
7 Investor Conference
Finance 2012: A safety net and a springboard
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Chief Financial Officer
9 October 2009
Telefónica

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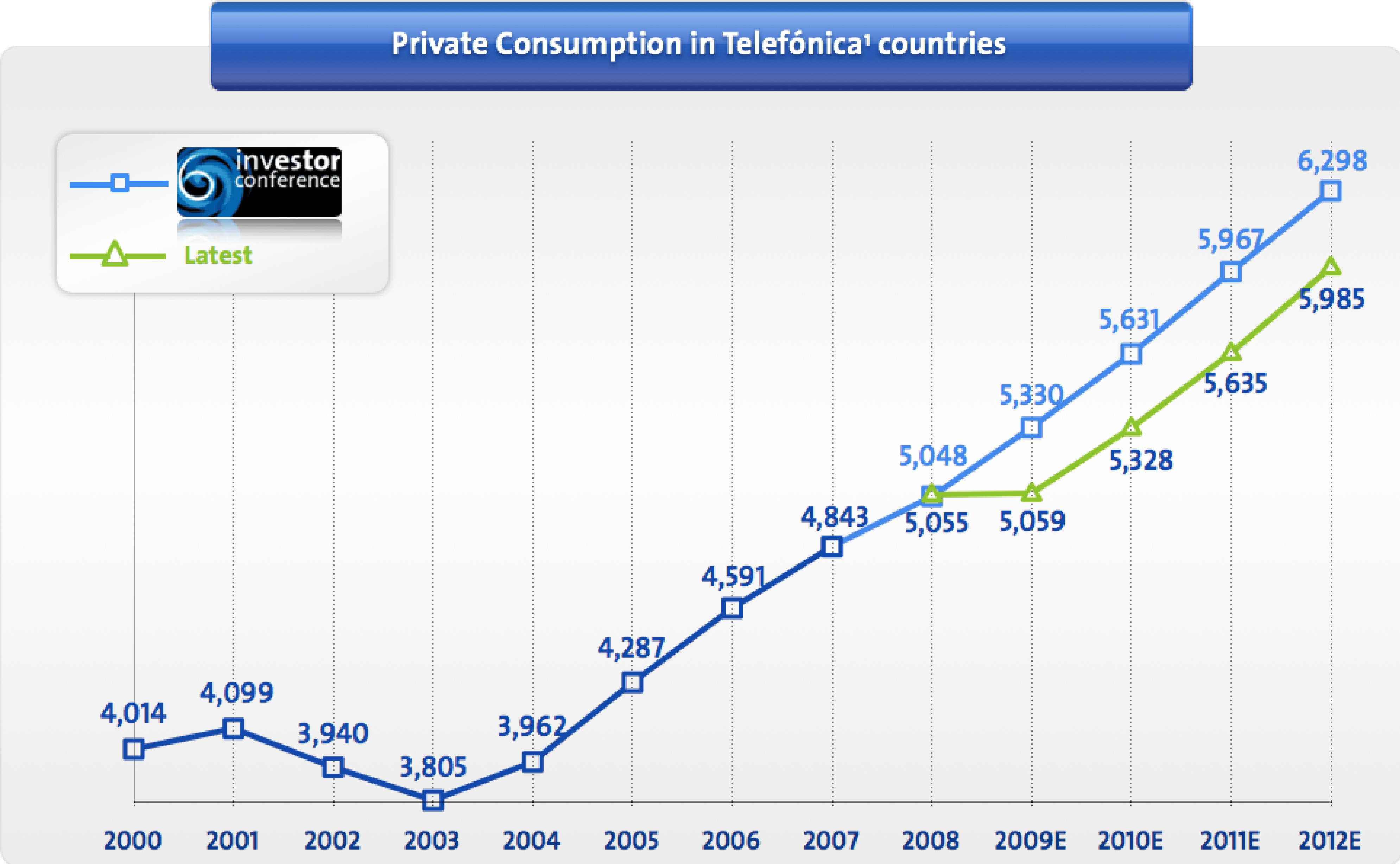
01. A changing environment ...



Source: Consensus forecast, € in billion

1. Mexico, Brazil, Spain, UK, Germany, Ireland, Czech Republic, Argentina, Chile, Peru, Venezuela and Colombia

01. ... with laggards pointing north in the medium term...

Source: Consensus forecast

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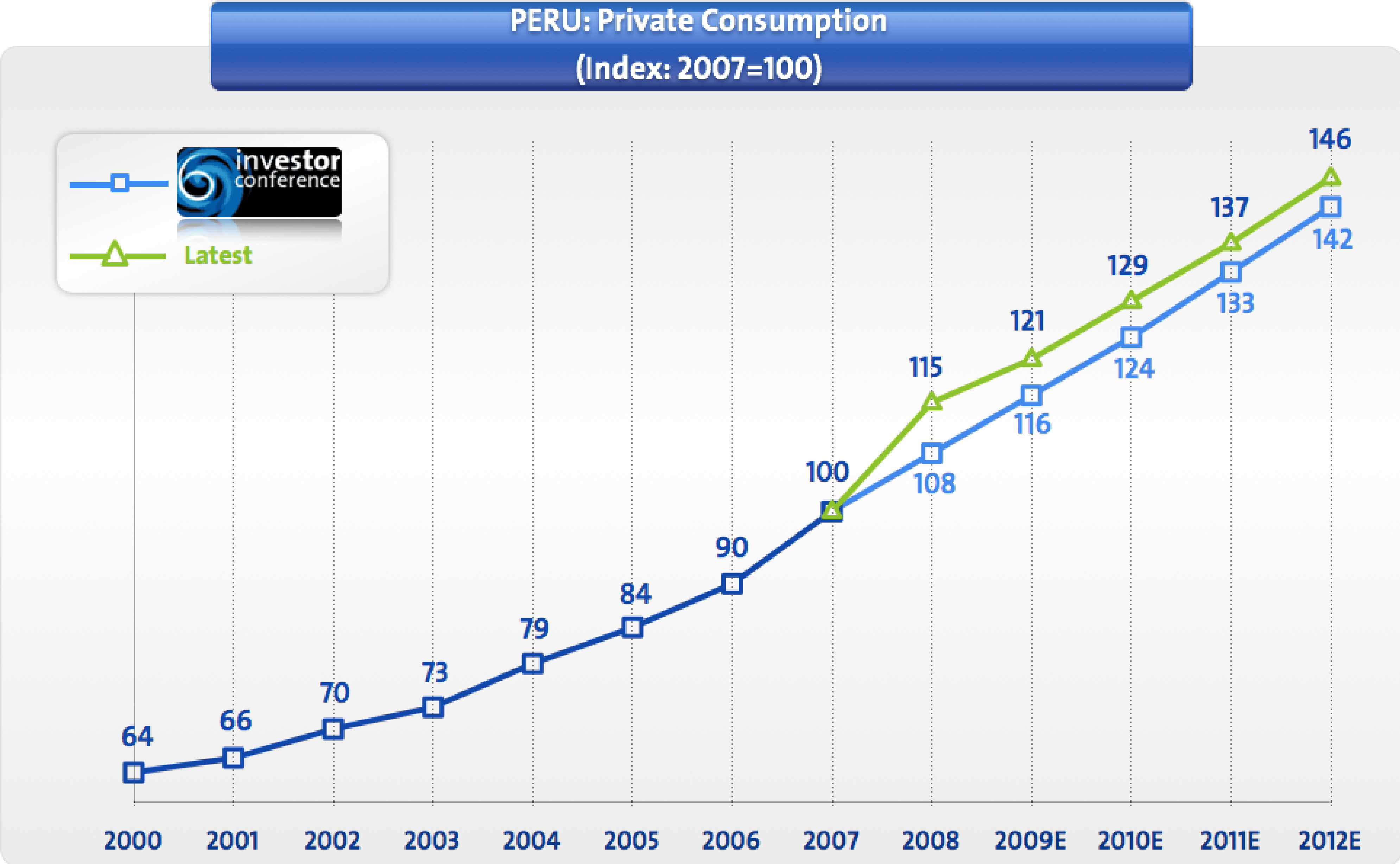
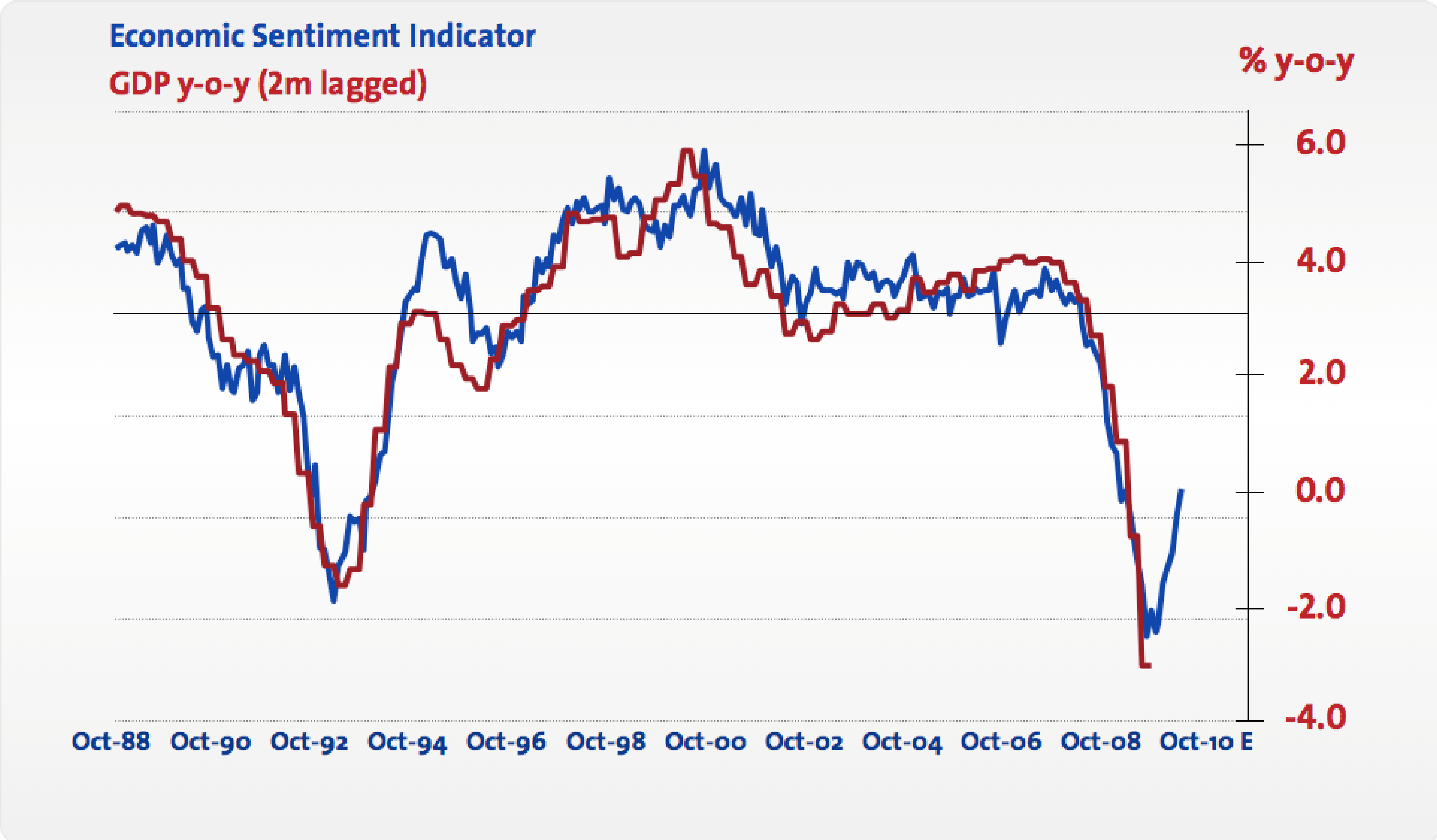


