

**Accounting and cash:  
Dividends here!**

**Investor Conference**

London, 13 - 14 April 2011

**Santiago Fernández Valbuena**

Chief Strategy Officer, Telefónica

*Telefonica*



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- 00 Investing in Telefónica: A true Story
- 01 CF growth opportunities: outside and inside Telefónica
- 02 Completing the P&L and the CF statement
- 03 The asset side: portfolio
- 04 The liability side: debt and equity
- 05 Conclusions

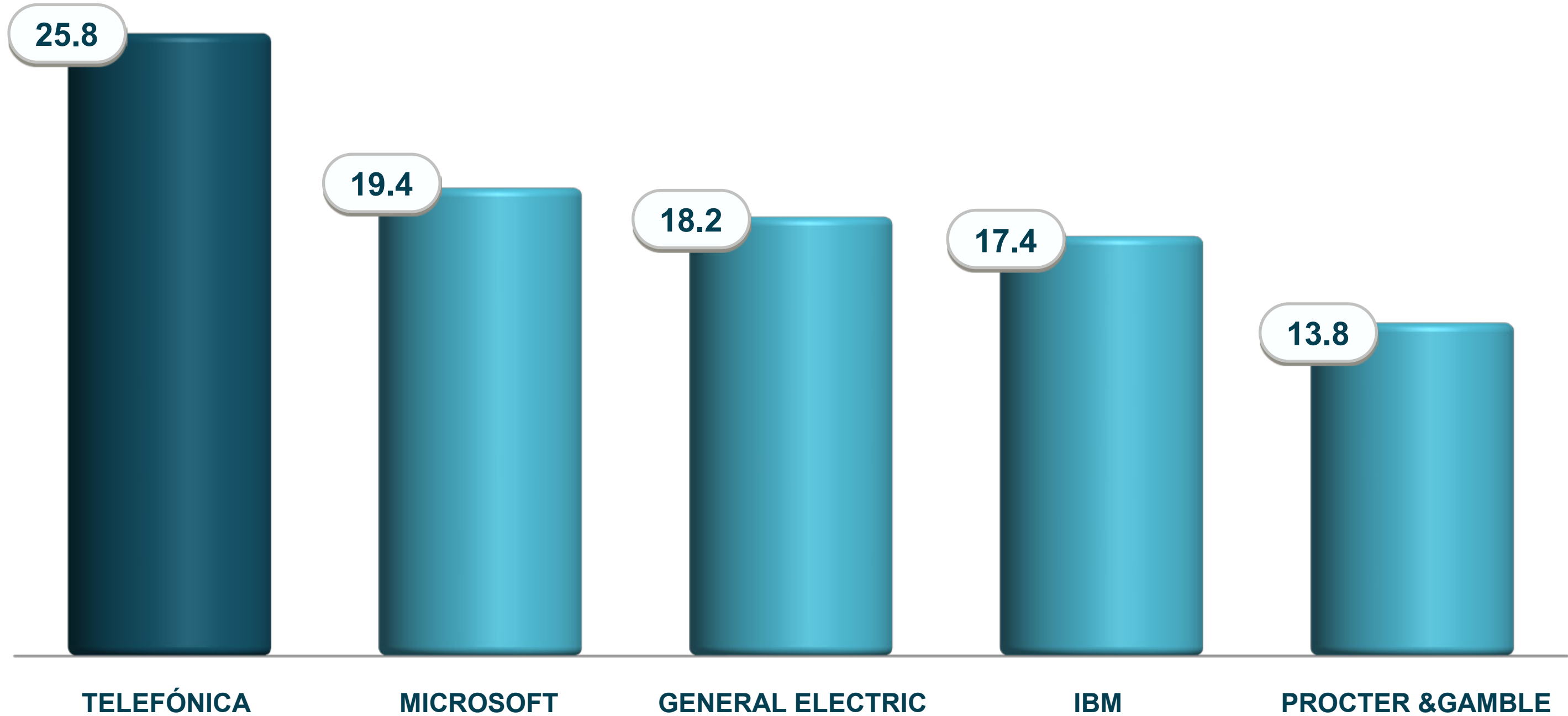
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Investing in Telefónica: A true story

# Telefónica: a sizeable company...

FY 2010 OIBDA

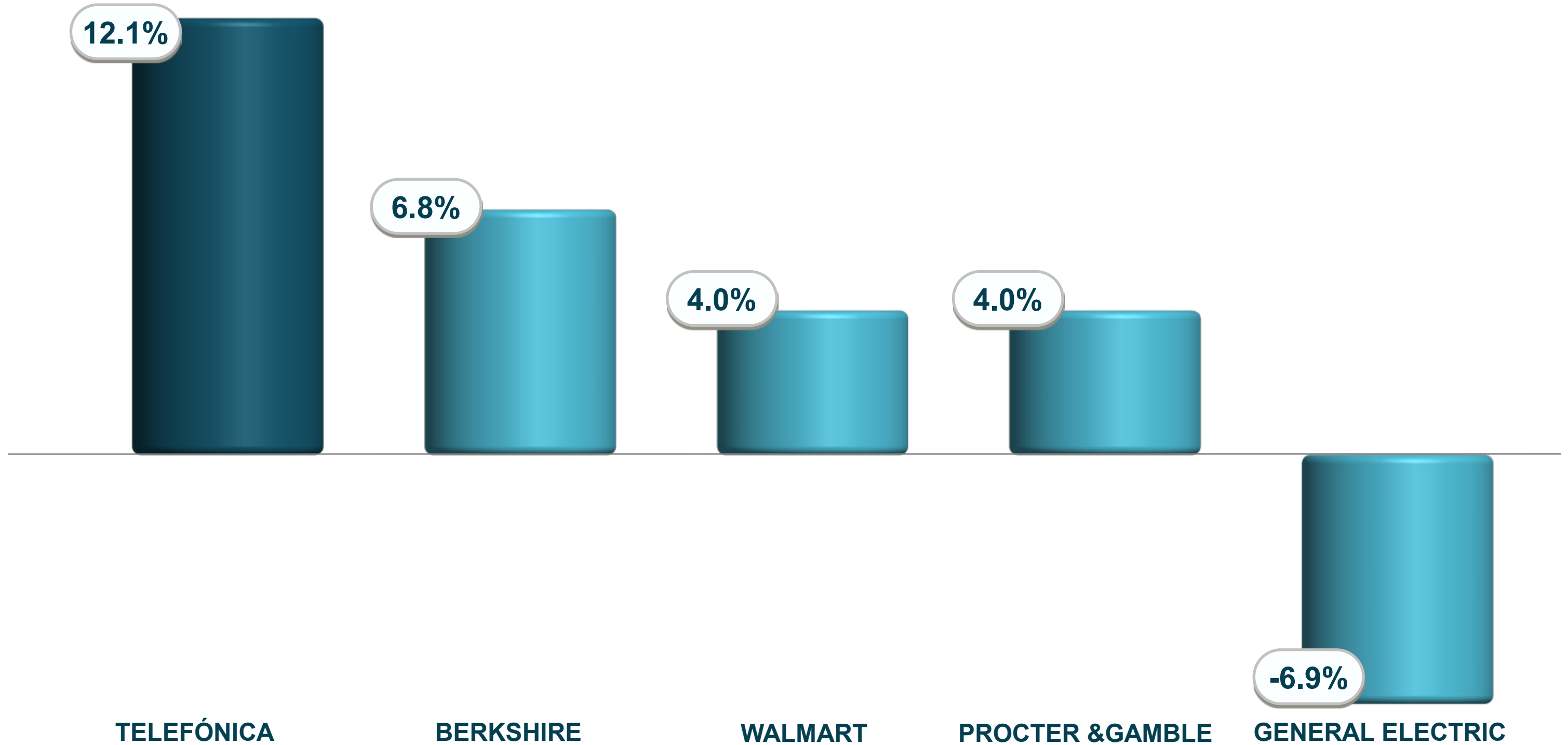
€ bn



Source: Telefónica's reported figure and Bloomberg for other companies

# ... beating returns...

Total shareholders returns (last 5 years)<sup>1</sup>



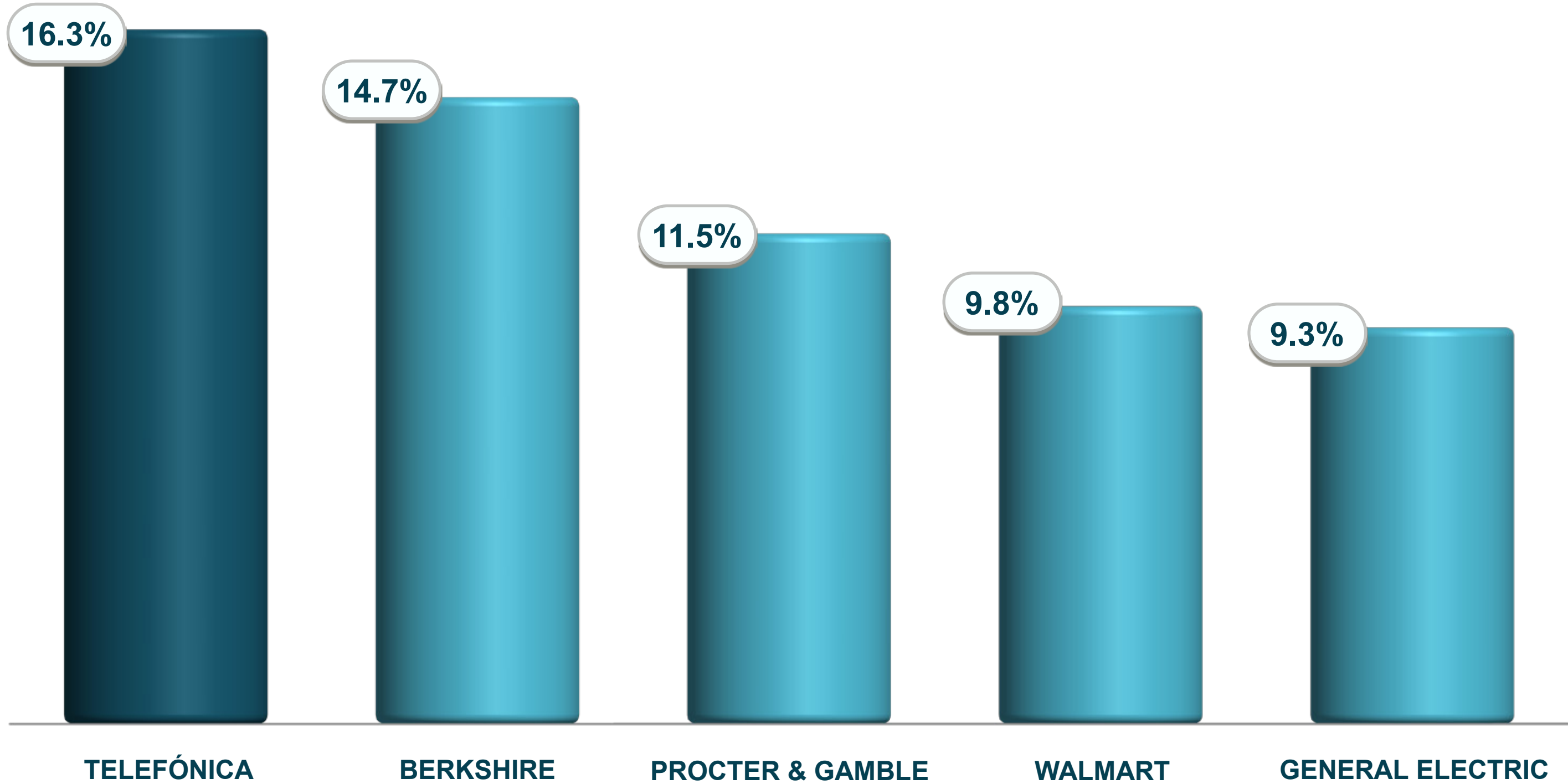
Source: Bloomberg

<sup>1</sup> Annual equivalent total returns in local currencies. March 2006 to March 2011



# ... for many years now

## Total shareholders returns (last 20 years)<sup>1</sup>



Source: Bloomberg

<sup>1</sup> Annual equivalent total returns in local currencies. March 1991 to March 2011

