

# XVI Santander Telecommunications Conference Sintra (Portugal)

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*Chairman of Telefónica España*

18th June, 2009



# We have accomplished our priorities in Q1

## 1 Cash Flow

- Cash flow maximization
- Efficiency improvement

## 2 Value Market Share

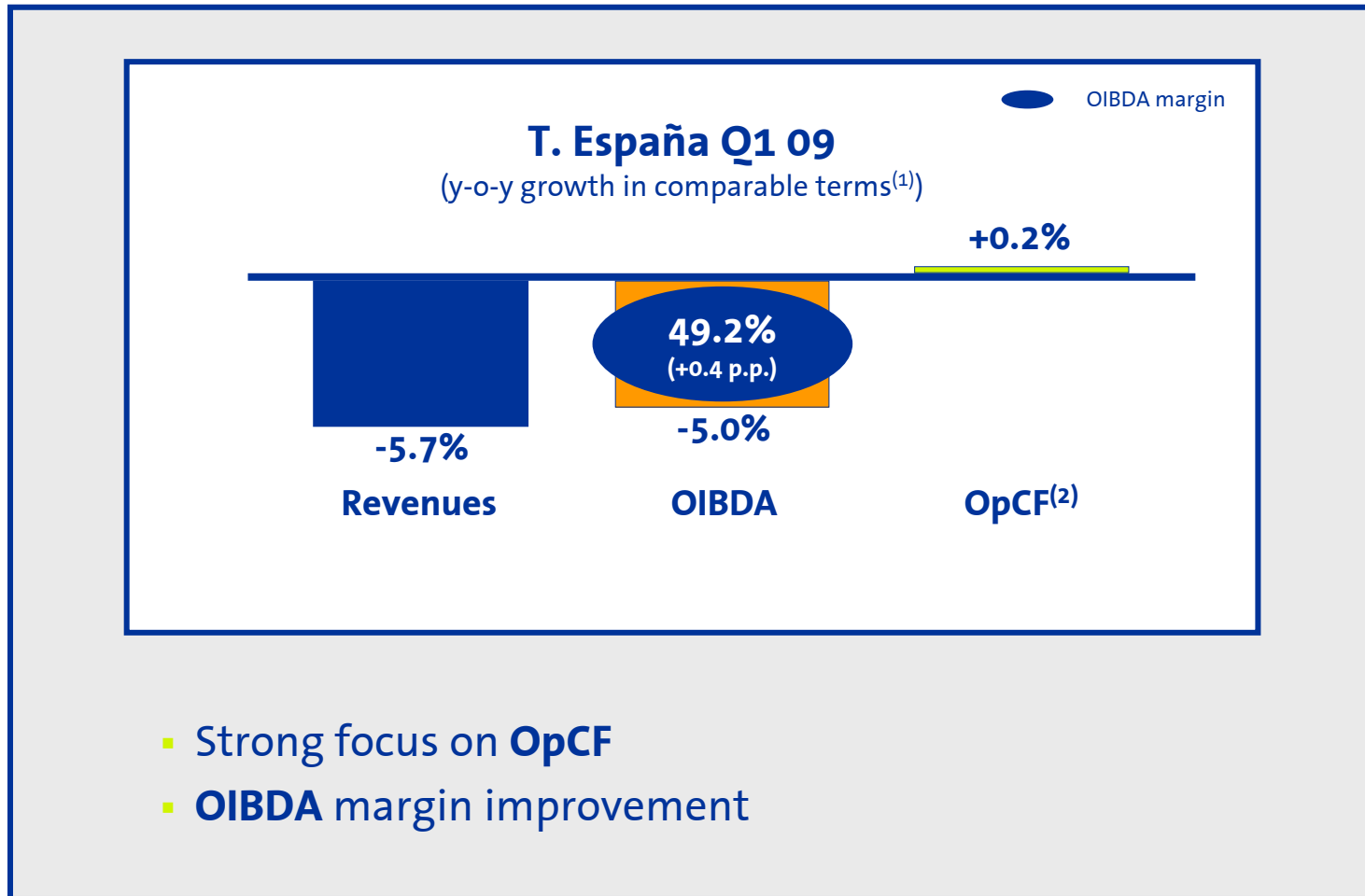
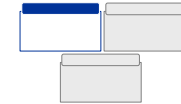
- Focus on value
- Defense of traditional business
- Capture growth opportunities