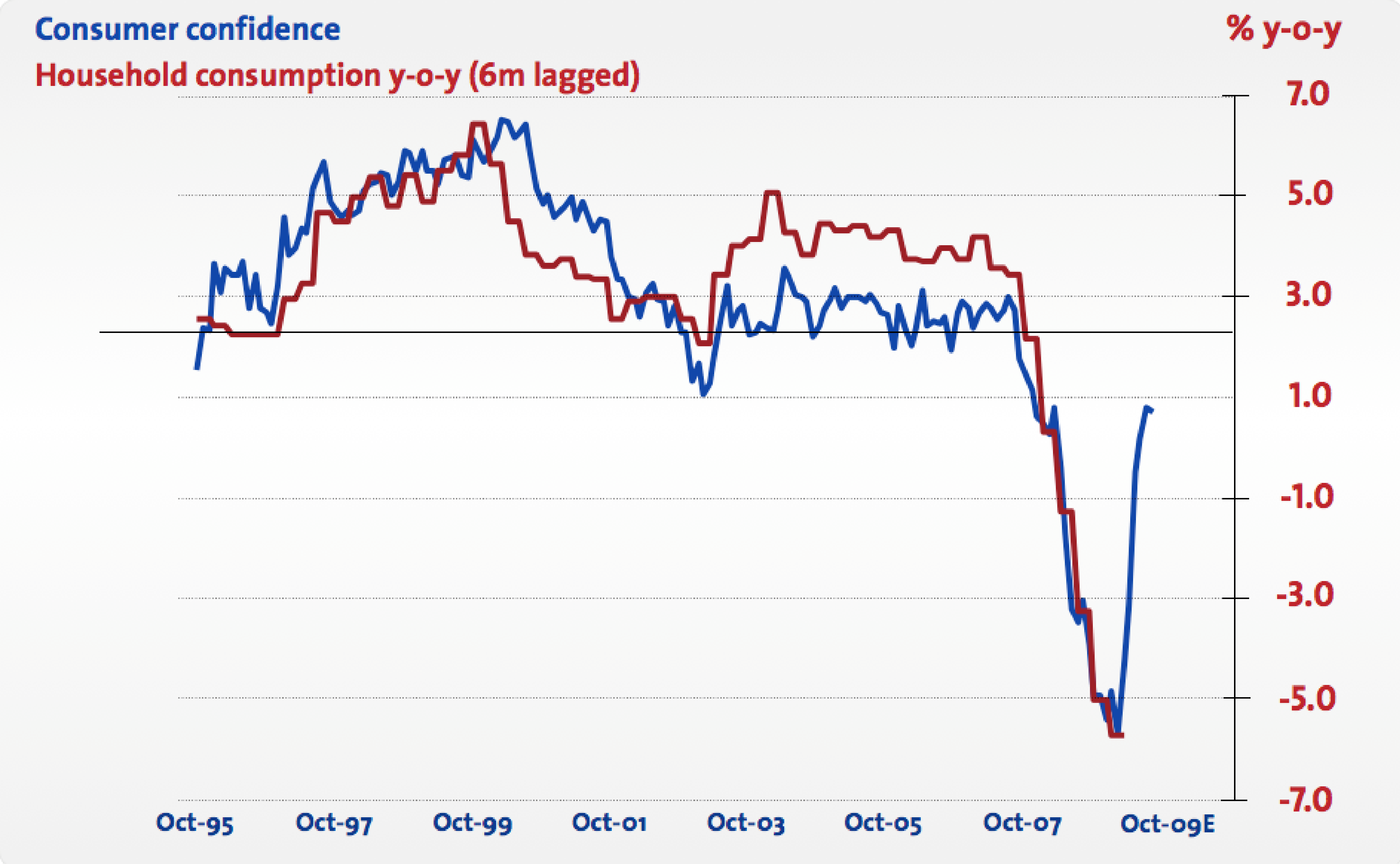
Source: Consensus forecast

01. Green shoots even in Spain



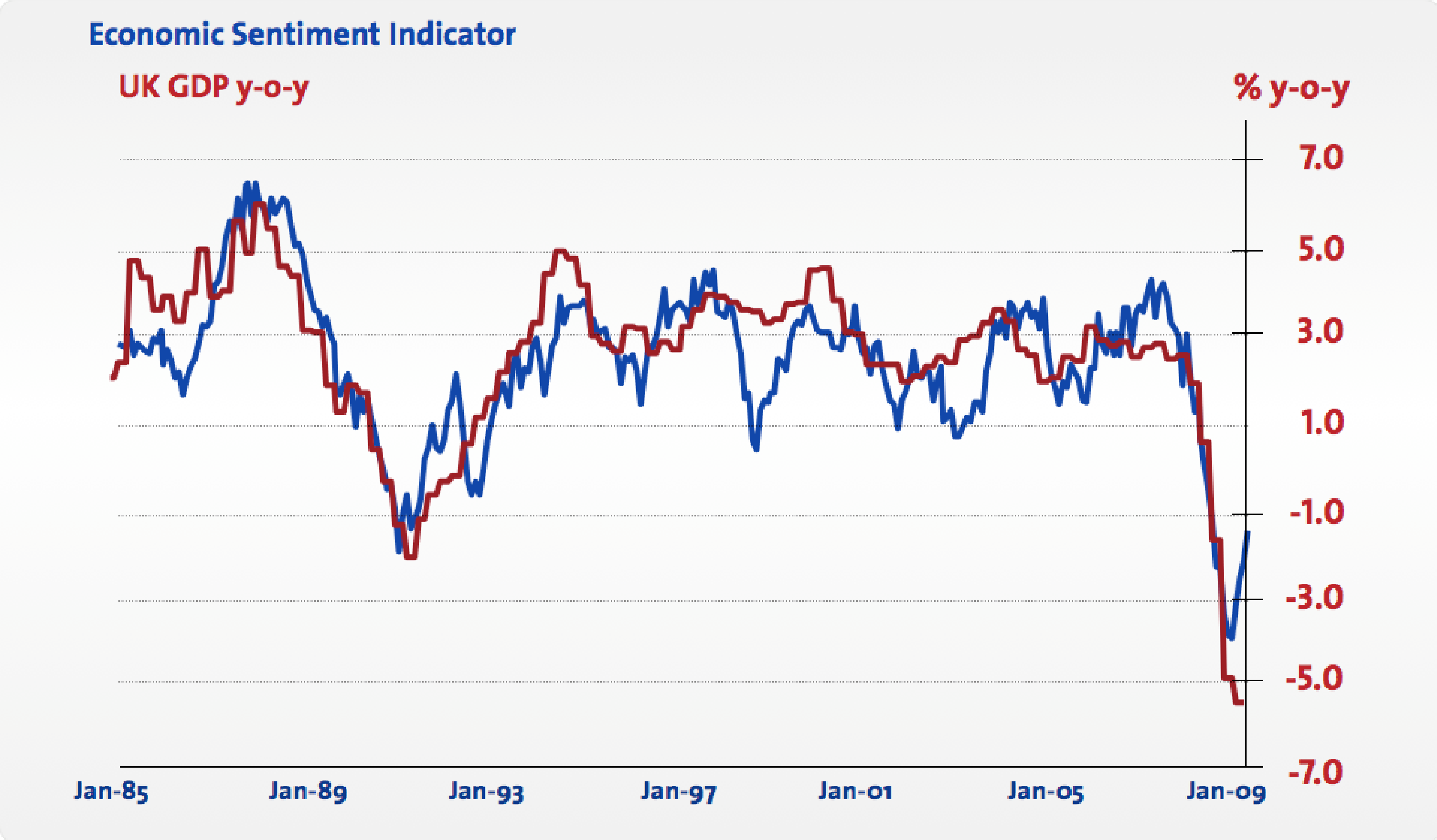
Source: European Commission and Spanish Statistical Office (INE)

