Telefónica

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Agenda: Addressing major concerns

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

- **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

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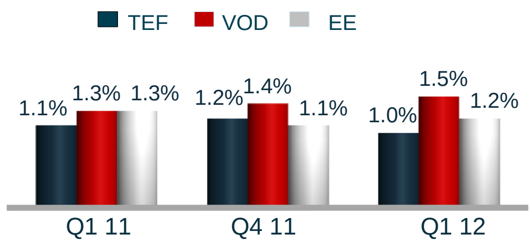
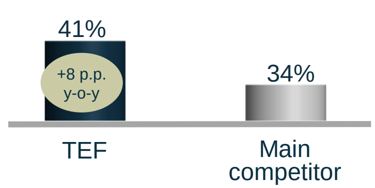
From a growing churn to the lowest rate in the market …

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

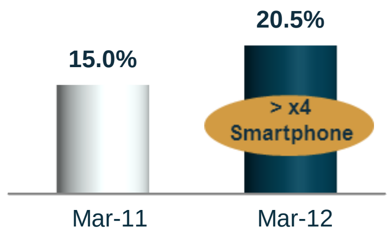
Improved margin along the year

- **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

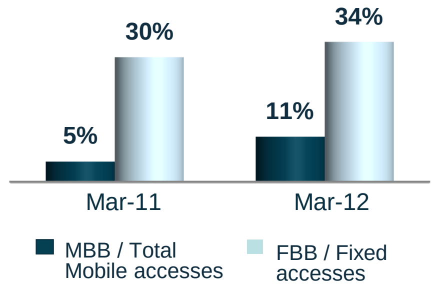
Balancing growth and profitability in Brazil (i)

Focused commercial efforts to strengthen leadership

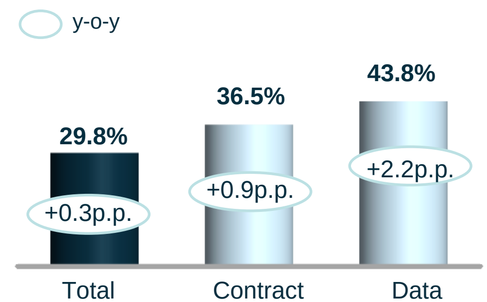
Mobile accesses growth (y-o-y)



BB penetration



Mobile market share (Mar-12)

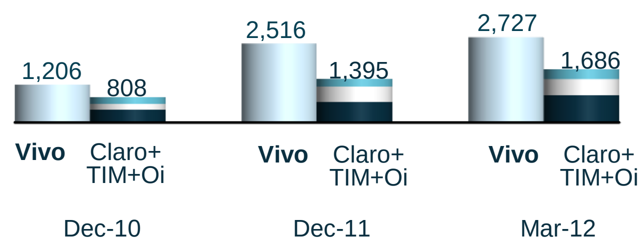


Widening OIBDA lead: 32% share

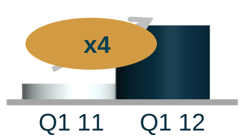
Leading the sector transformation

- **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

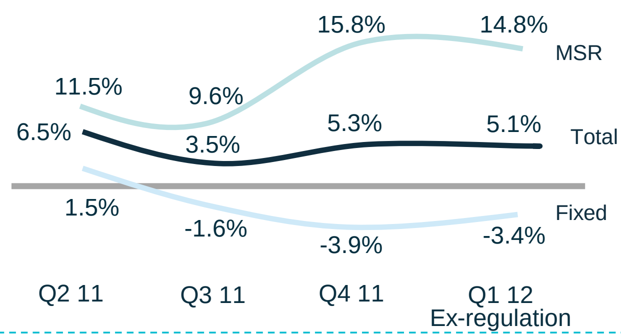


Sources: Anatel for market shares, Teleco for 3G coverage

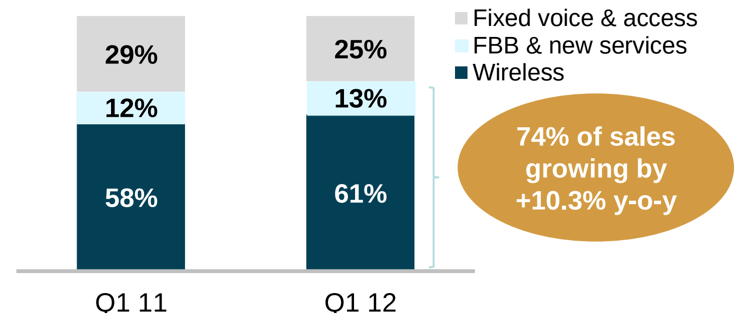
Balancing growth and profitability in Brazil (ii)