## 3 Customer Satisfaction

- Adapt our offer to customers' needs
  - Stimulate usage
  - Convergent and simpler offers
  - Specific needs
- Premium quality

1

# Delivering a sound operating cash-flow within a pressuring environment

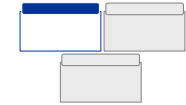


(1) Excludes impact on revenues (Wireline: € 75.3 m) and OIBDA (Wireline: € 45.6 m; Wireless: €-23.9 m) of USO in Q1 09, as well as bad debt recovery in Q1 08 (Wireline: € 17 m; Wireless: € 8 m) and Real Estate capital gains (Wireline: € 0.4 m Q1 09 and € 67 m Q1 08).

(2) OpCF: OIBDA-CapEx.

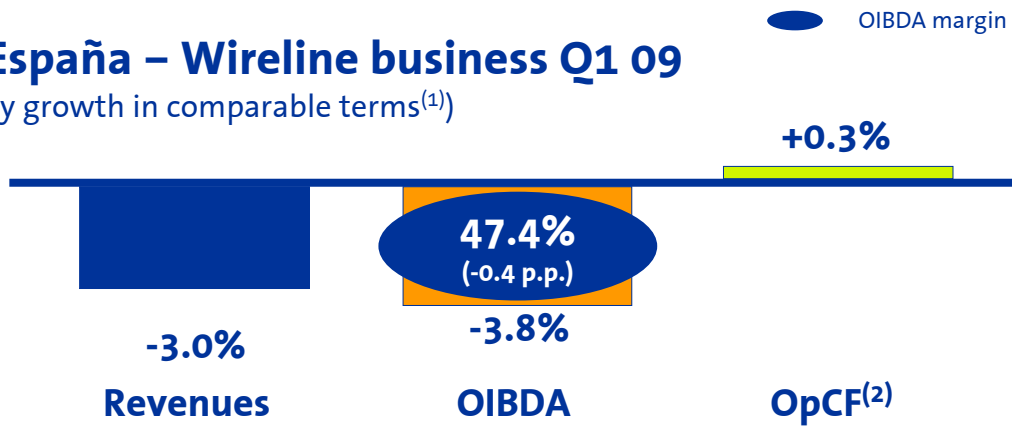
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# With solid margins in wireline and wireless business



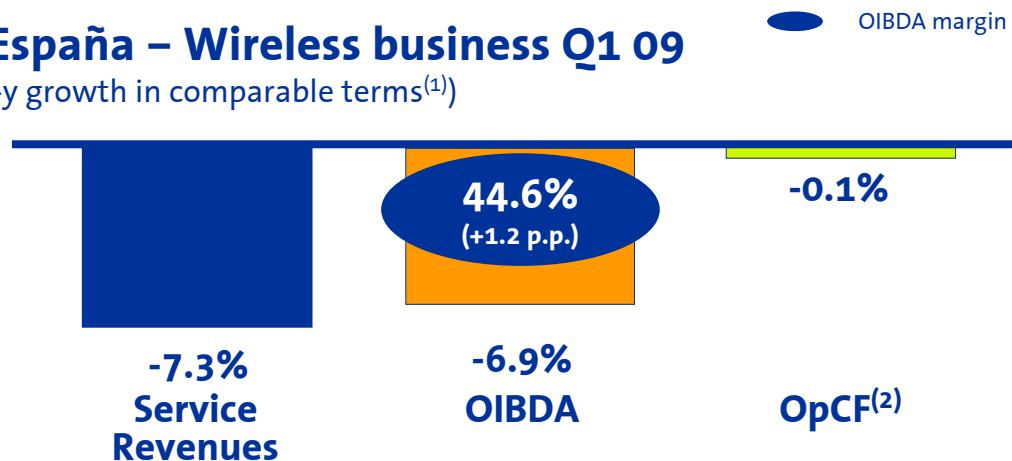
## T. España – Wireline business Q1 09

(y-o-y growth in comparable terms<sup>(1)</sup>)



## T. España – Wireless business Q1 09

(y-o-y growth in comparable terms<sup>(1)</sup>)



- Focus on OpCF maximization across businesses without jeopardizing revenue share leadership