01. Green shoots even in Spain



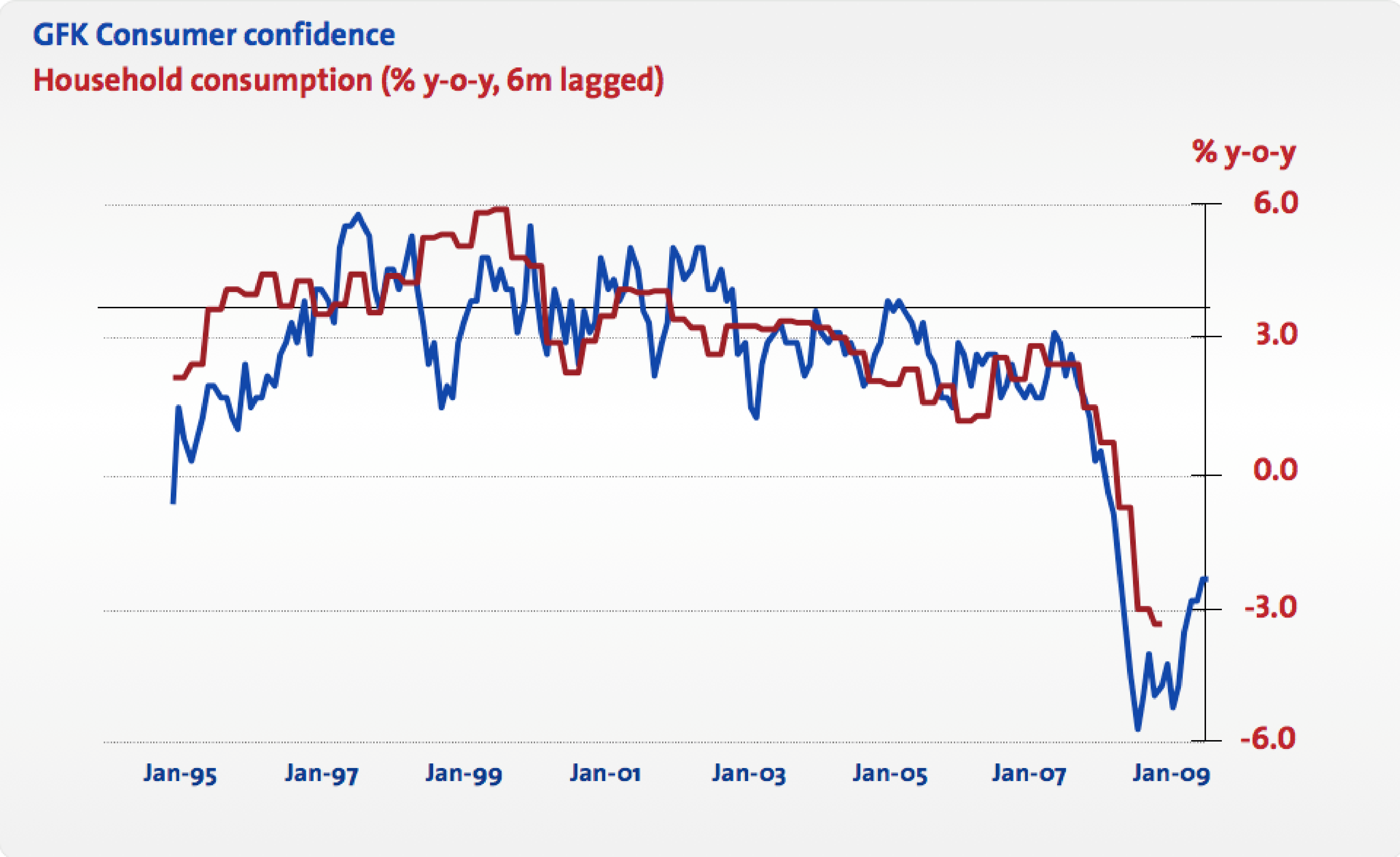
Source: European Commission and Spanish Statistical Office (INE)

01. UK economy turning around?



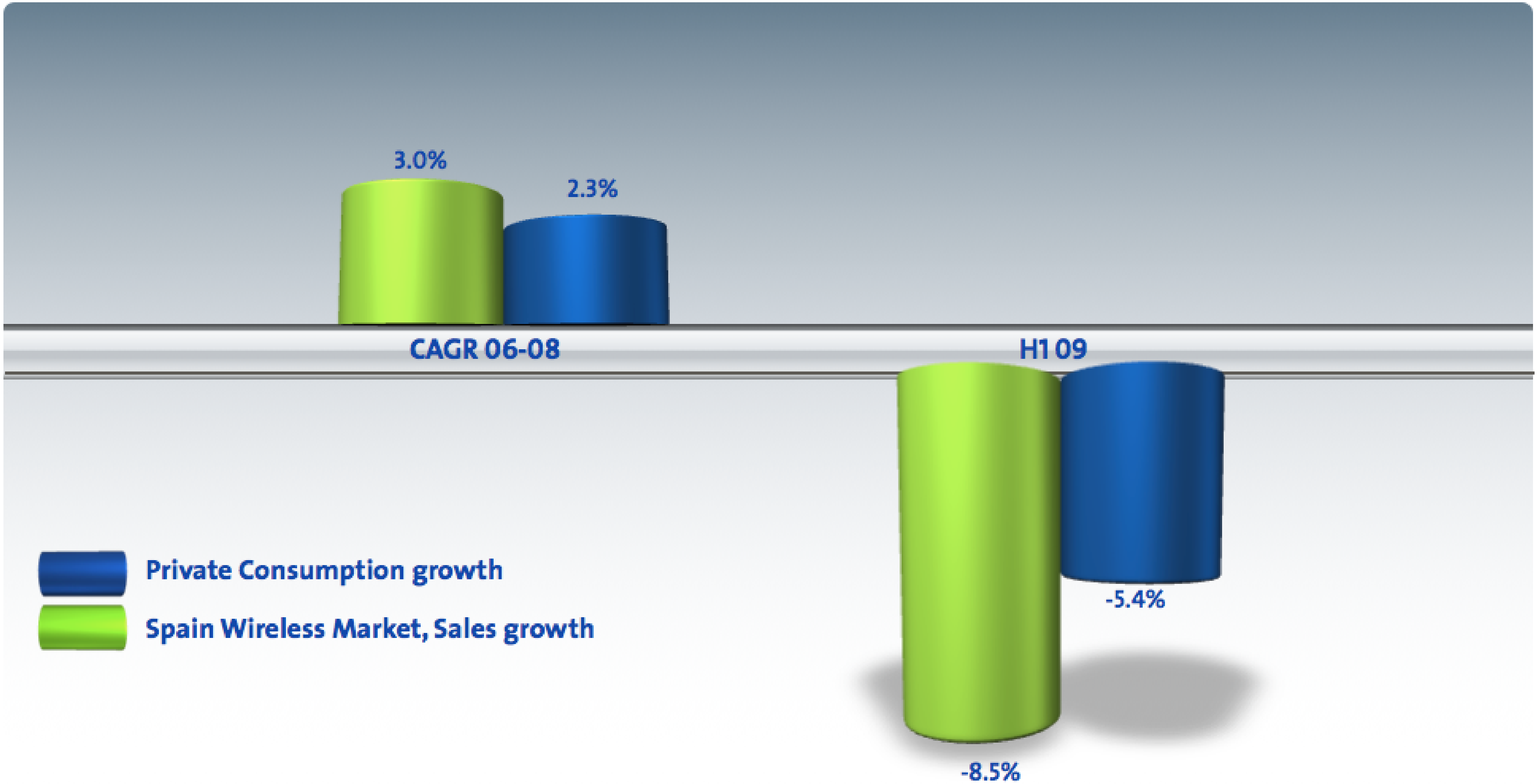
Source: European Commission and UK National Statistics