# 01

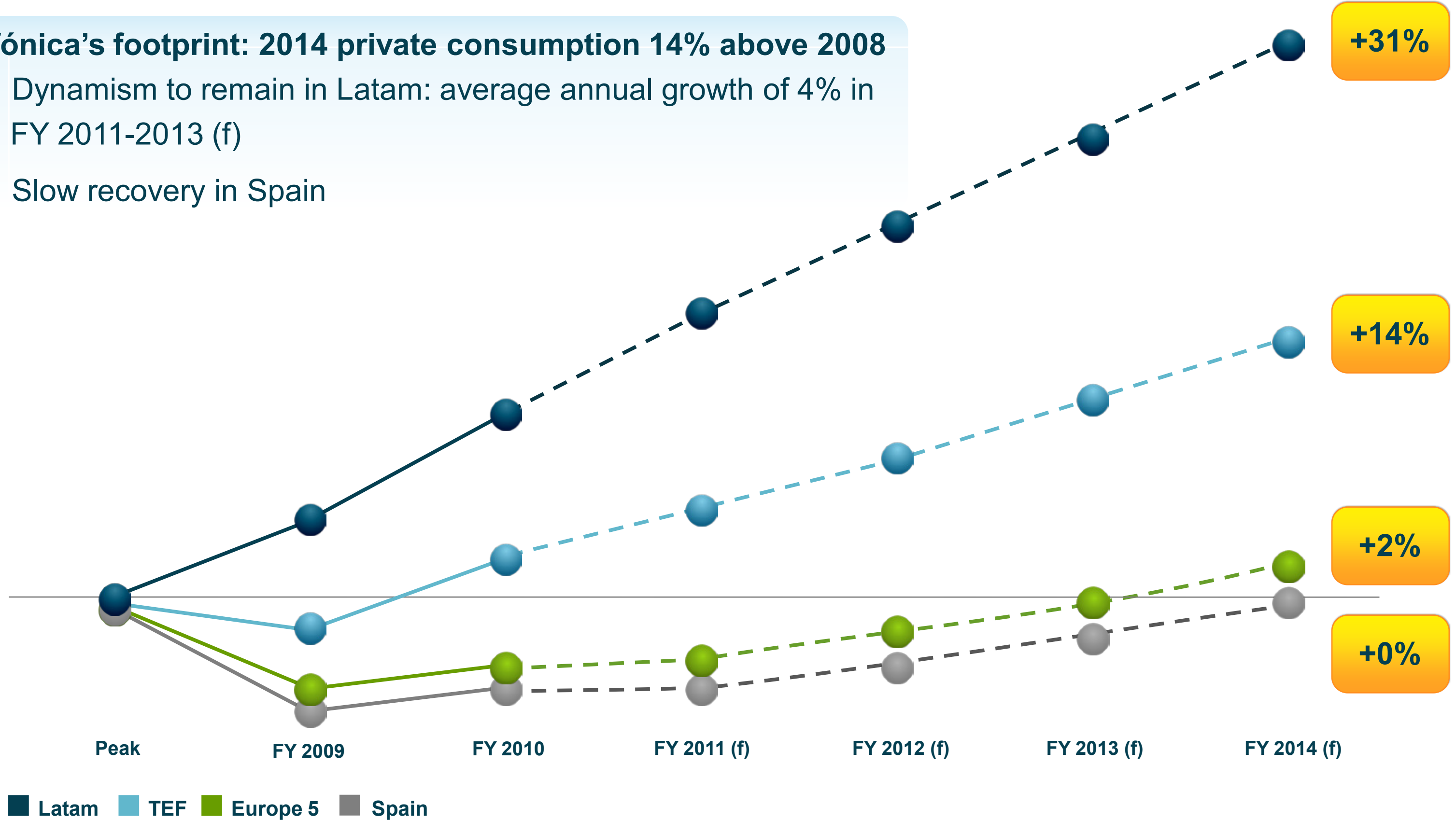
CF growth opportunities: outside and inside  
Telefónica



# There is a macro recovery in our footprint...

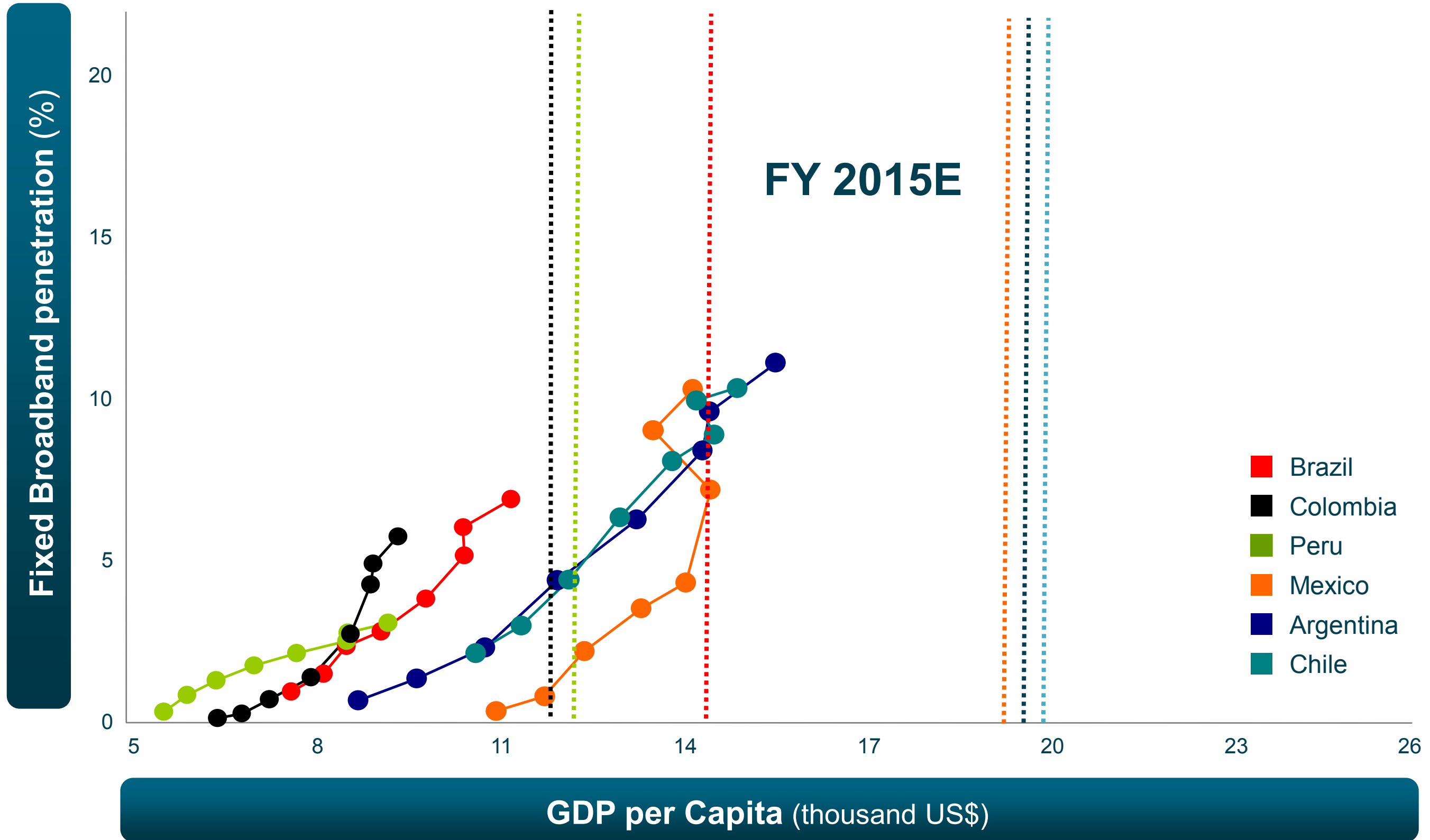
Telefónica's footprint: 2014 private consumption 14% above 2008

- Dynamism to remain in Latam: average annual growth of 4% in FY 2011-2013 (f)
- Slow recovery in Spain