- Limiting top line pressure with efficiency gains and CapEx discipline

- ✓ Sustaining solid margins: flat in wireline, while expanding in wireless

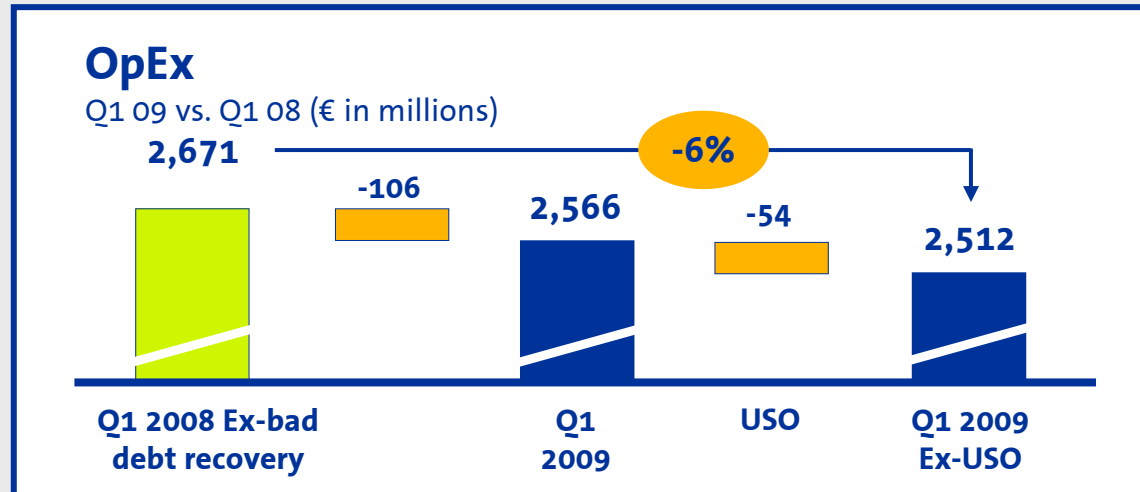
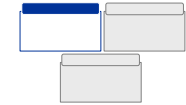
- ✓ CapEx adapted to current trading environment

(1) Excludes impact on revenues (Wireline: € 75.3 m) and OIBDA (Wireline: € 45.6 m; Wireless: €-23.9 m) of USO in Q1 09, as well as bad debt recovery in Q1 08 (Wireline: € 17 m; Wireless: € 8 m) and Real Estate capital gains (Wireline: € 0.4 m Q1 09 and € 67 m Q1 08).

(2) OpCF: OIBDA-CapEx.

1

# Successfully managing OpEx to preserve OpCF generation, with a solid execution track record



- Lowering pressure on **personnel costs**
- **Lower commercial<sup>(1)</sup>, handsets and interconnection costs**
- **Logistics and third party relations** model simplification
- **Energy rationalization & efficiency program**