01. UK economy turning around?



Source: European Commission and UK National Statistics

01. Expecting elasticity to work on the upside

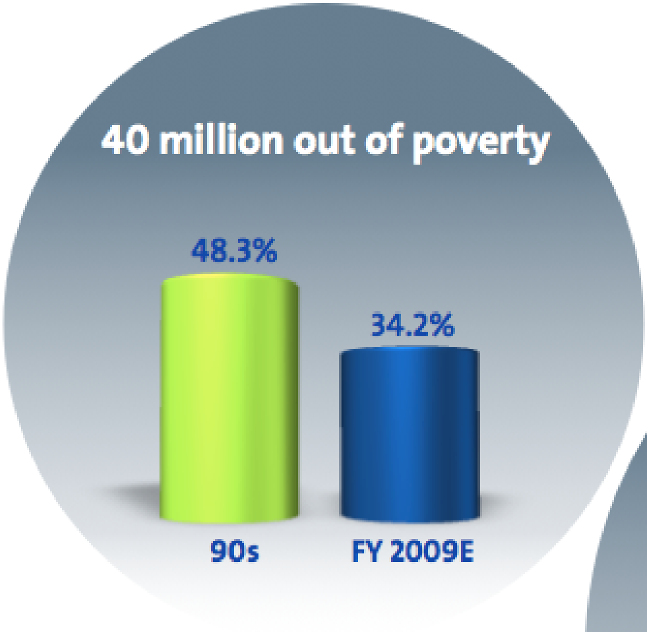


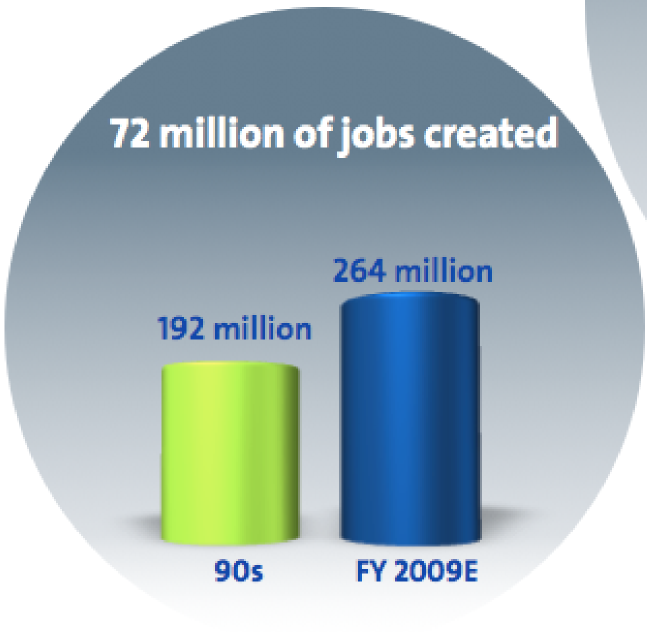
Source: CMT, internal estimates and Spanish Statistical Office (INE)

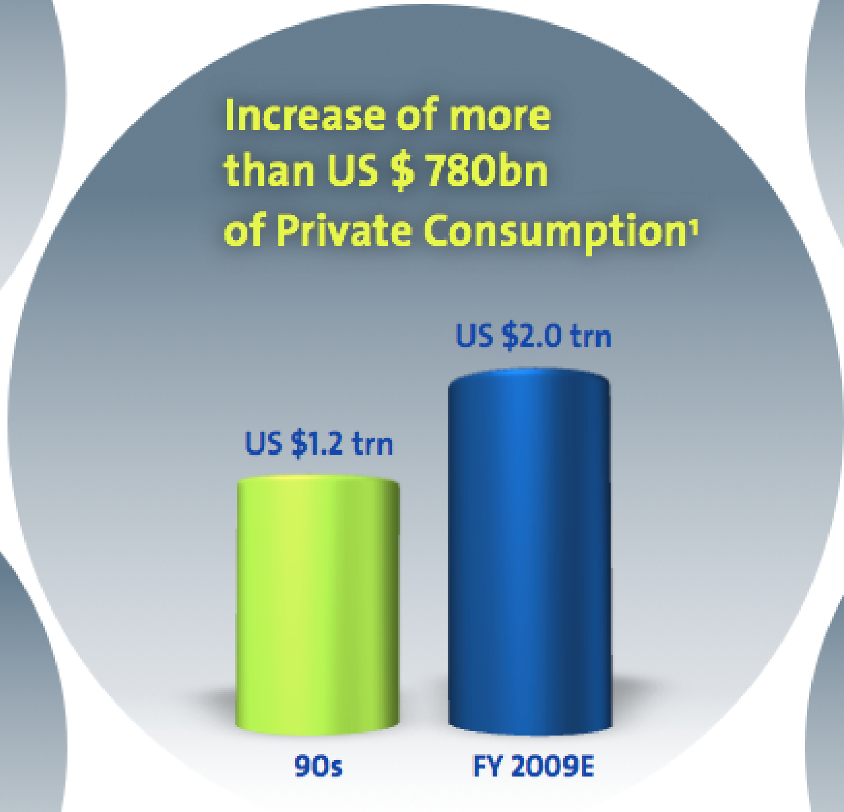
01. Out of recession in Latam

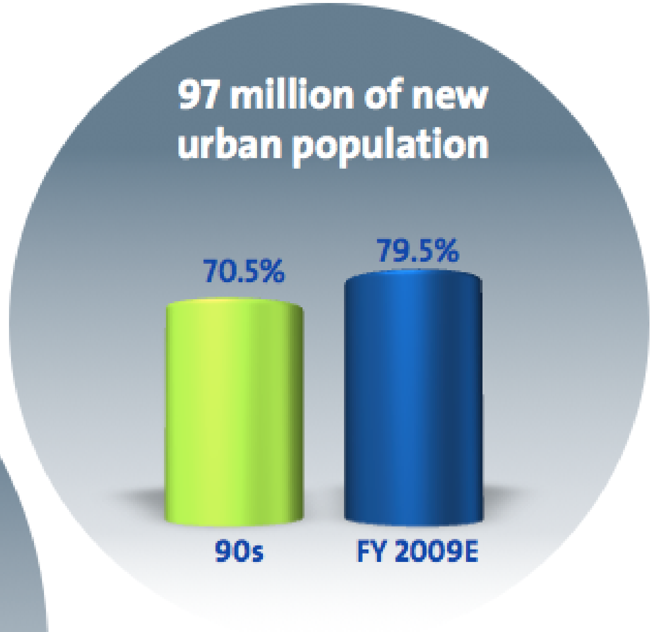
- Clear pace of recovery in Brazil, Colombia, Chile and Peru
- The laggards (Mexico, Argentina and Venezuela) pointing to positive growth as well

