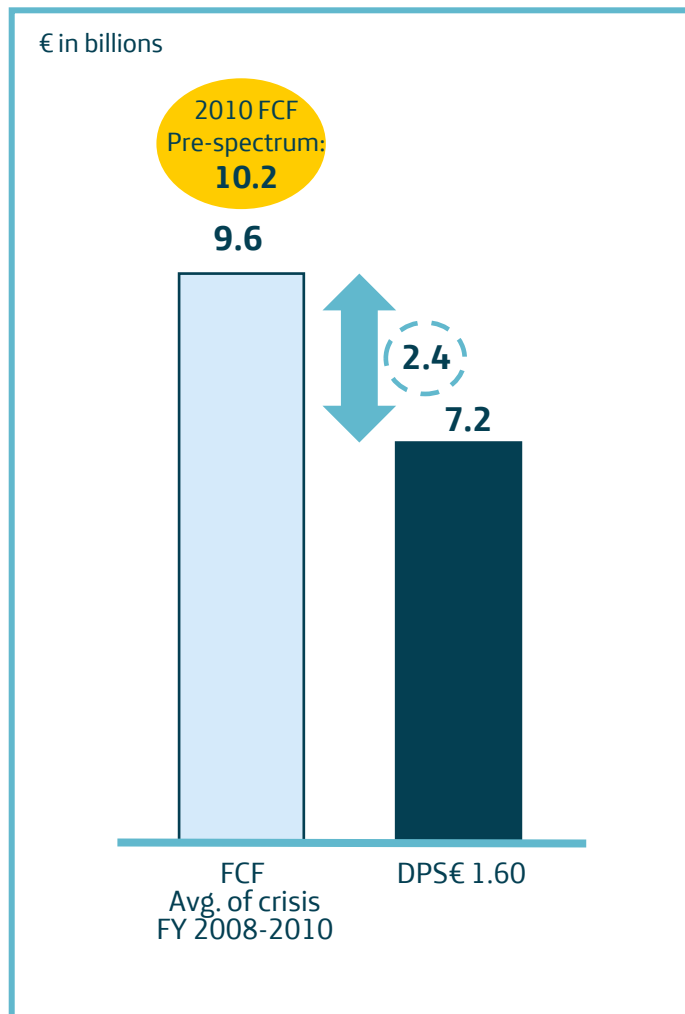
## Solvency Protection

- 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<sup>1</sup>**

## 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

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**02** **Solid start to 2011**