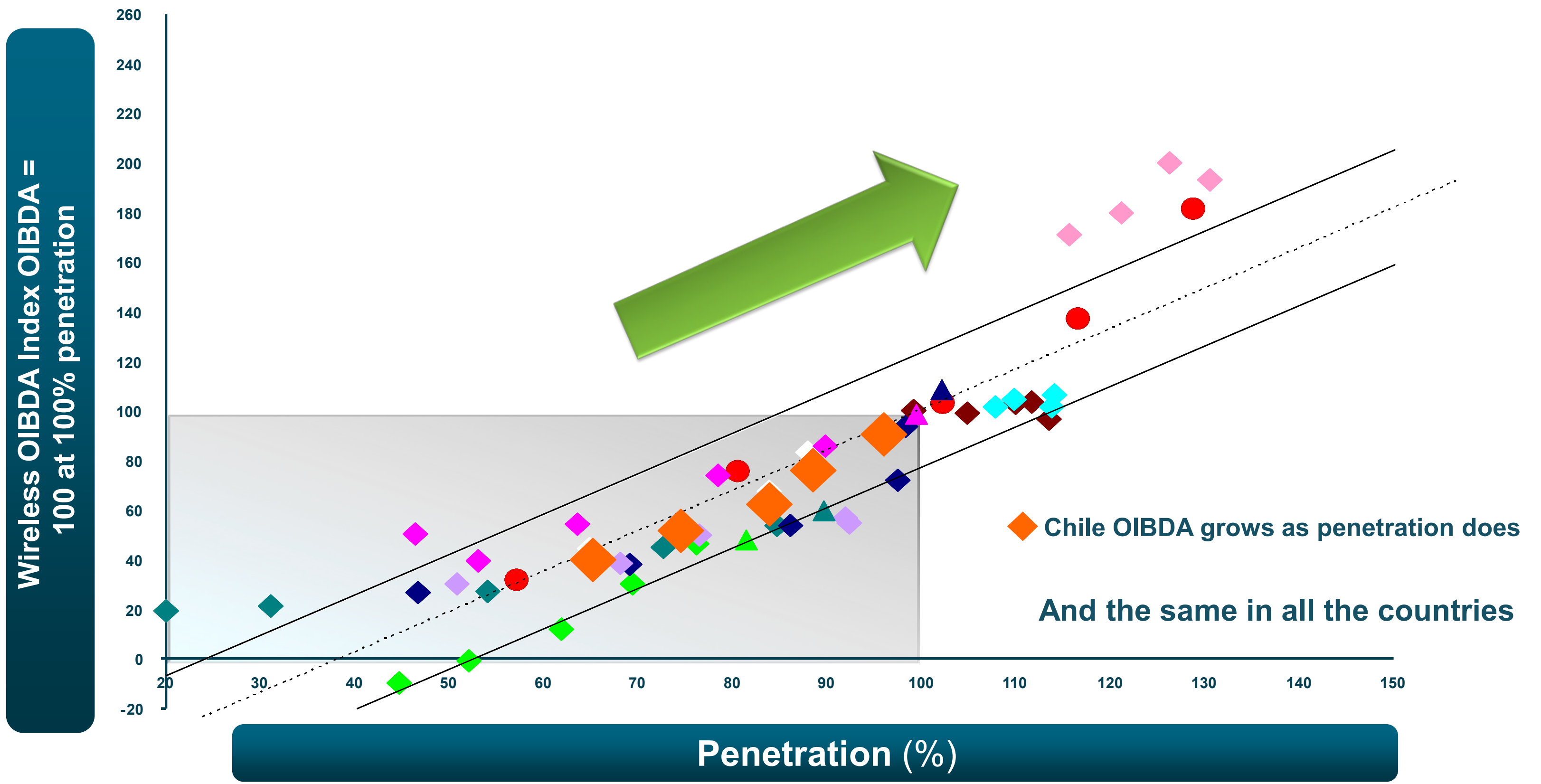


Source: Consensus estimates and Telefónica

# ... income growth drives penetration and we are well placed to benefit from trends...



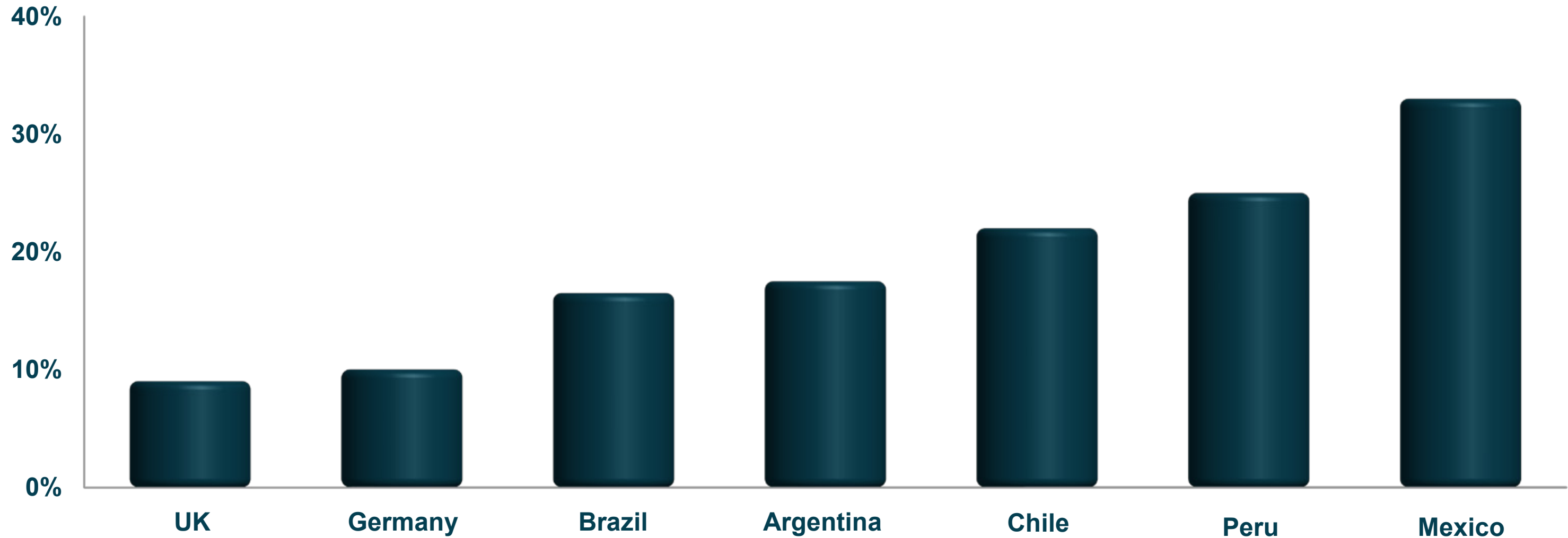
# ... and monetise it





# To deliver CF growth as seen in many of our business units

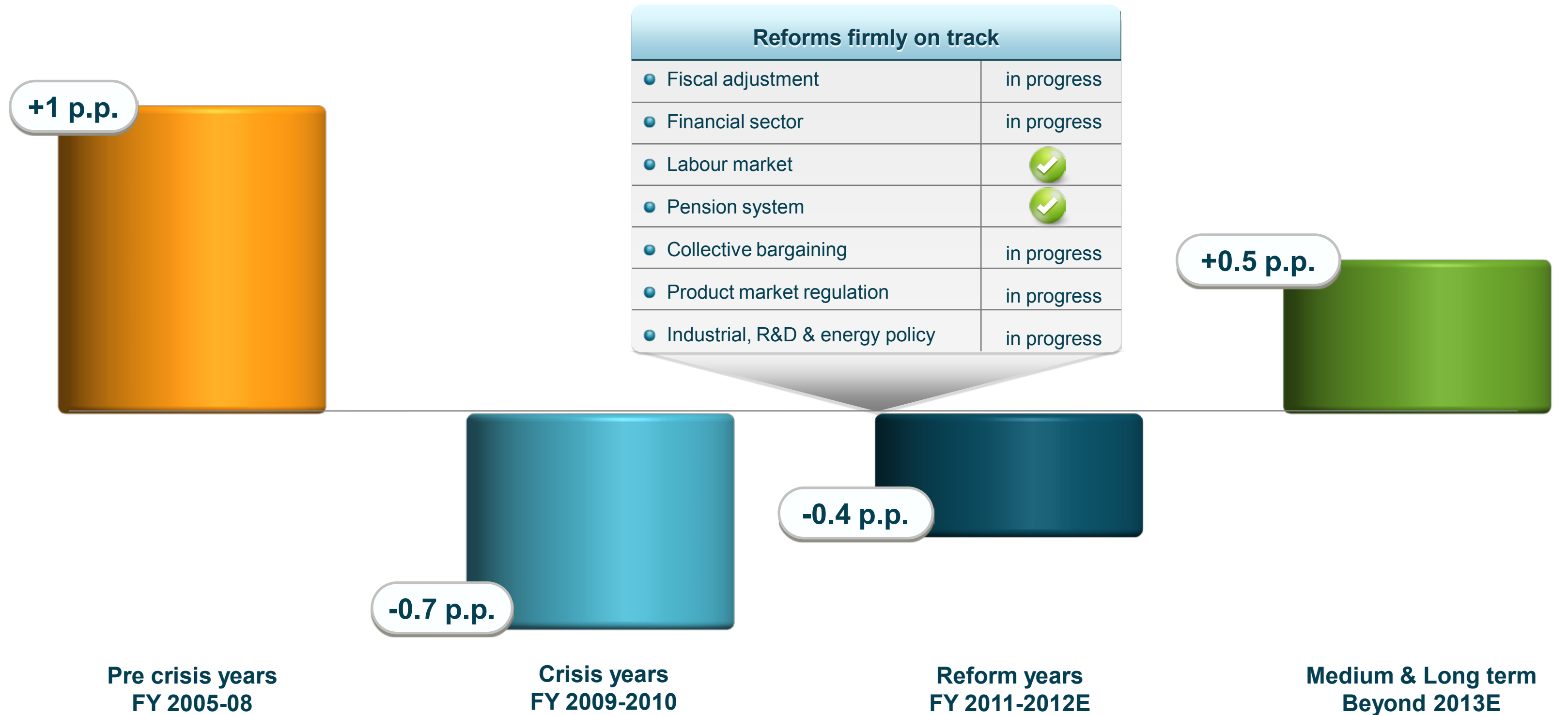
Selected Telefónica wireless units: OpCF change FY 2005-2010 (as percentage of FY 2010 revenues)



**Challenge: all units at full speed**

# Reforms to revert underperformance of Spain

## SPAIN vs. EURO ZONE: GDP growth rate differential



Source: IMF and OECD

# 02

Completing the P&L and the CF statement



# Our financial policy has served well our strategy



**CapEx increased where appropriate**



**Spectrum won in major markets**



**Vivo and other acquisitions fostering growth**

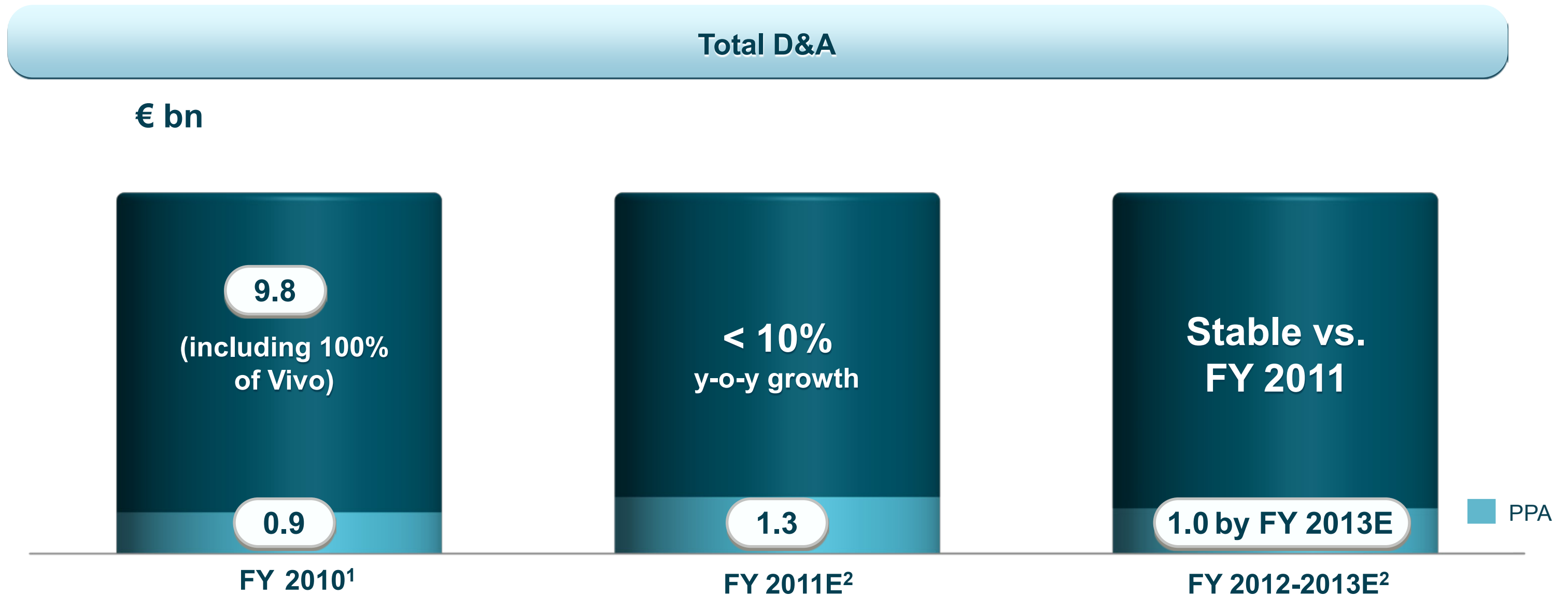


**Dividends raised**



**Valuation supported by low cost debt financing to be embedded in CF discount rates**

# Depreciation & Amortization growing in 2011



- Growth in FY 2011E mainly driven by increased in PPA due to the acquisition of Vivo and spectrum
- PPA decline from FY 2012E led by T. Europe

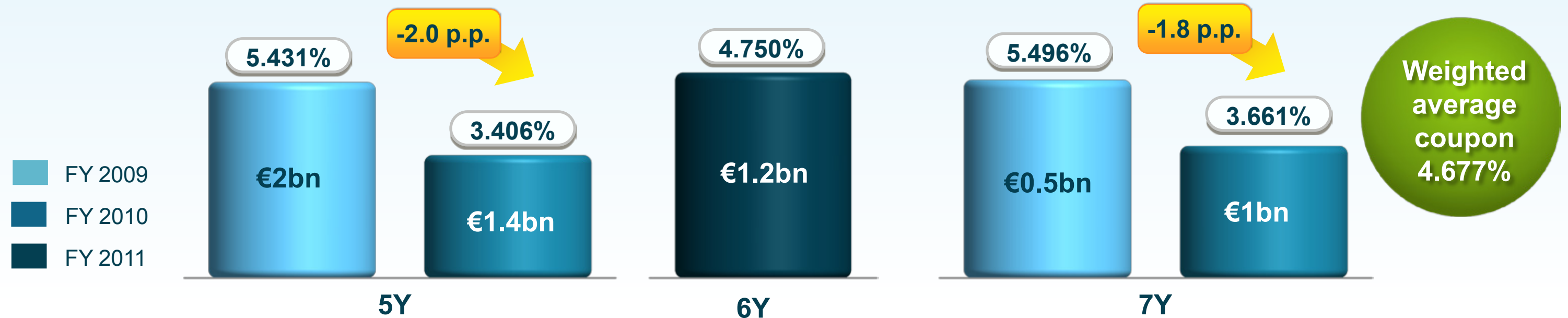
<sup>1</sup> Includes 3 months of Vivo's PPA