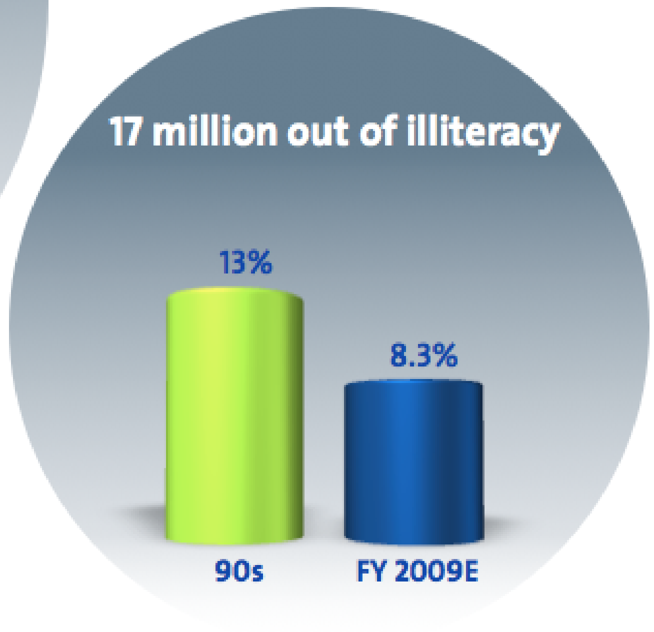
01. Latam shift is structural







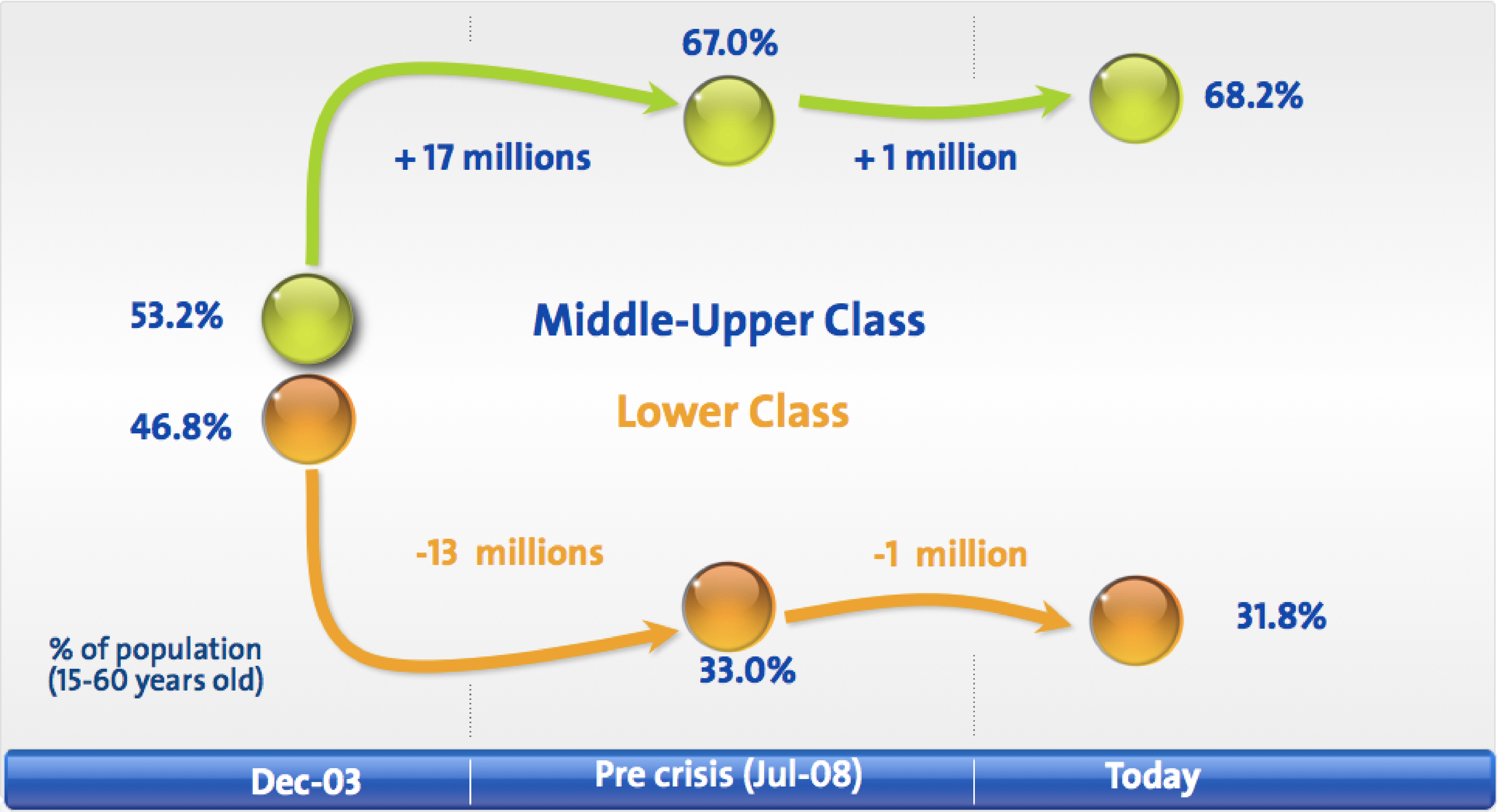




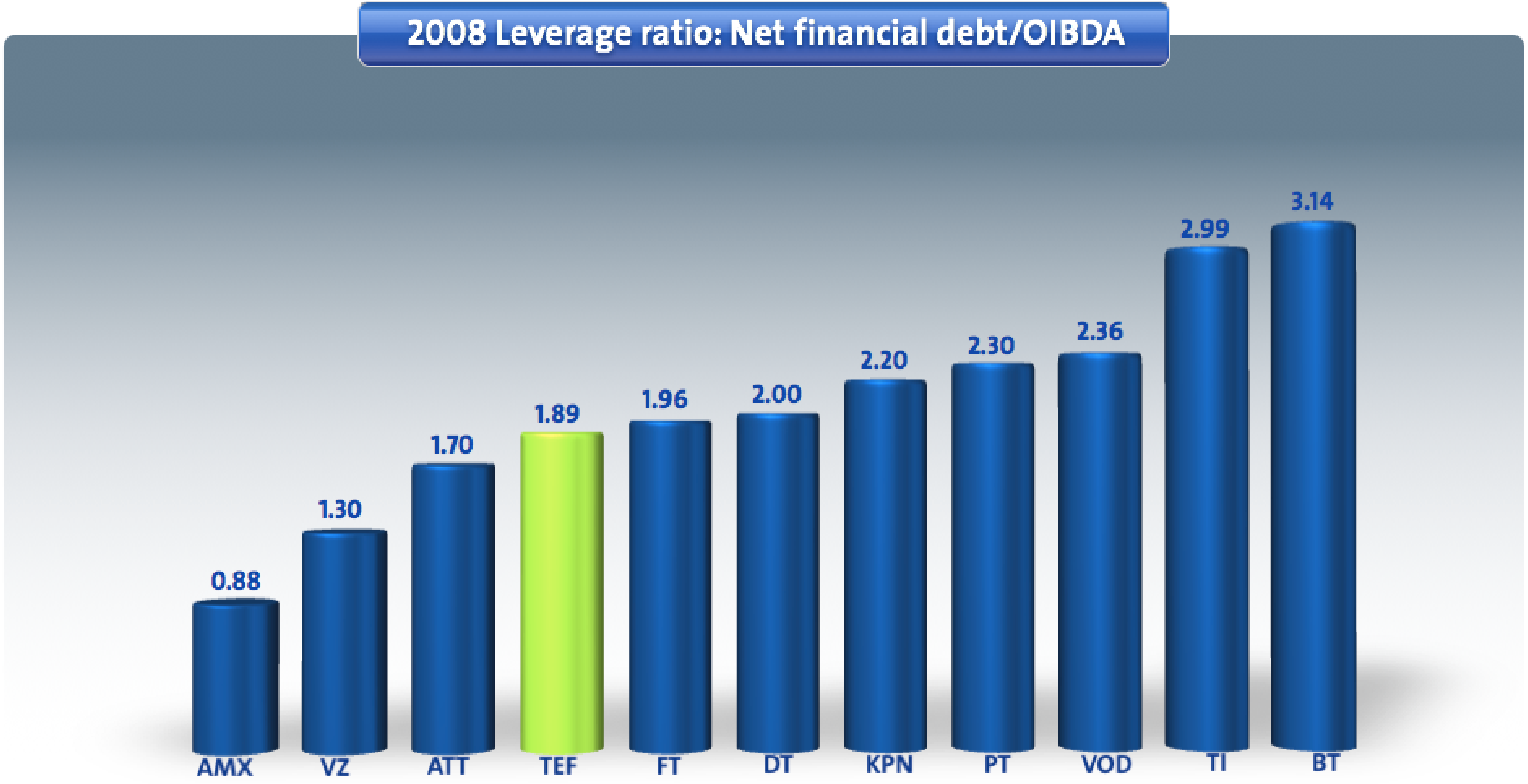
Source: ECLAC

1. Assumes constant exchange rates as of 2000

01. Brazil: the unstoppable ascent of the middle-class

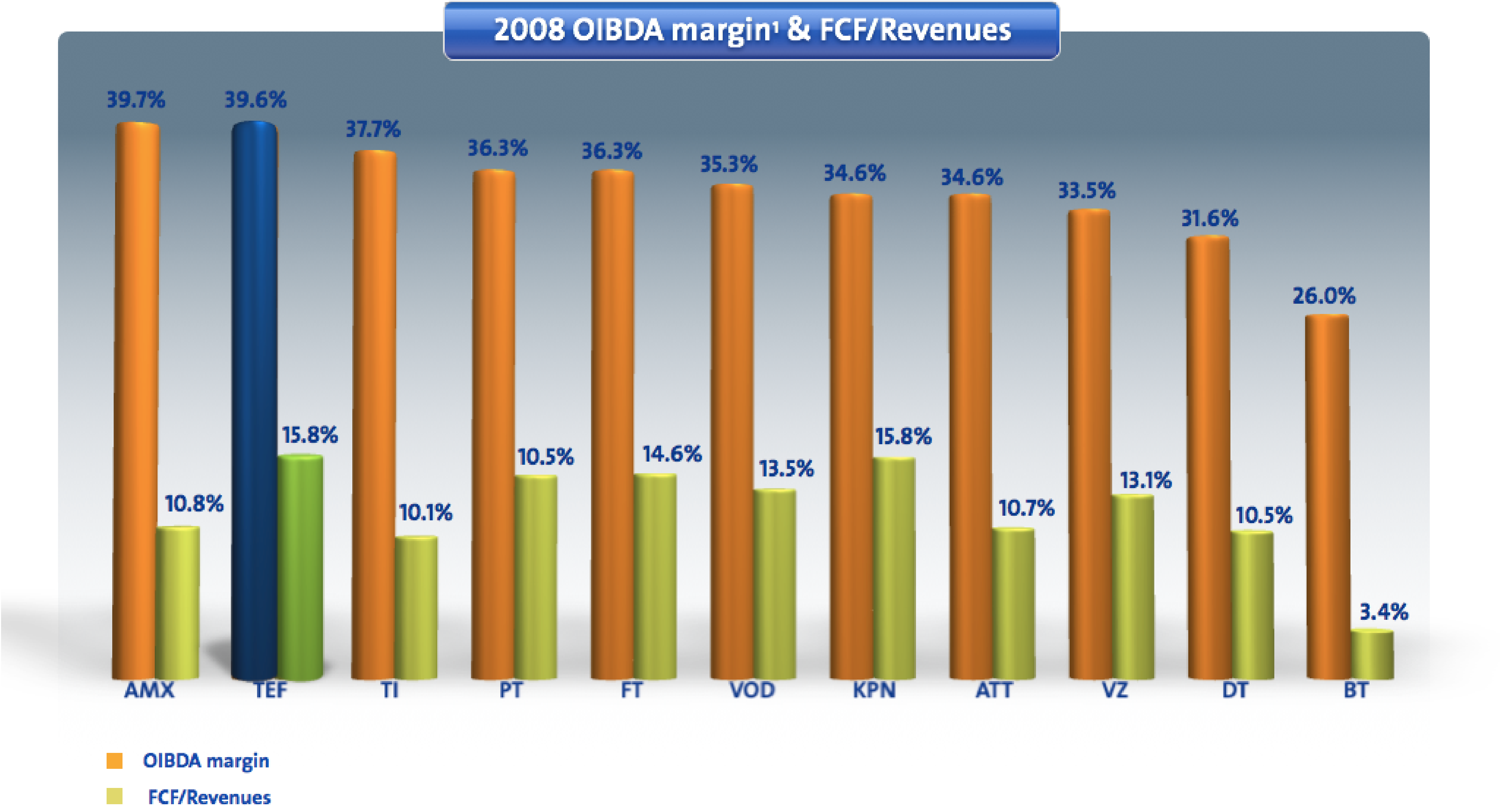


02. Debt ratios well positioned in absolute and relative terms...



Methodology: Companies reported figures for full year ending December 2008. BT & VOD calculated as reported net debt over reported EBITDA for full year reported figures ending Mar-09. For ATT calculated over normalized debt balance

02. ...and top OIBDA margin and FCF/Revenues provide the basis...



1. OIBDA margin calculated as reported OIBDA or EBITDA over reported revenues. For DT EBITDA adjusted for special factors and for FT GOM

Source: OIBDA Margin: Companies reported figures for full year ending December 2008. BT & VOD full year ending March 2009. FCF: Bank of America Merrill Lynch except for Telefónica where reported figures are shown. Telefónica's FCF defined as the amount of cash flow available to remunerate Telefónica, S.A. shareholders, to protect solvency levels (financial debt and commitments), and to accomodate strategic flexibility