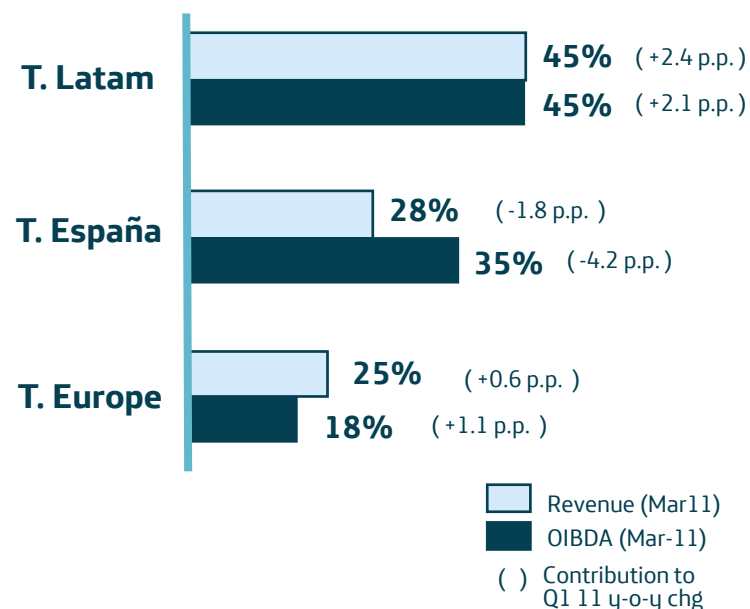
**03** **Conclusions**

# Financial Summary

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

**Q1 11 EPS: € 0.36 (€ 0.41 ex PPAs)**

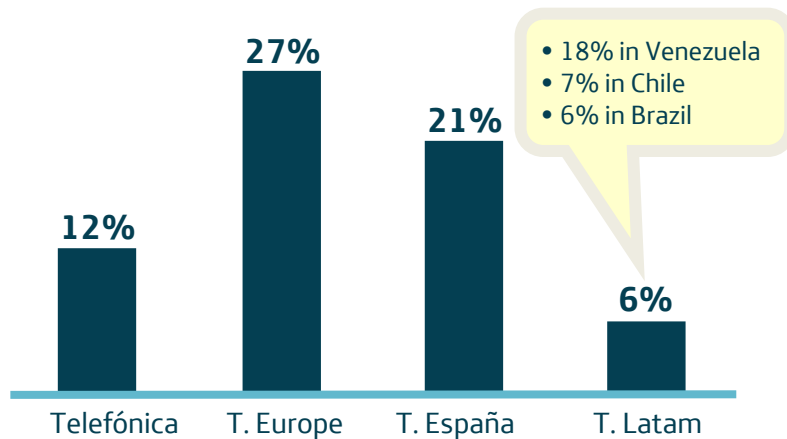
## Broad diversification



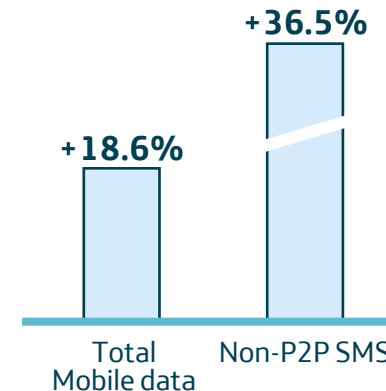
Organic growth: assumes constant average exchange rates as of Q1 10 and excludes changes in the perimeter of consolidation and hyperinflation accounting in Venezuela. Therefore, in Q1 10 the consolidation of Vivo, HanseNet and Tuenti are included whereas the results of Manx Telecom are excluded. In OIBDA 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.

# 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**

# 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"/>

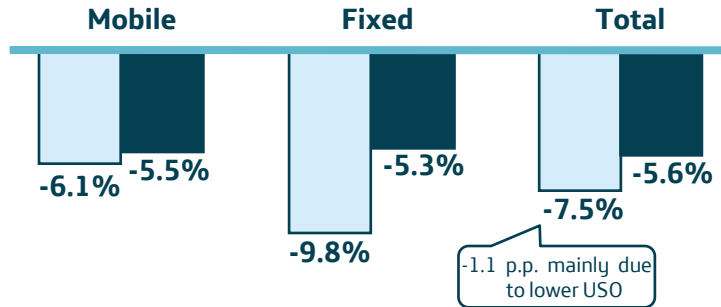
**Growth to accelerate throughout the year**

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

## Revenues

(y-o-y change)