<sup>2</sup> Subject to FX rates and assuming constant perimeter

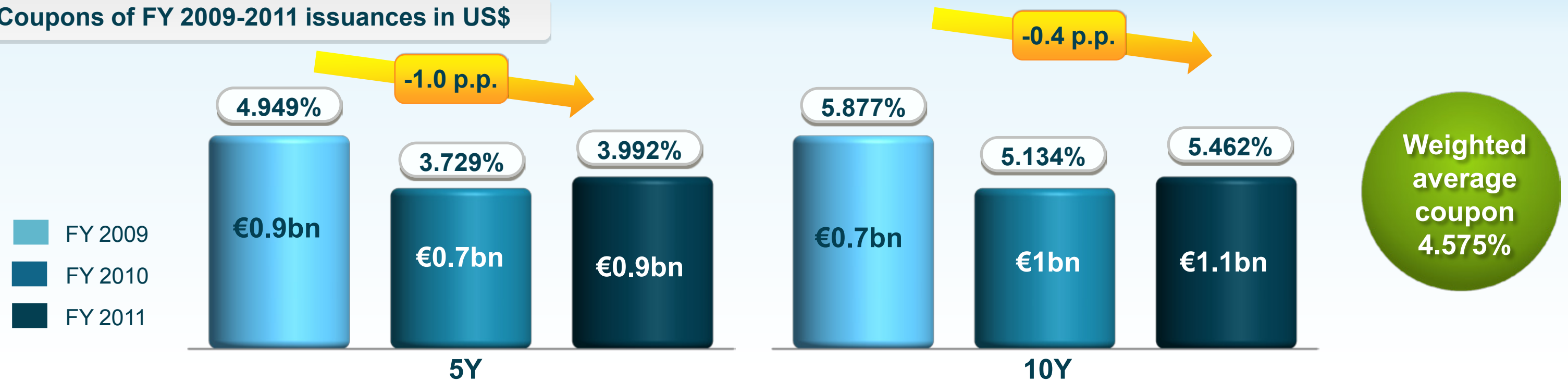
# Funding costs kept under control

Yield from recent Bonds from Telefónica, S.A. at 4.465% at issue

## Coupons of FY 2009-2011 issuances in euros



## Coupons of FY 2009-2011 issuances in US\$

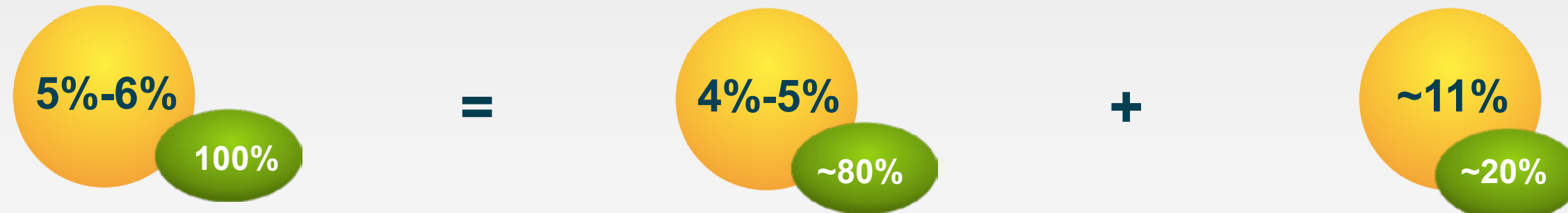




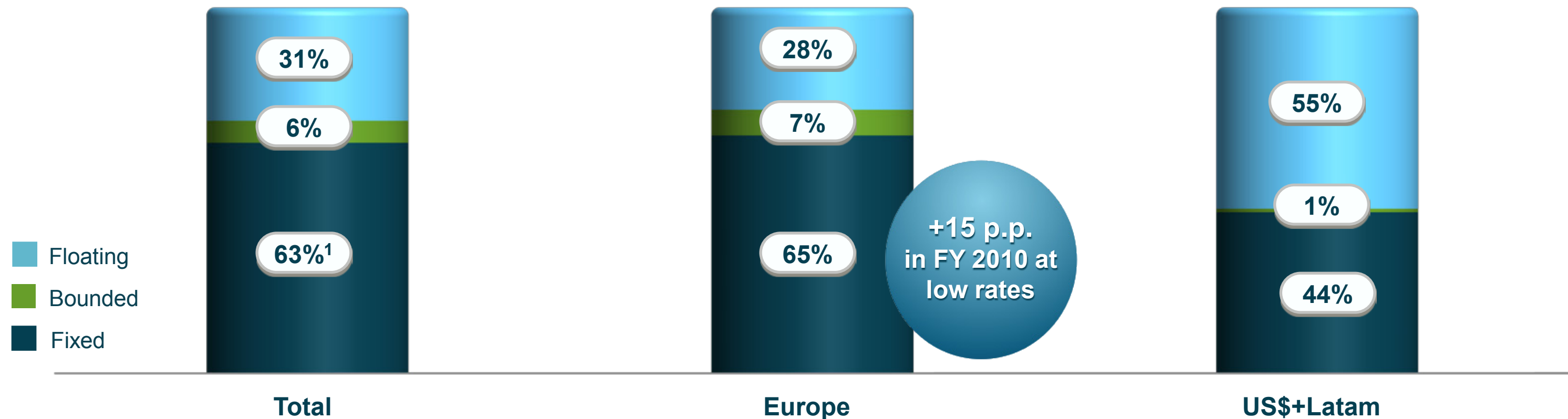
# Financial expenses below 6% medium term benchmark

## Financial Expenses (ex-FX & Inflation adj)

FY 2011- 2013E



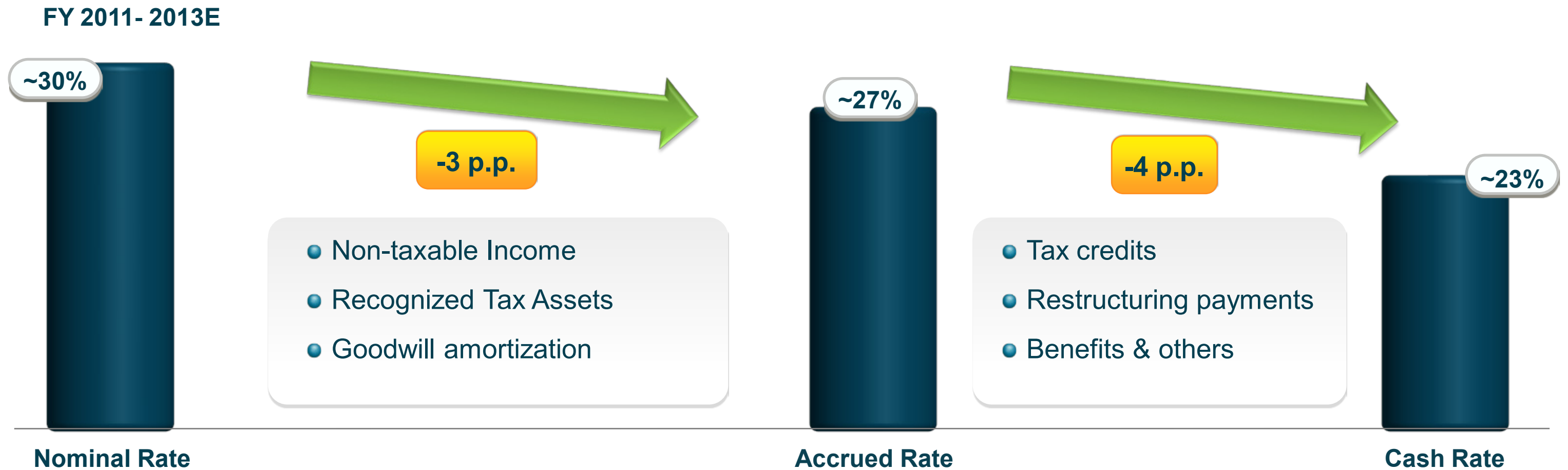
## Percentage of Net Debt (Dec-10)



- Euro debt fixed ~1/4 p.p. better than prevailing rates at bond issue dates
- Floating exposure saving ~0.4 p.p. per year

<sup>1</sup>Includes forward starting swaps fixing debt in FY 2011

# Cash taxes below average nominal tax rate



- Effective and cash tax rate starting to decrease from FY 2012 onwards
- Beating nominal rates in the countries where we operate whilst being fair with the Societies

- Interests taxed at marginal tax rate, close to 30%: to be used for WACC, but
- FCF projections to include tax payments at rates on EBT at around 23%

# Working Capital active and efficiently managed

FY 2011–2013E working capital consumption between 2% and 5% of OpCF

**FY 2010 investment in WC:**  
€ 2.7 bn

## Non-recurrent business

- ~ € 1 bn spectrum payment in Mexico
- ~ € 0.7 bn restructuring provisions
- ~ € 0.4 bn Fundación Telefónica commitments

## Recurrent business

- ~ € 0.6 bn related to:
  - € 1 bn CapEx increase
  - Payment terms improvement

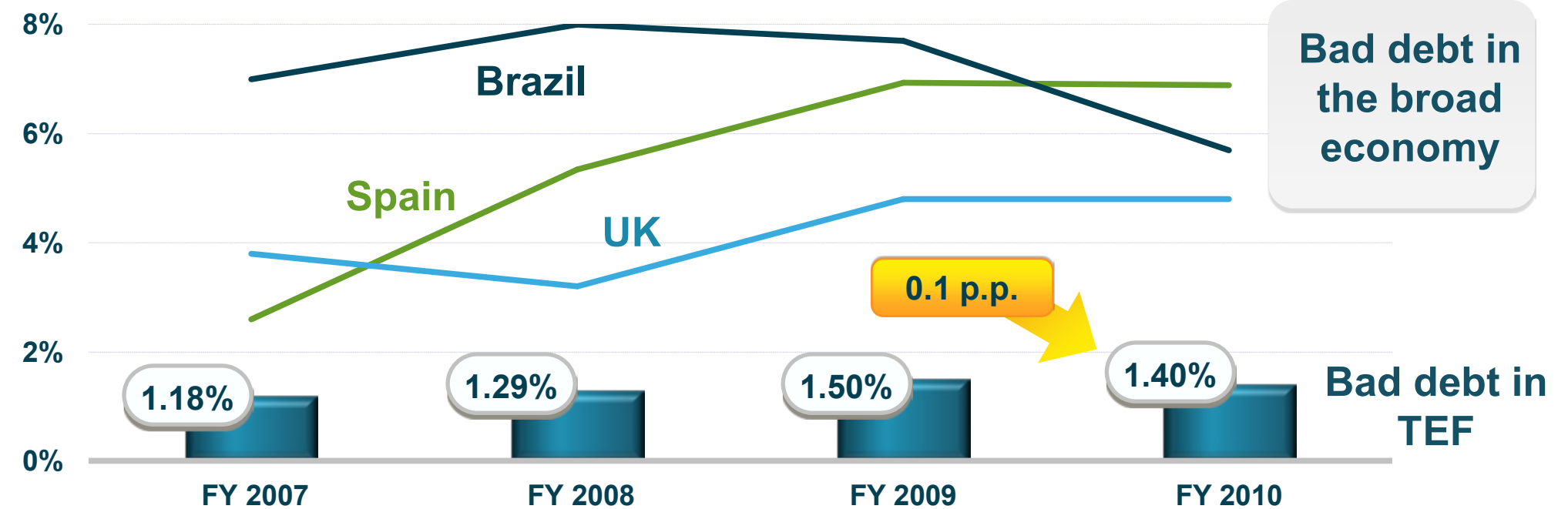
## FY 2011 Drivers

- ▣ Full payment of FY 2010 restructuring provisions
- ▣ Yearly payment to Fundación Telefónica
- + CapEx increase and phasing
- + Enhancement Initiatives

## FY 2011 Enhancement Initiatives

Customer **50%**

## Bad Debt management



Suppliers **40%**

Inventories Management **10%**

■ Telefónica Group (bad debt over external revenues)  
■ Spain - BdE (% individuals doubtful debts excluding mortgages)  
■ Brazil - Bacen (Individuals bad debt ratio)  
■ UK - Bank of England (Individuals unsecured lending write off rates)