Telefónica

02. ... for top-of-the class shareholder remuneration...

Source: Bank of America Merrill Lynch

1. Shareholder remuneration calculated as: Cash dividend FY 2009E + share buybacks FY 2009E

02. ...while reducing risks, to support valuation

Risk reduction through high solvency has several positive impact for shareholders

Highest coupon in Eurobonds by Telcos: Telefónica at the low end (%)

1 Unconstrained strategy

2 Sustainable dividend flow:

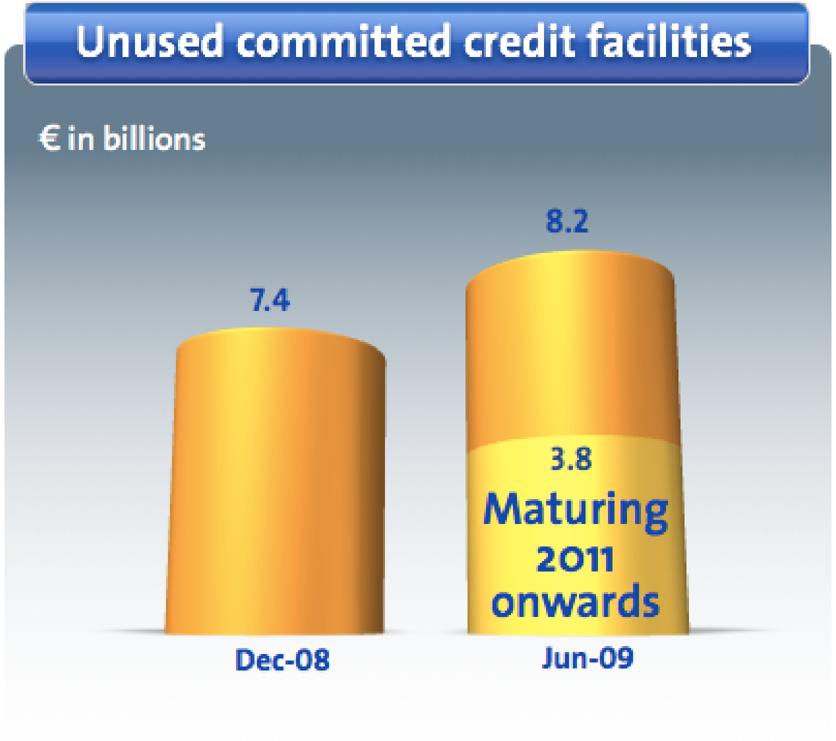
- Less sensitive to credit constrains
- Not dependent on repatriation from Venezuela

3 Value protection in credit crisis

Avoid stock price depression when credit spreads skyrocket and bond yield sets a high benchmark for the cost of equity

02. So we have continued to take care of our financial profile

Net financial debt & committments to be kept in the 2.0-2.5x OIBDA range

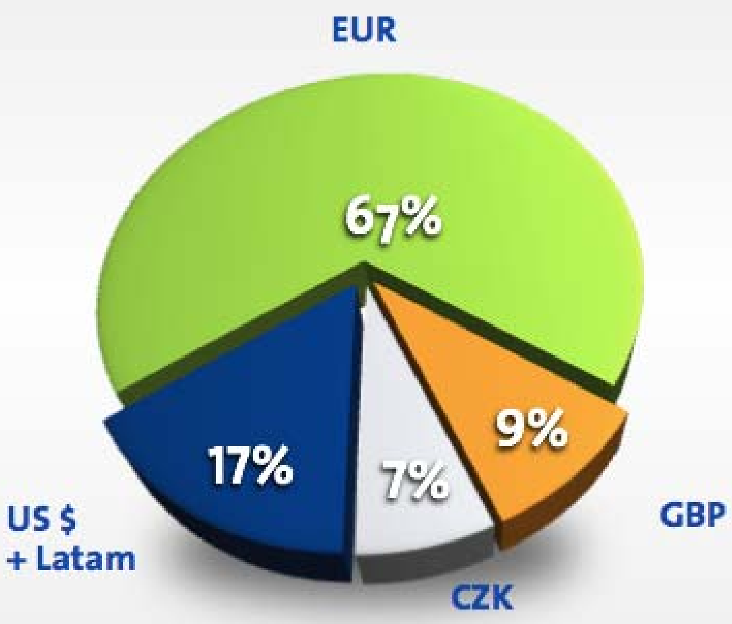


- Significant financing activity in 2009:
  - € 4 bn syndicated loan extended from 2011 to 2012 and 2013 (50% each)
  - € 3.9 bn Eurobonds and US $ 2.25 bn issued in 2009, extending maturities as credit margins decreased