Revenue
+5.1%
organic ex-regulation

Revenue growth (organic y-o-y)

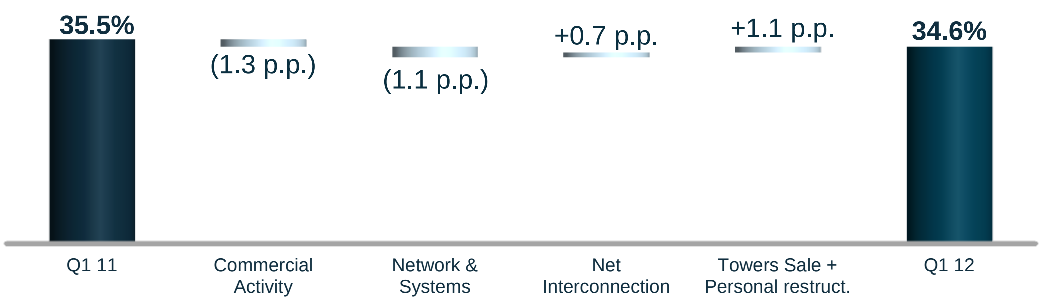


Revenue breakdown (organic y-o-y)



OIBDA
+0.5%
organic

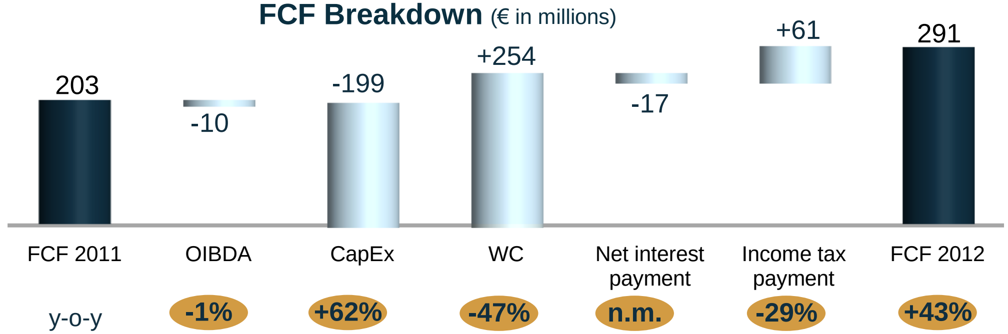
OIBDA Margin Breakdown



- 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)

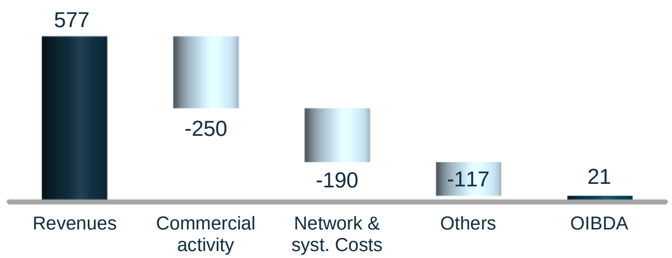


- Robust FCF growth despite higher investments
- Optimized WC management and integration synergies below OIBDA driving FCF generation

05 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

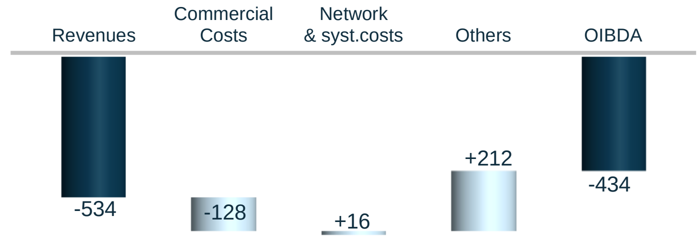
Net adds (m)	Q1 11	Q1 12
Mobile	2.3	4.5
MBB	1.1	2.3

- **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

- 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

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

- 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**