03

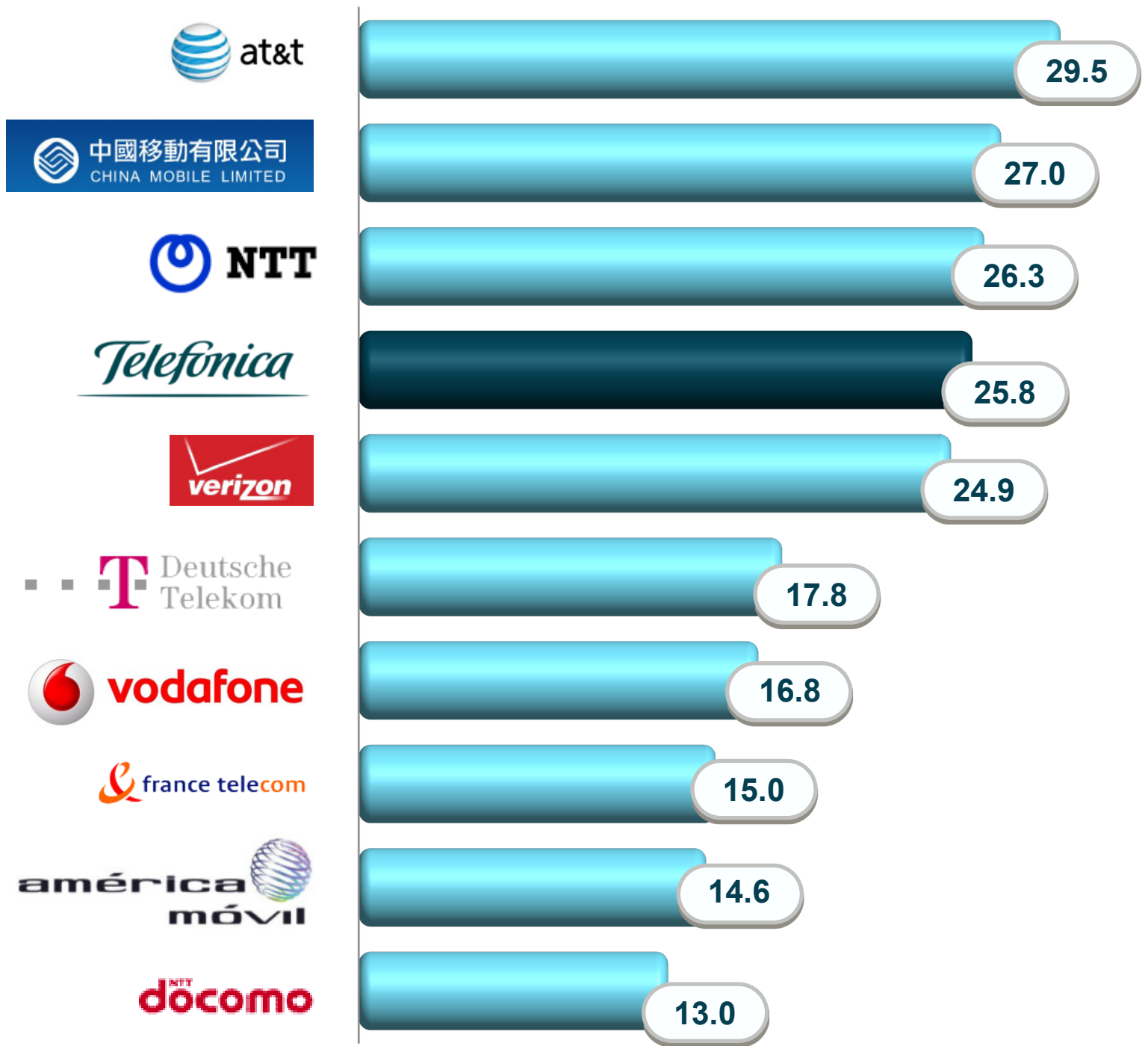
The asset side: portfolio

# A sizable profitable asset portfolio...

## Enterprise Value



## LTM OIBDA

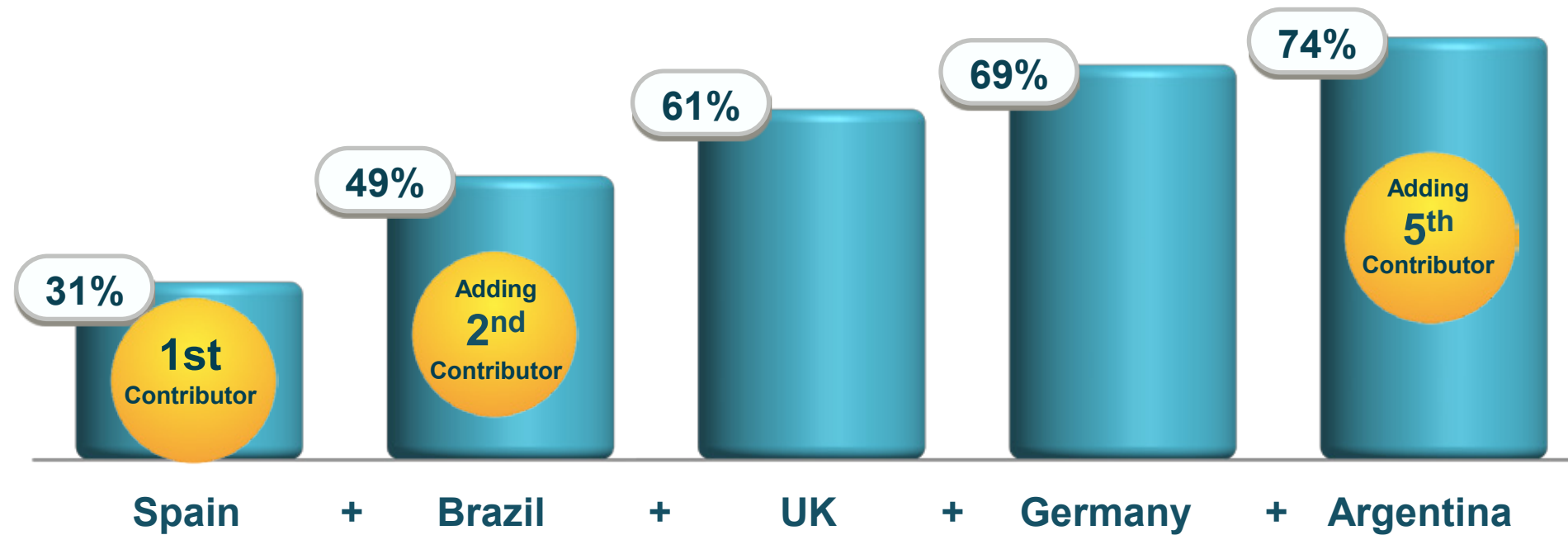


€ in billions as of 31st March 2011  
Source: Bloomberg. Telefónica's OIBDA as reported by Telefónica

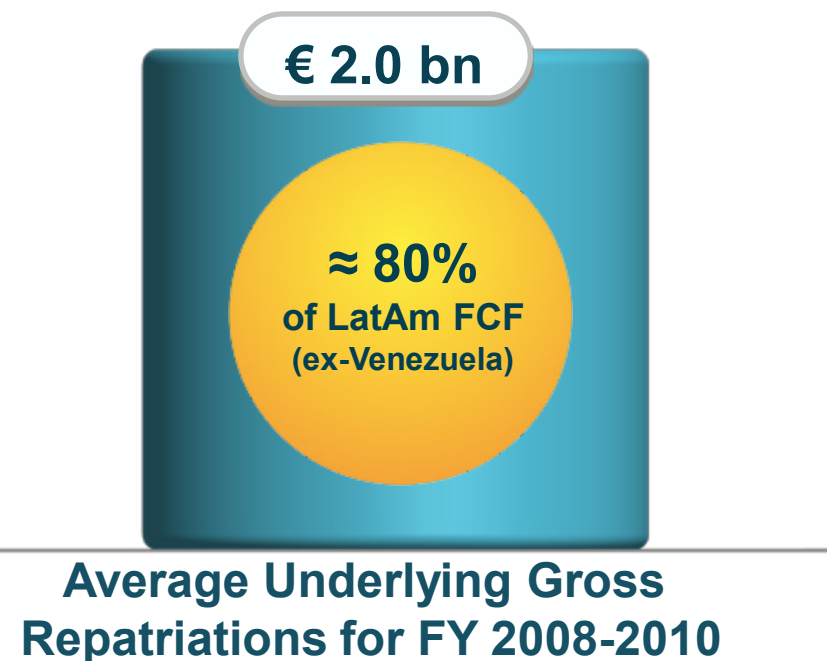


# ... enjoying a high diversification and upstream cash flow capacity

## Cumulative Revenues (FY 2010 as a percentage of total)



## Gross cash repatriation from Latam



- **Diversified portfolio:**

- > 2/3 of our revenues and OIBDA generated outside Spain in FY 2010

- **Oriented towards growth areas in FY 2010:**

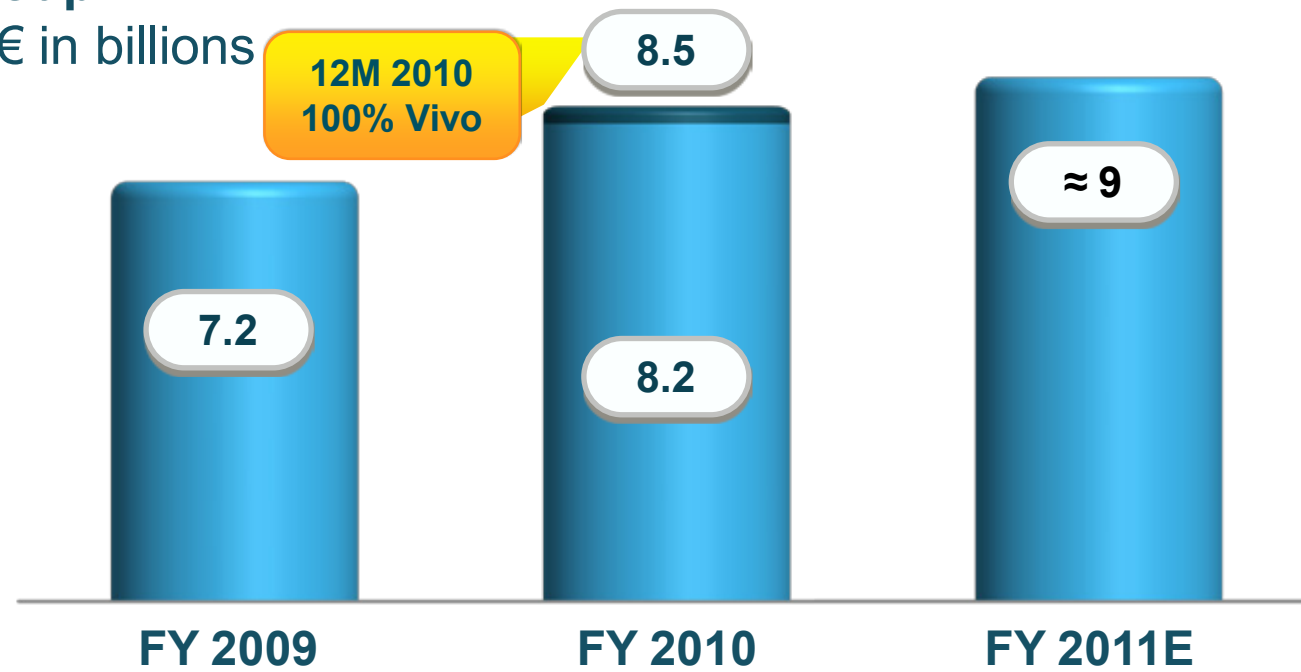
- > 60% of our accesses in Latam

- > 75% of our accesses are mobile

# We have fostered growth

## Investing in the network...

CapEx  
€ in billions



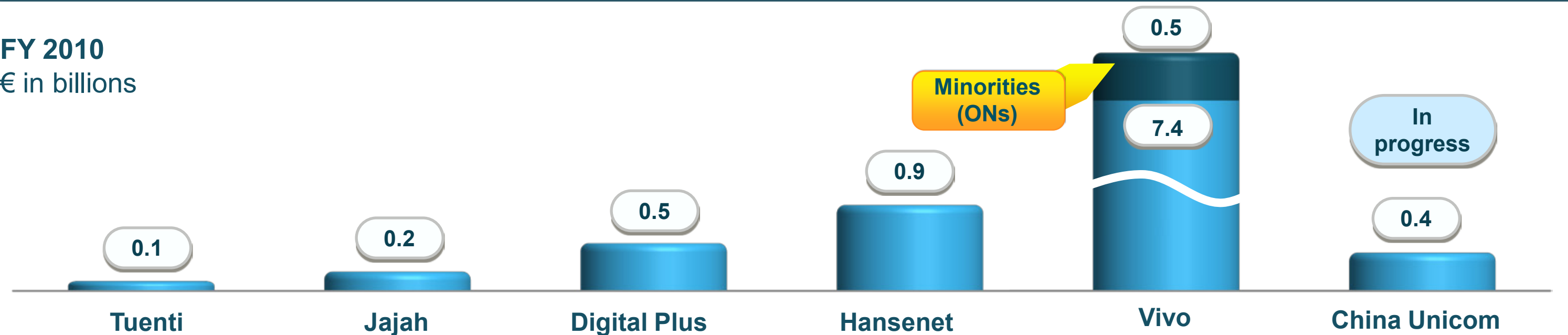
## ... acquiring spectrum ...