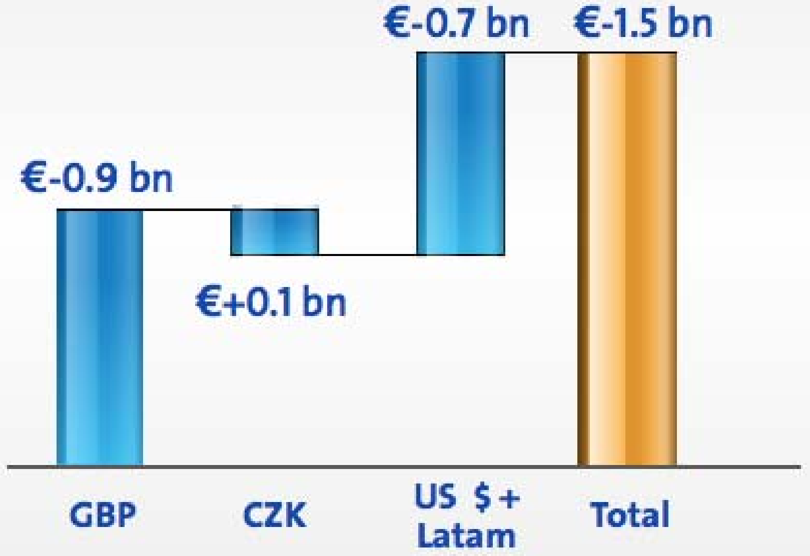
03. Close to € 1.5 bn debt reduction coming from non-euro debt in the last 2 years

Debt currency mix

Jun-09

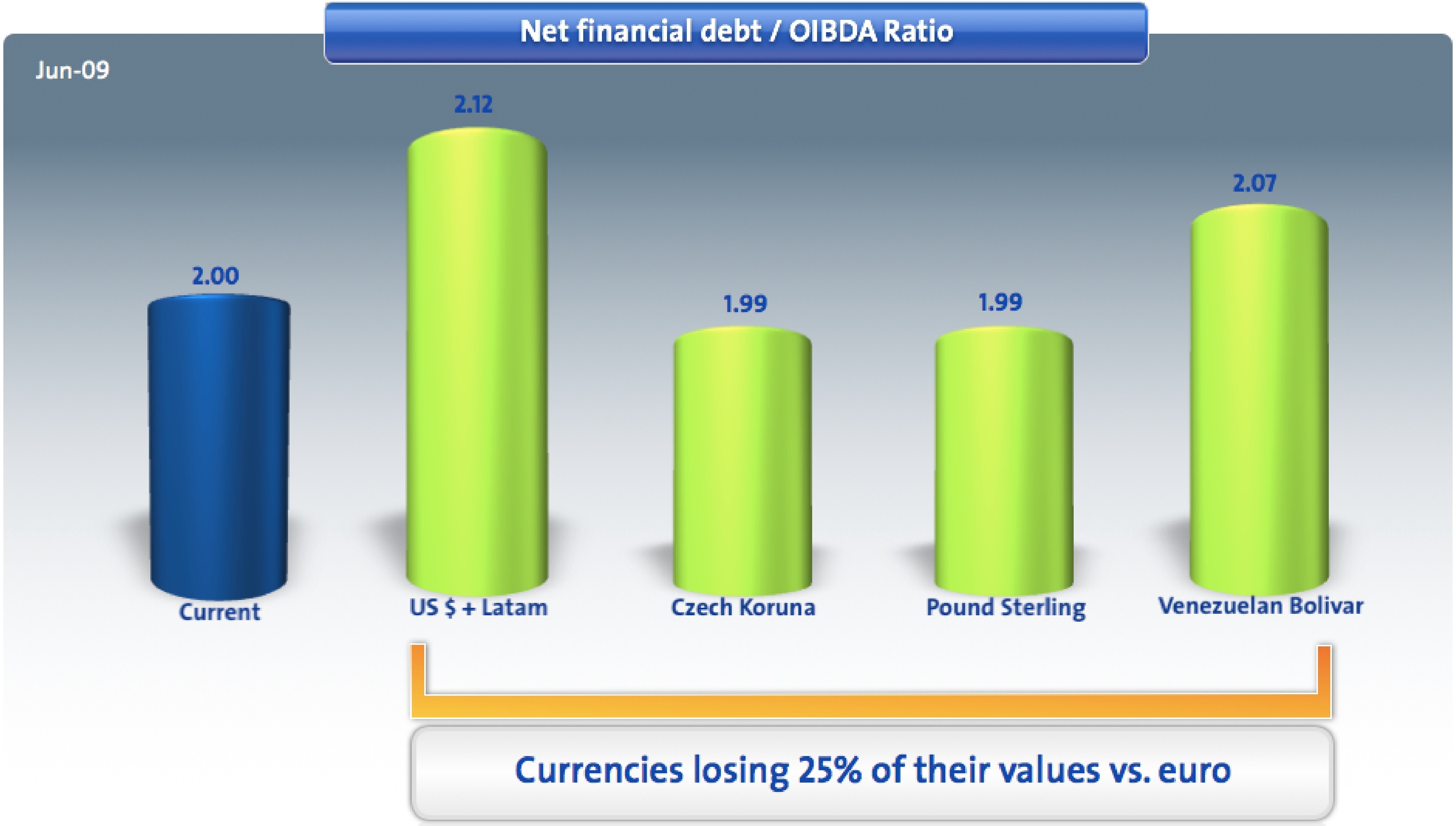


Debt FX savings since Oct-07



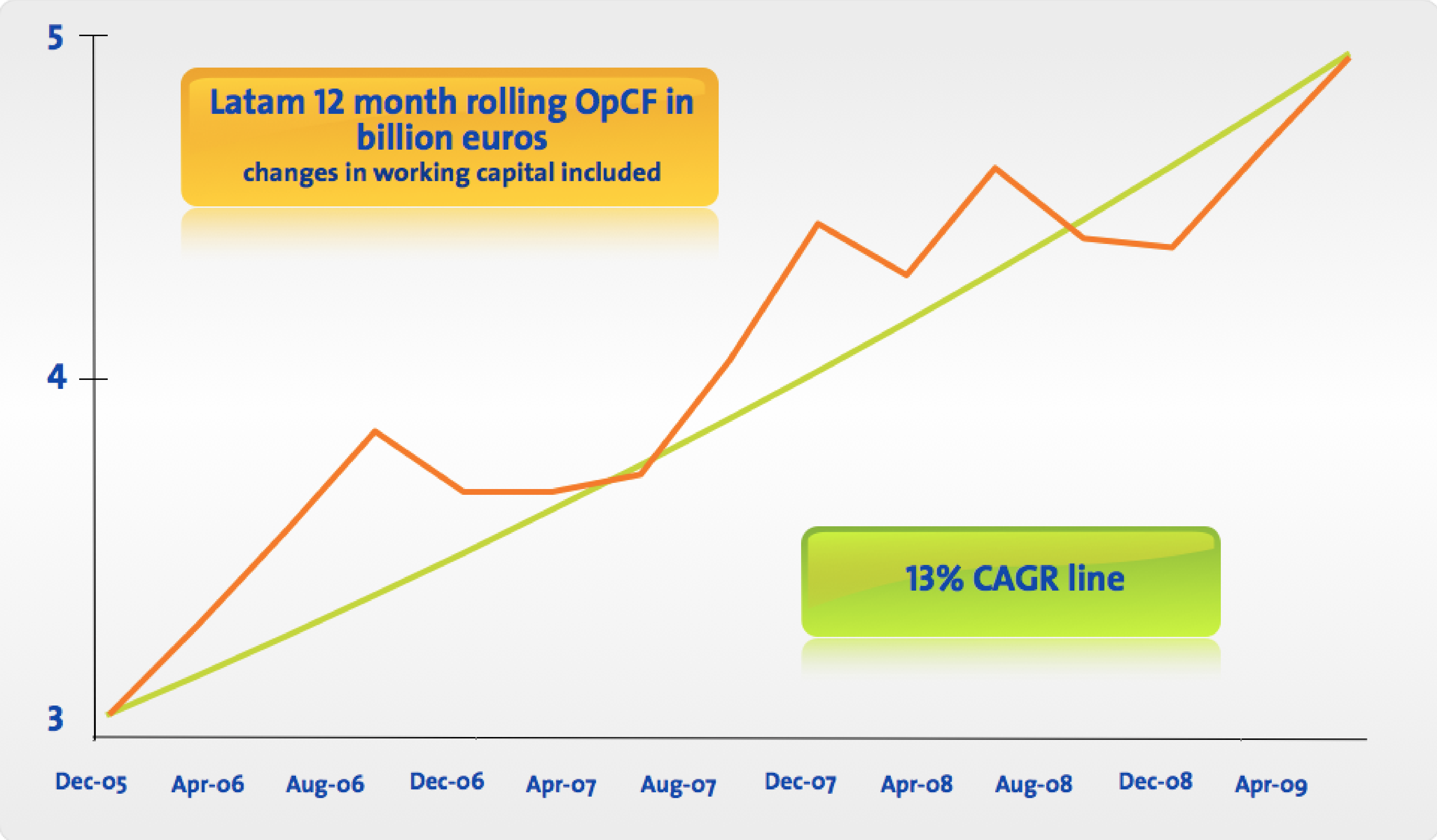
03. Solvency protected from FX depreciations...