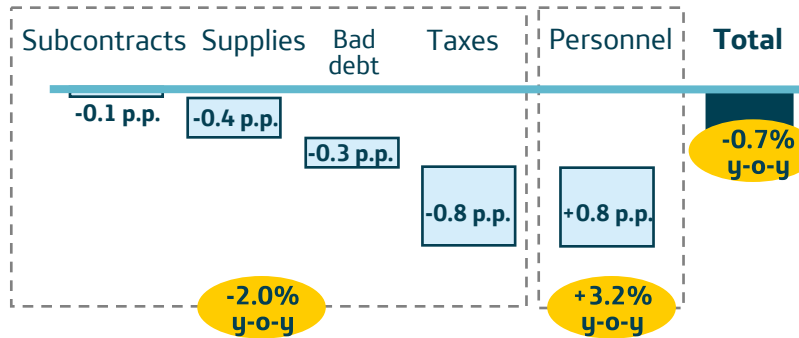
□ Q4 10 ■ Q1 11



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

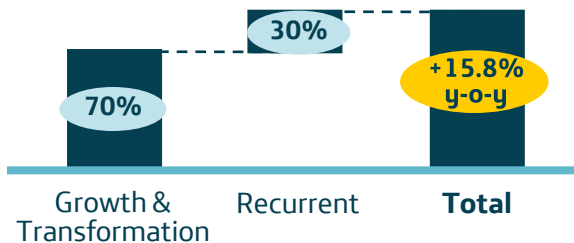
## Q1 11 OpEx breakdown

(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

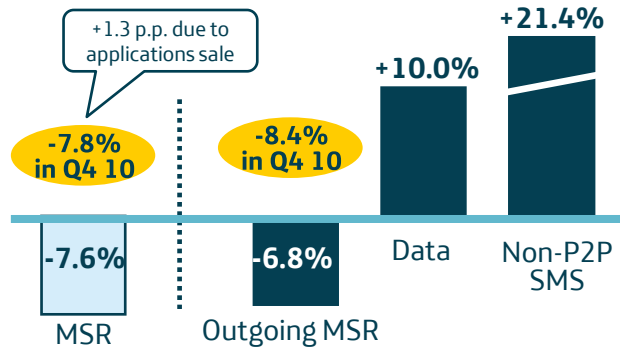


- Strategic areas driving increased CapEx, enhancing the quality gap:
  - Selective fibre roll-out and VDSL
  - Expanding MBB capacity & coverage
- Growth to slowdown in coming quarters on different execution path vs. 2010



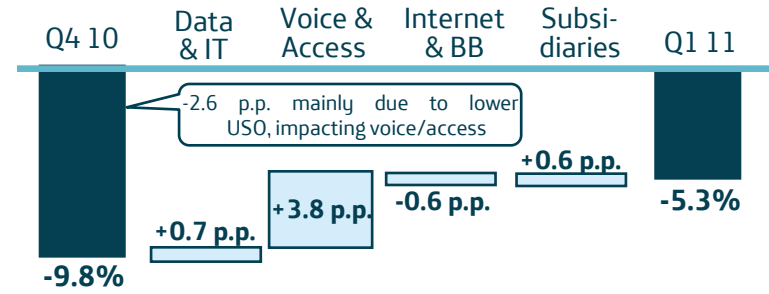
# Solid momentum on data across businesses

## MSR (Q1 11 y-o-y)



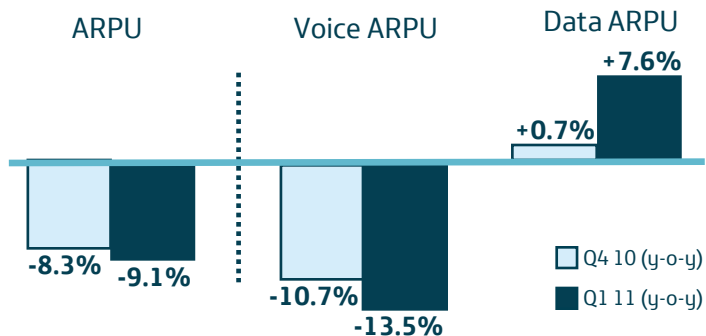
- Sound data growth leveraging higher MBB base (x1.6 y-o-y)

## Wireline Revenues



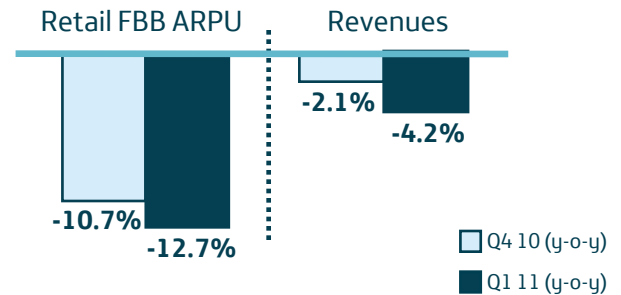
- Improvement driven by data & IT revenue
- Further erosion on Internet & BB driven by ARPU erosion

## Mobile ARPU



- Voice: Ongoing price competition with no elasticity
- Data ARPU growth getting traction