Awarded spectrum processes  
FY 2010-2011 YTD, € in billions



## ... and through acquisitions

FY 2010  
€ in billions



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# We have achieved the right scale in our target footprint

## Predictable M&A strategy

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

## Divesting non core assets

- Atento
- PT

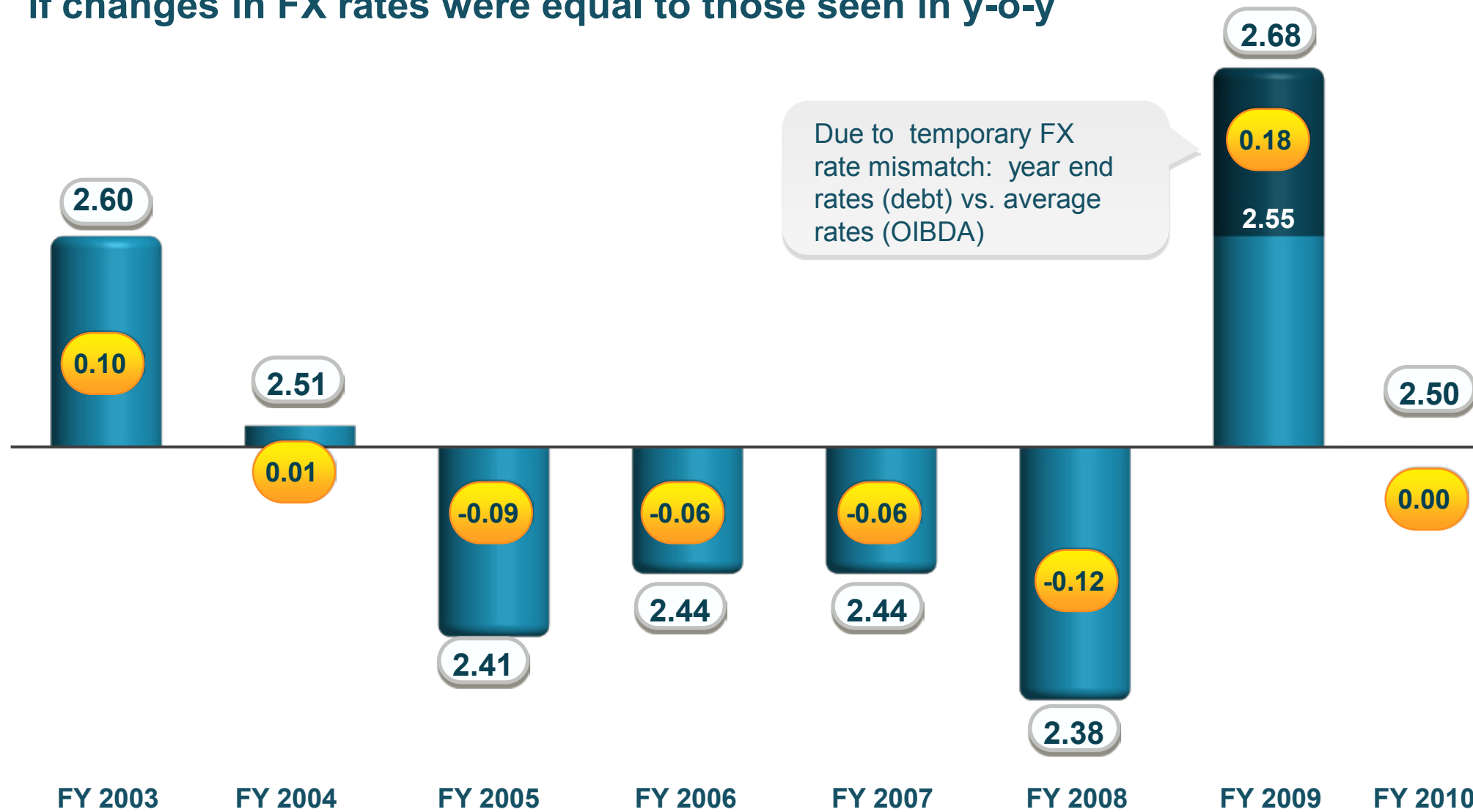
# 04

The liability side: debt and equity

# Debt currency mix related to OIBDA and FCF to protect solvency

Non - € debt reducing sensitivity of Debt/OIBDA ratio to FX movements without incurring in high costs

Historical simulation: changes in FY 2010 debt/OIBDA ratios if changes in FX rates were equal to those seen in y-o-y

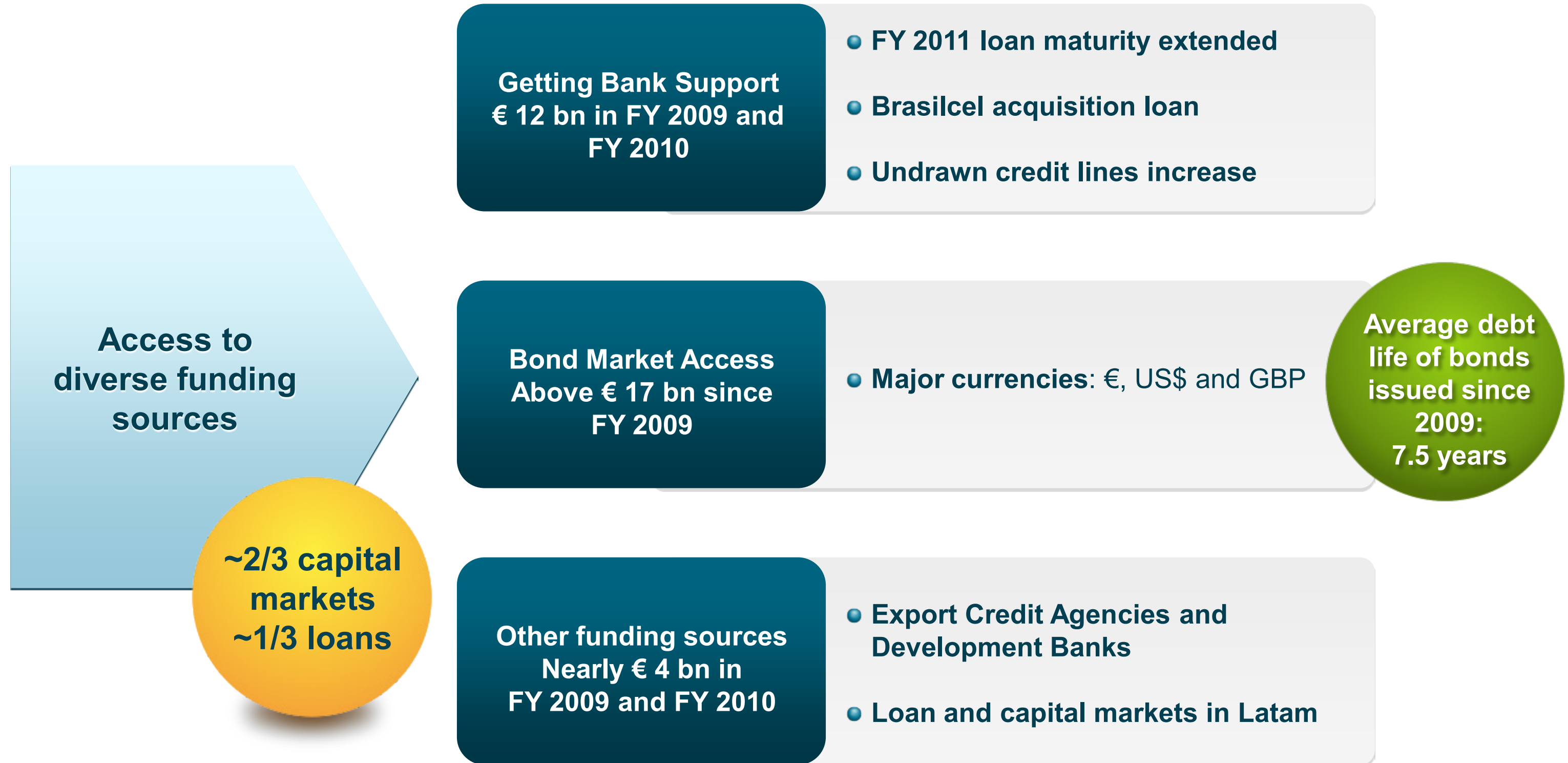


Debt Currency Mix (Dec-10)	%
EUR	72
US\$ + Latam	18
GBP	7
CZK	3

• 0.04 increase if Bolivar rate moves 33% up



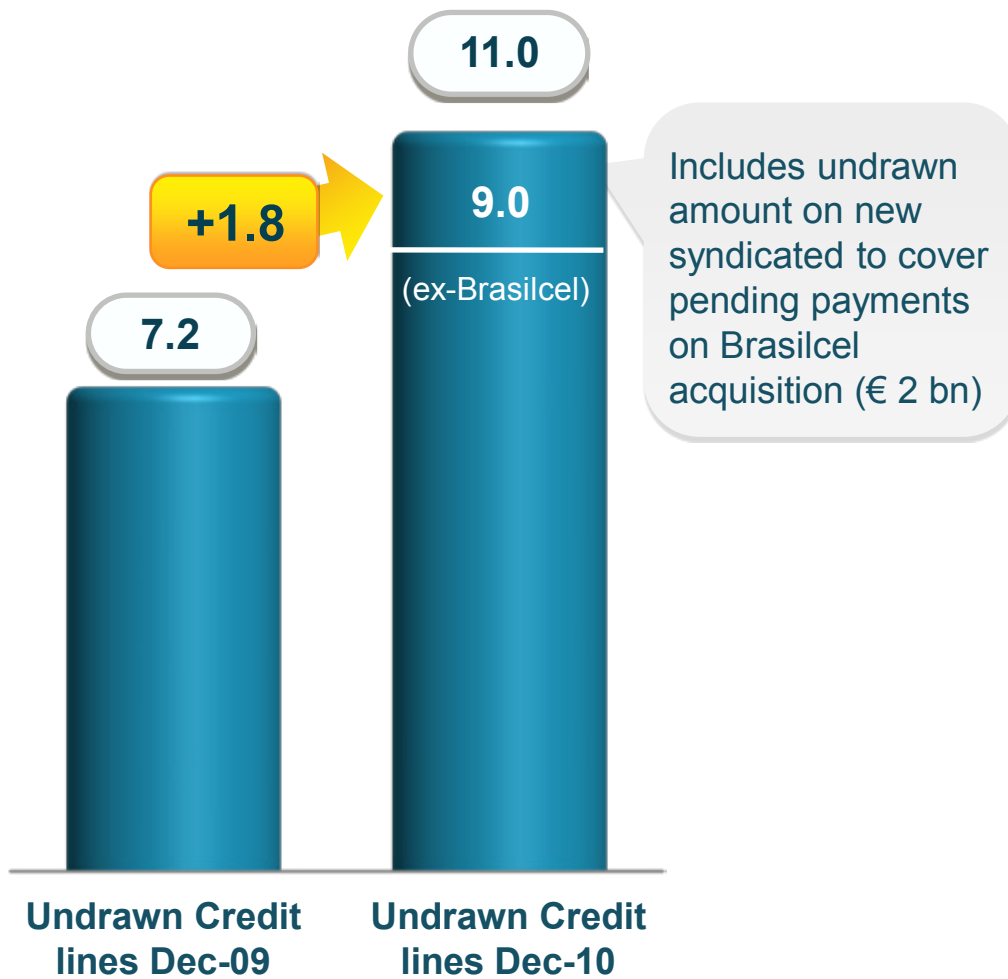
# Our balanced approach to the credit markets...