Debt/OIBDA ratio fairly stable



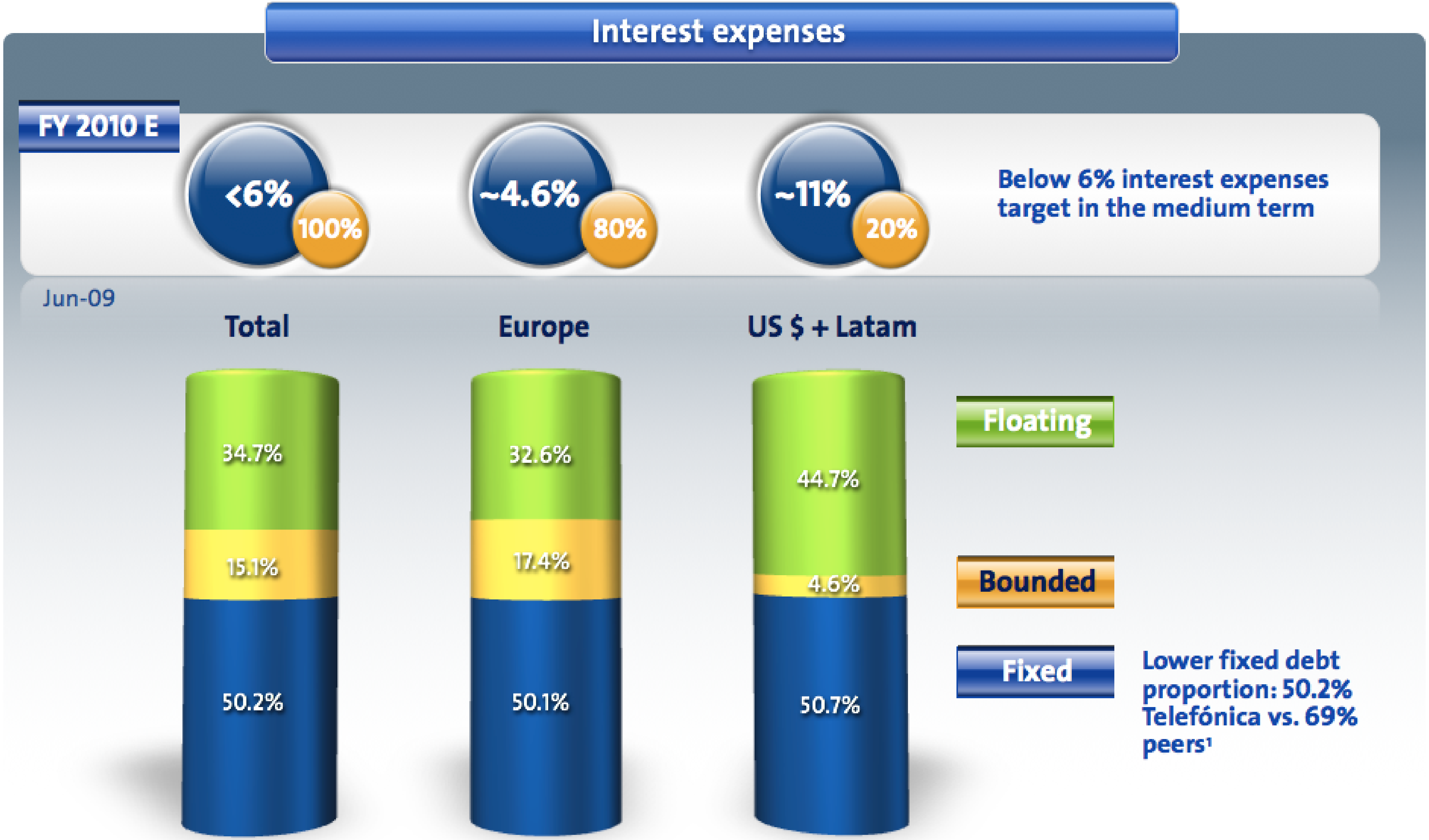
03. ...though overall risk is smaller than many think...

Latam operating cash flow trendline growth around 13% with limited deviations



03. ...and keeping financial expenses under control

Benefiting from floating exposure both in Europe & America



1. Bloomberg & BNP estimates : weighted average fixed debt reported Dec-08

03. High tax efficiency

Accrued tax/Revenues 2008

- Accrued taxes represent a lower percentage of revenues than peers operating in countries with similar nominal tax rates

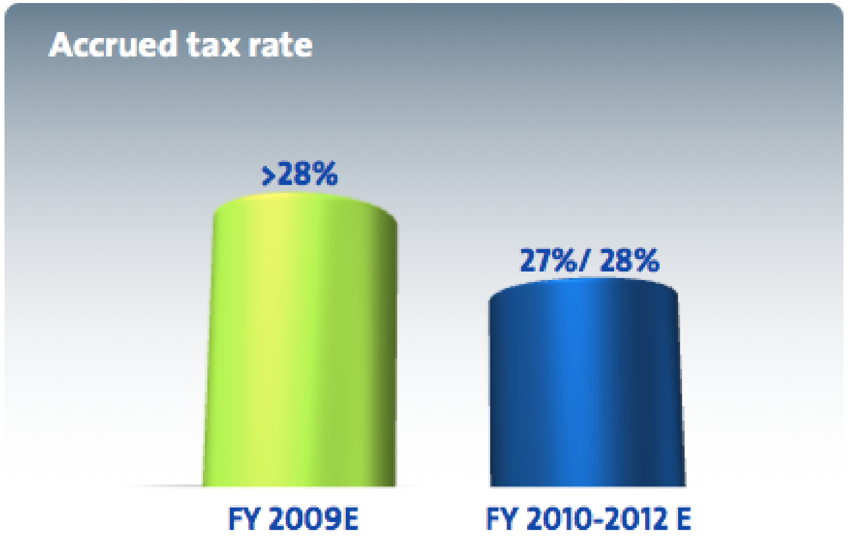
Source: Companies press releases

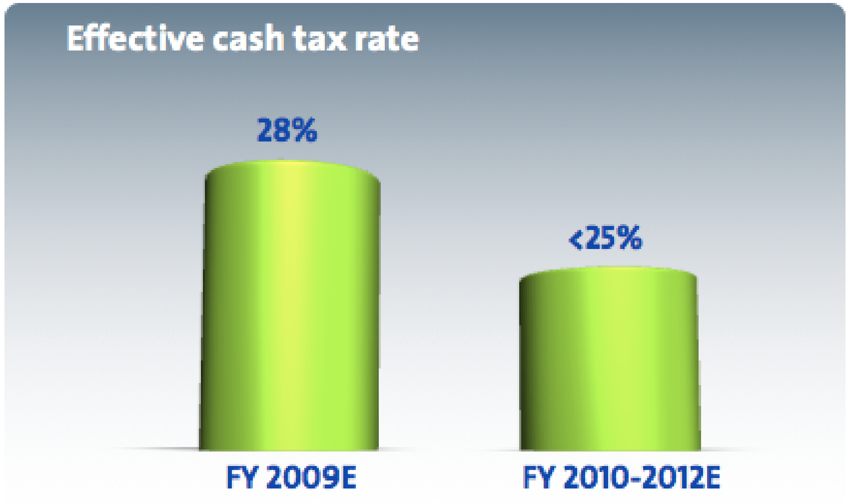
03. Tax expenses around 27.5% of profits in the coming years

Effective cash tax rate to be kept below average nominal rate

- Effective cash tax rate will fluctuate below accrued tax rate, among other reasons due to business concentrations in certain jurisdictions
- Looking for tax management opportunities in a more demanding tax environment

Telefónica has become a reference in relations with Tax Authorities, following latest trends settled by OECD





04. EPS & DPS targets

EPS[1]

- 2010 original London guidance depressed by a weaker economy, less favourable exchange rates and a higher sensitivity of revenues to the business cycle, especially in mobile
- **€ 2.10 EPS**[1] **stress scenario confirmed for 2010** on the back of the embedded operating guidance and continuing with gaining efficiencies across P&L items and non core assets disposals

DPS

1. Reported EPS
2. It is Company's intention to maintain its current practice so that dividends will be payable in two tranches
3. Targeted under current guidance hypothesis

04. Disciplined use of FCF

>€ 40 bn cumulative FCF[1]
FY2009 - 2012E

Priorities

1 Growing dividends	€ 1.40[2] DPS in FY 2010E (+21.7 % y-o-y) € 1.75[2,3] DPS minimum target for FY 2012E
2 Stable leverage	Net Debt + Cash Commitments/OIBDA in the 2.0 – 2.5x range
3 Selective M&A	Spectrum auctions in current markets to foster growth In-market consolidation Increase shareholding in China Unicom to 10%

+

Tactical share buybacks to be considered for FCF excesses
Recently announced stake increase in China Unicom to be paid with treasury stock

1. Free Cash Flow available to remunerate Telefónica's shareholders, to protect solvency levels (financial debt and commitments), and to accomodate strategic flexibility. Figures assuming 2008 constant exchange rates (average exchange rates in 2008) and excluding changes in consolidation
2. It is Company's intention to maintain its current practice so that dividends will be payable in two tranches
3. Targeted under current guidance hypothesis

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