## Internet & FBB business

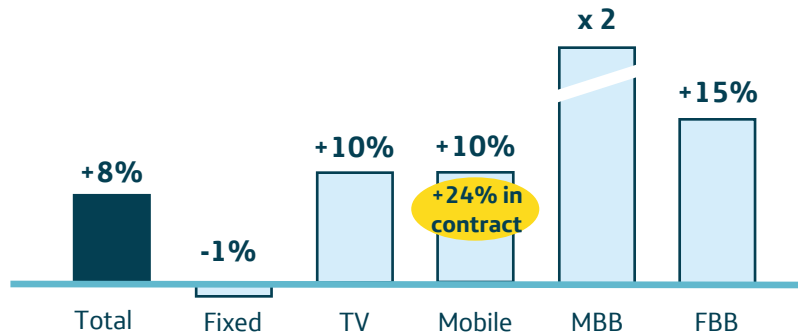


- No change in market dynamics: Strong price competition

# T.Latam: Strong growth, sustained healthy profitability

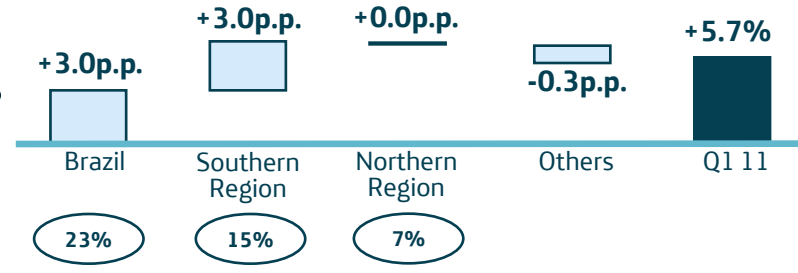
## Accesses

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



## Revenue

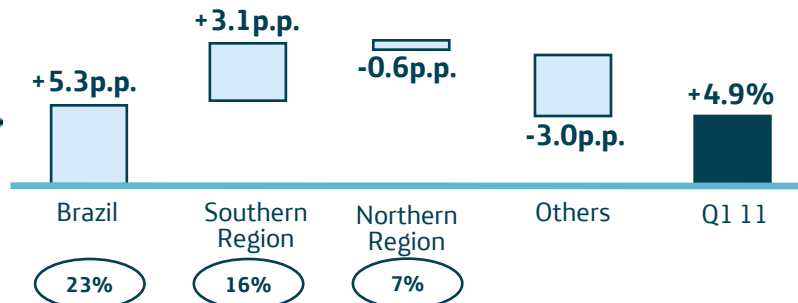
(Q1 11 organic y-o-y growth)



Contribution to Telefónica revenue

## OIBDA

(Q1 11 organic y-o-y growth)

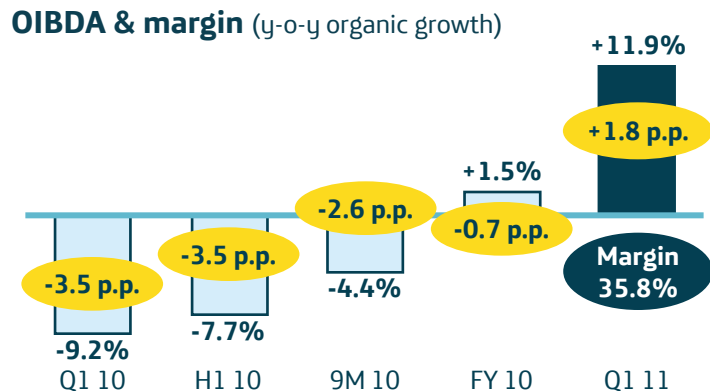
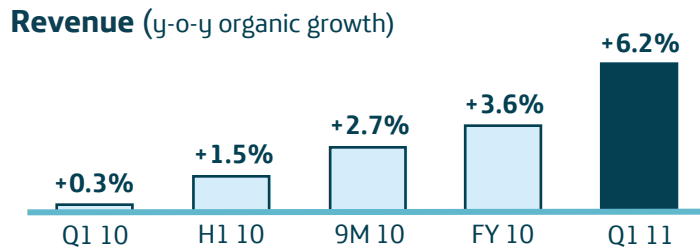
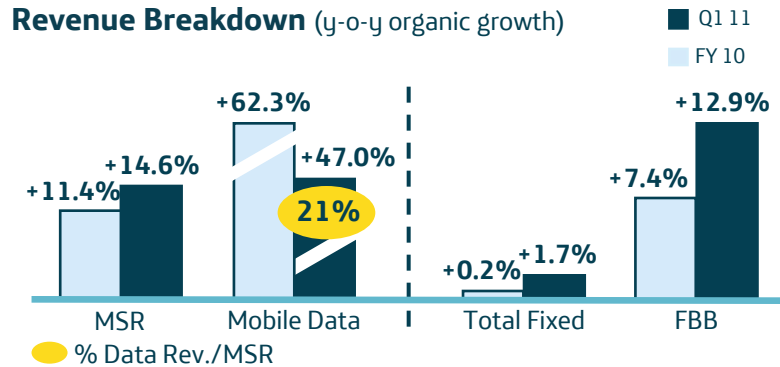