# ... has contributed to a solid liquidity position to manage debt maturities

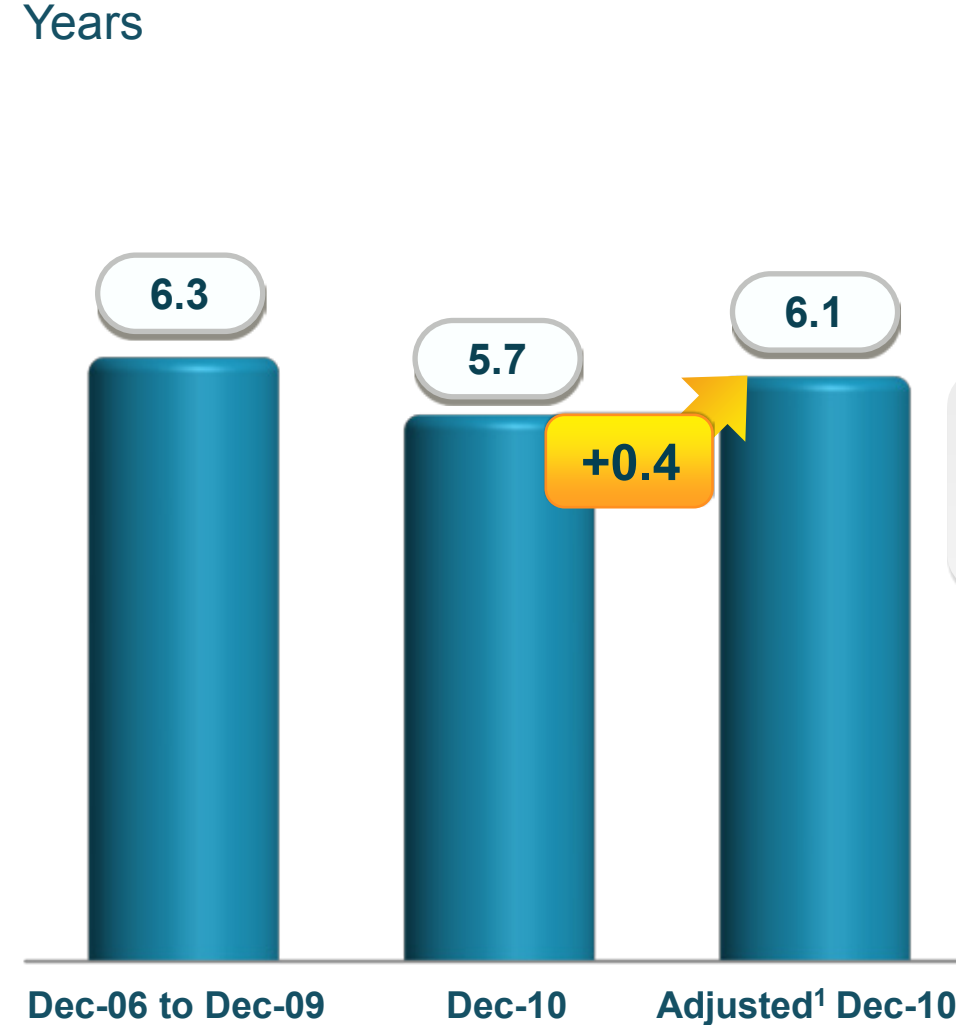
## Unused committed lines

€ bn



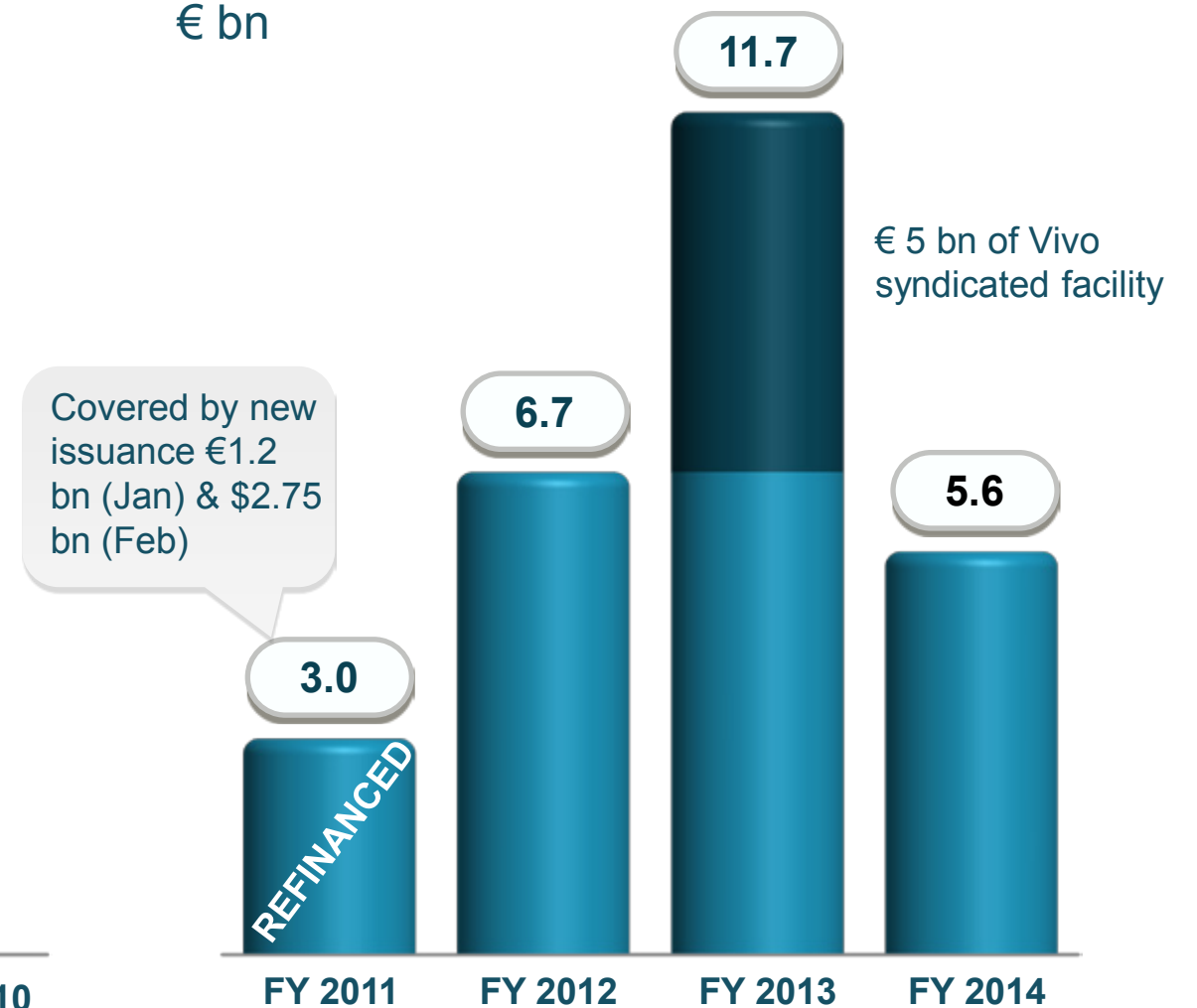
## Average Net Debt Life

Years



## Maturity profile (Dec-10)

€ bn



- Average maturity targeting to be kept above 6 years, overcoming temporary deviations
- Unused committed lines increased to € 9bn in FY 2010; close to 60% maturing long term

<sup>1</sup> Adjusted average debt life calculated as of Dec-10, including € 1,200 m and US\$ 2,750 m bond issuances made in 2011

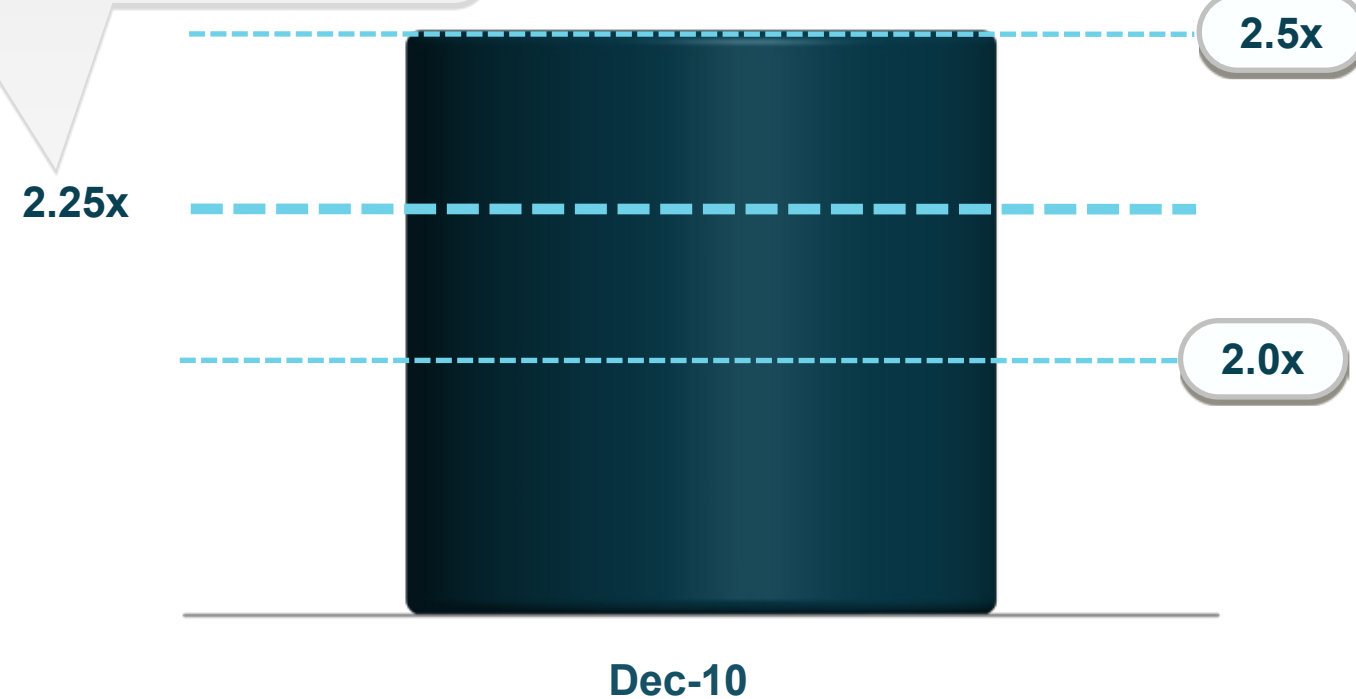
# On the way to de-leveraging

Stable policy: Net Debt + Debt like Cash Commitments / OIBDA in the 2.0 – 2.5 range

- Trending progressively towards the middle of the leverage range

Net Financial Debt + Commitments/OIBDA

Average leverage ratio in the period 2007-2010 at 2.25x despite latest acquisitions