Contribution to Telefónica OIBDA

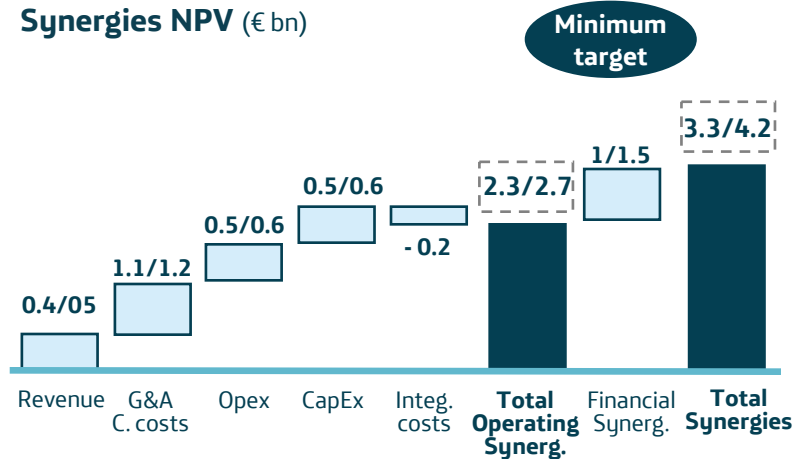
- **Solid commercial momentum**
- **Healthy revenue & OIBDA growth:**
  - Outstanding performance in Brazil
  - Consistent growth in the Southern Region
  - Weak results in Mexico flattening contribution from the Northern Region
  - Lower contribution from regional initiatives dragging y-o-y growth
-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

# Brazil: Outperforming market peers

## Improved operational & financial performance after the acquisition of 50% of Brasilcel



## Synergies on track

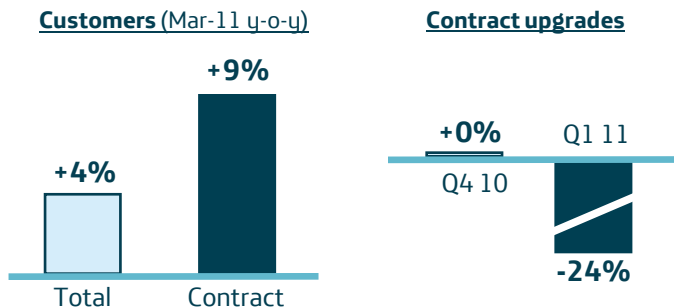


Already progressing:

- **Offer:**
  - Joint offer for the corporate segment
  - Fixed Wireless effort outside Sao Paulo
- **Platforms and efficiency:**
  - DLD traffic management
  - Joint network planning (transmission)
  - Data center rationalisation
- **Customer:**
  - Brand convergence
  - Extending the contracts that we have with Open Telefónica

# T. UK: value growth, benchmark financial performance

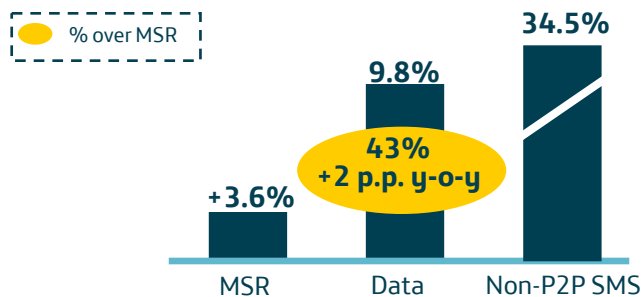
## Mobile customer KPIs (y-o-y growth)



### ■ 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 penetration<sup>1</sup> at 33% (+4 p.p. vs. Dec-10)

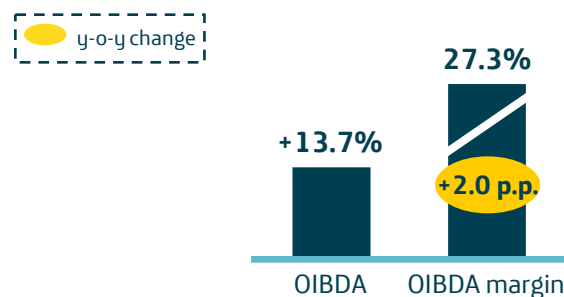
## Revenue Q1 11 (y-o-y growth)



### ■ 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:

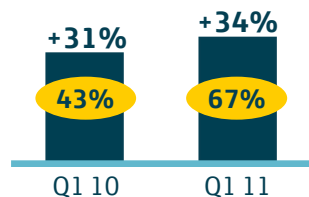
- Lower upgrades in the quarter and interconnection cost benefit
- CapEx evolution (-3.2% y-o-y) mainly benefiting from spectrum refarming
- Progressing well with the restructuring program

# T. Germany: Growth acceleration, leveraging integration

## Customer KPIs (y-o-y growth)

● % Contract net adds

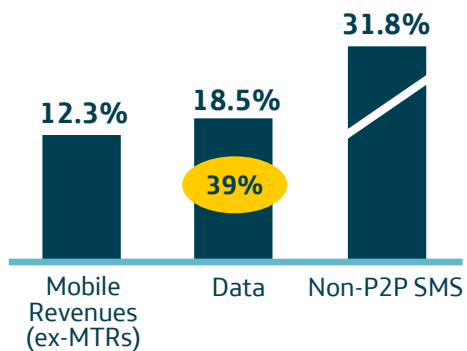
### Contract Mobile Net Adds (y-o-y)



- 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**

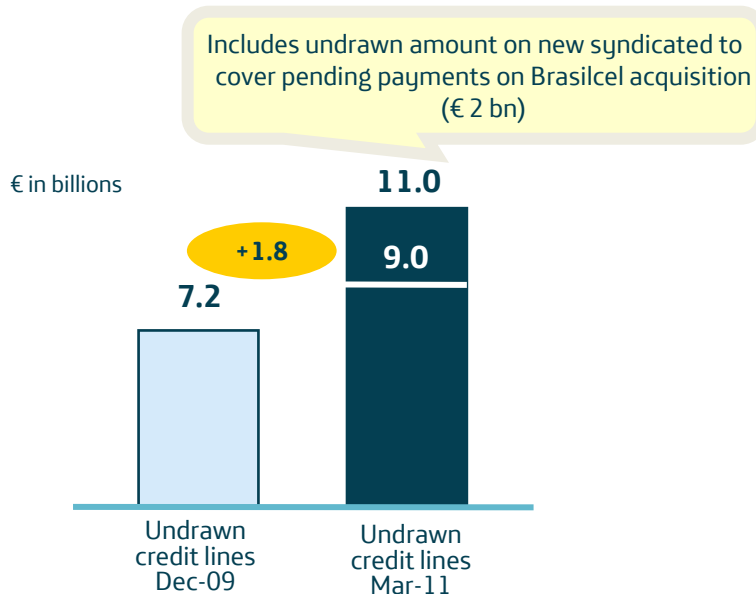
## OIBDA margin (y-o-y organic change)



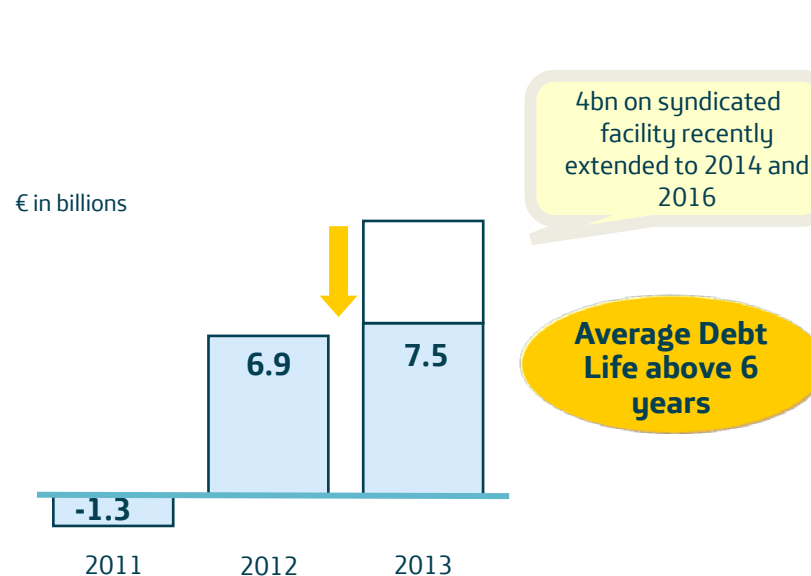
- **Stable margins y-o-y despite strong push in contract & MBB**
- **Progress in restructuring to deliver more efficiency gains from Q2**
- **LTE roll-out in line with strategy**

# Solid liquidity position to manage debt maturities

## Unused committed lines (Mar-11)



## Maturity profile (Mar-11)



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# 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**



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