Leverage ratio sensitivity

0.05 improvement requires

OIBDA growth

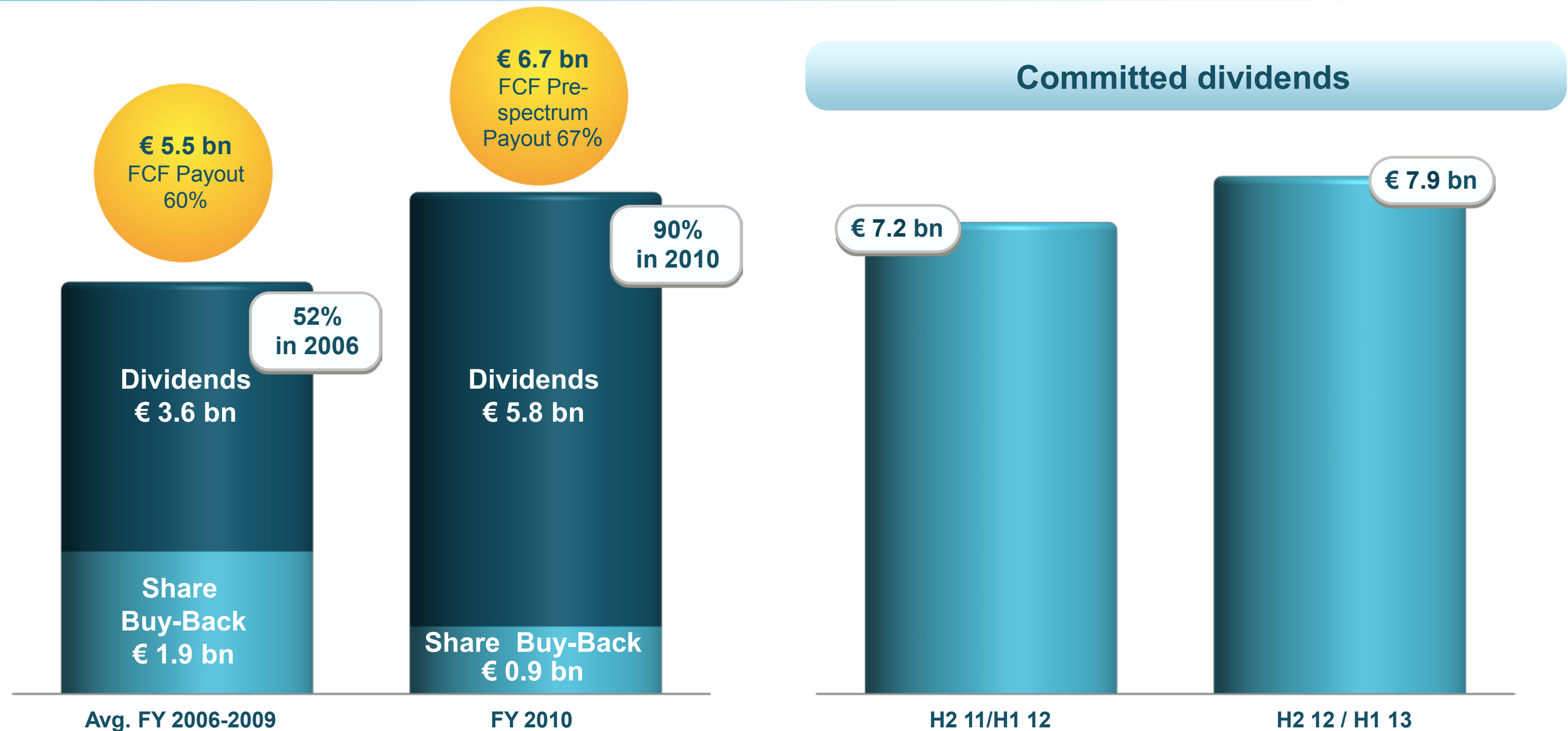
2%

or

Debt reduction

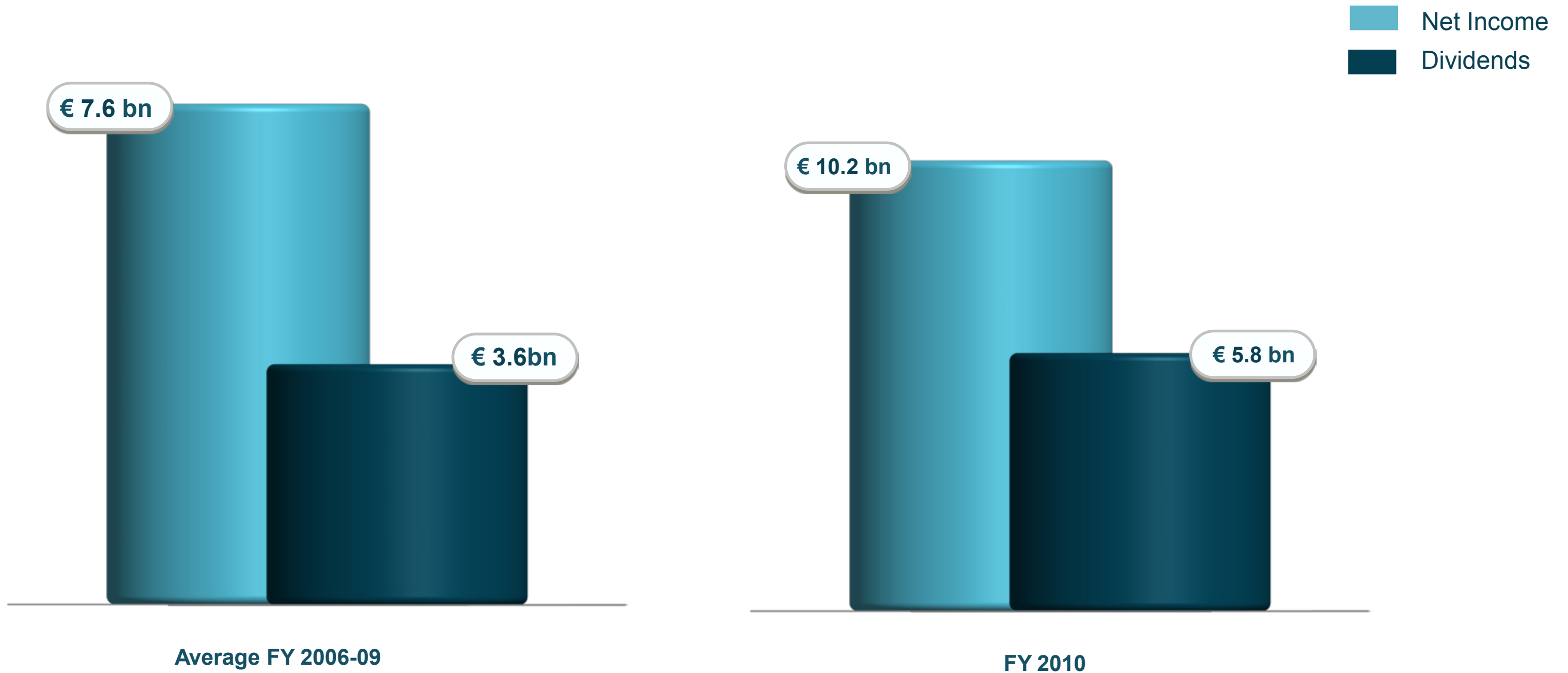
€ 1.2 bn

# Disciplined growing remuneration policy, changing mix...



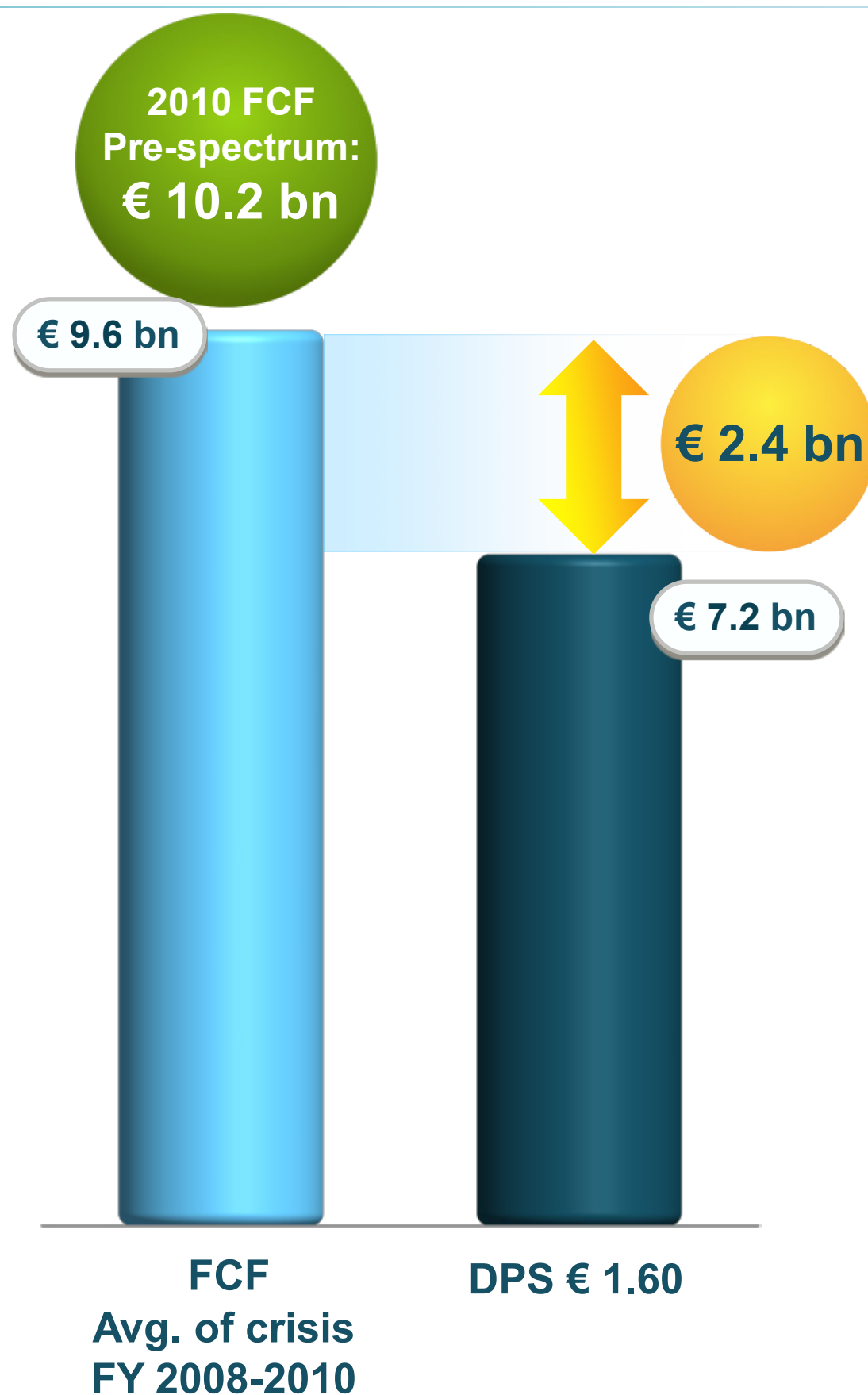
**Beyond 2012: 1.75 €/share minimum annual shareholder remuneration target**  
**Shareholder remuneration not to be paid with debt**

# ... supported by Earnings well above Dividends, and...





# ... by FCF also exceeding dividend payments



## Sustained OIBDA growth trend

Regions with positive organic growth in FY 2010 offset Spain decrease

Change: 2010 vs. 2009

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

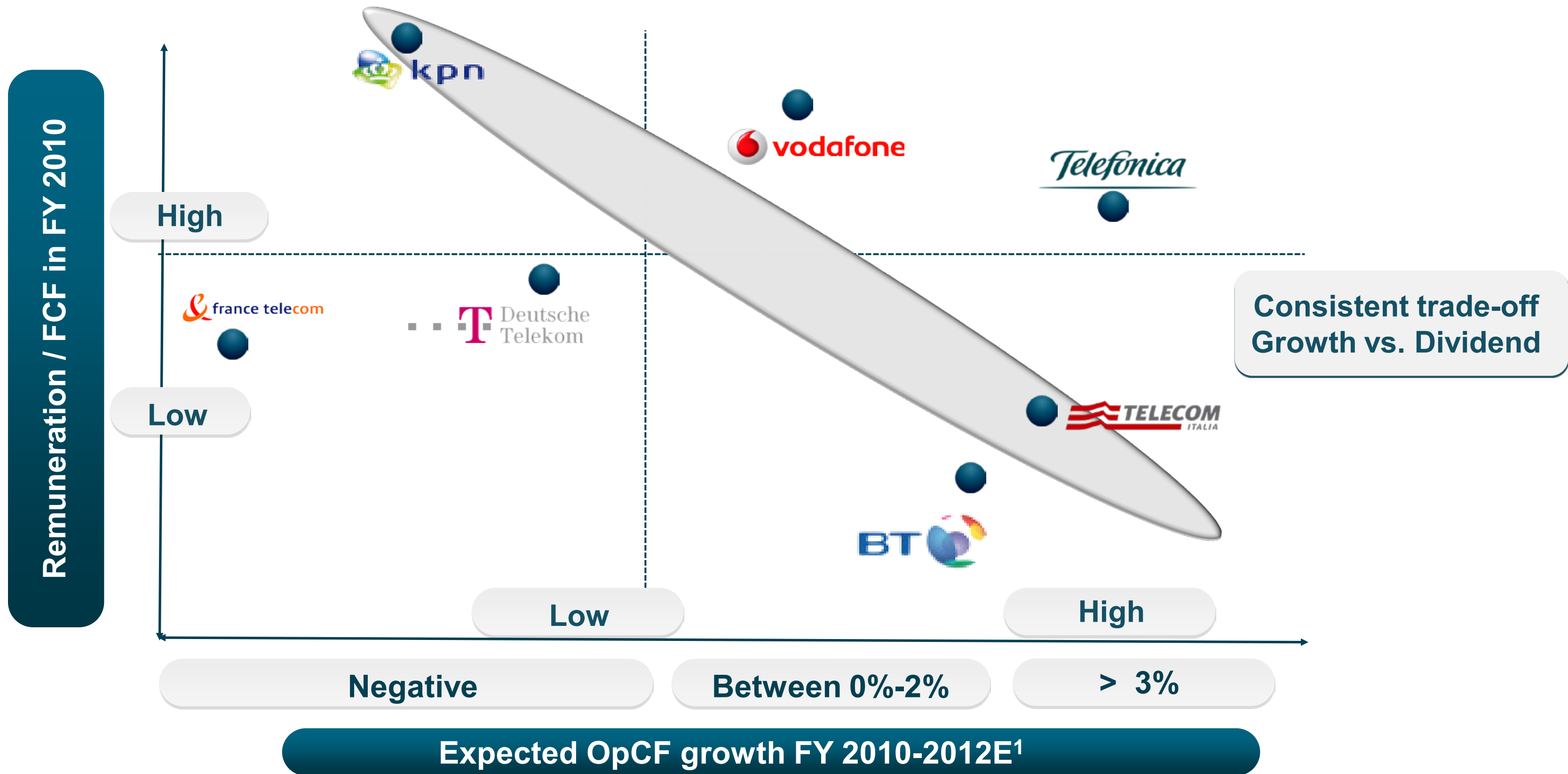
- Venezuela FCF in FY 2010: € 0.3 bn
- Interest payments savings vs. accrual (FY 2010): € 0.4 bn

## Room for higher CapEx

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

<sup>1</sup> Proportional FY 2010 Vivo's FCF acquired less annualised interest expenses after taxes

# To get the best combination of growth expectations and cash remuneration



<sup>1</sup> Source: average of 20 analysts: T. Italia pro-forma 2010, consensus analyst 2012

05

Conclusions

# Solid business and financial trends supporting shareholders returns and solvency

**1**

**Shareholder remuneration, to be sustained beyond 2012**

**2**

**Solvency protection, aiming to limit net debt & cash commitments within the range 2.0 to 2.5x OIBDA**

**3**

**Predictable M&A strategy, having achieved the right scale in our target footprint**

*Telefónica*

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