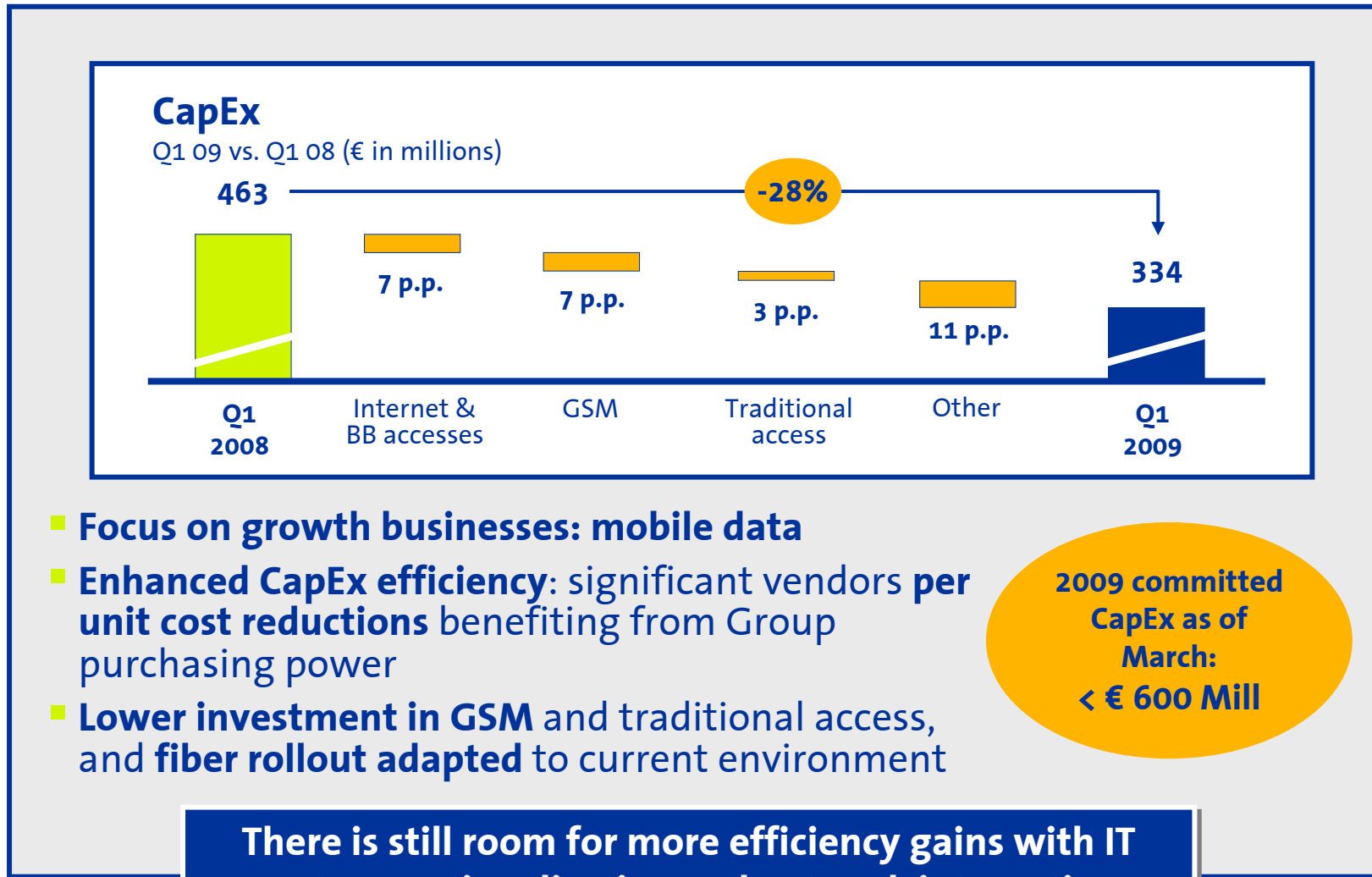
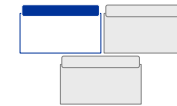
**Efficiency ratio**  
**(OpEx+CapEx)/Revenues <sup>(2)</sup>**  
**-1.3 pp y-o-y to 61.1%**

(1) Handset subsidies, commissions to dealers and advertising

(2)  $[(OpEx+CapEx-Internal\ exp.\ capitalizaed\ in\ fixed\ assets)]/Revenues$

1

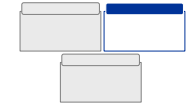
# Limiting top line pressure through CapEx discipline, without impairing our future growth opportunities



**There is still room for more efficiency gains with IT systems rationalization and network integration**

2

# Focusing on value market share, with strong leadership in wireless and wireline



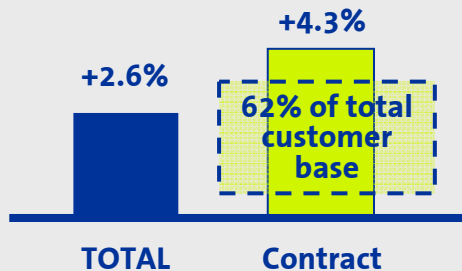
**Focus on revenue share leadership**

- Maintaining leadership in wireless services market share<sup>(1)</sup>: **+4/5 p.p. estimated gap vs. customer base market share, up y-o-y**
- Improving gap** between revenue (62% E) and accesses market share **in wireline**

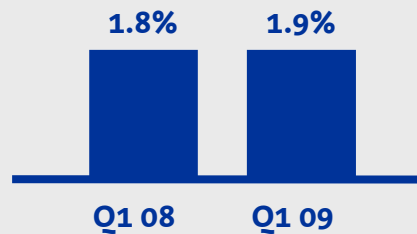
**Leadership in broadband**

- Leadership in a slowing down retail wireline Internet Broadband market:** market share higher than 56% and accesses +9.4% y-o-y

**Wireless accesses**  
(Mar-09 y-o-y change)



**Wireless churn**  
(% monthly)



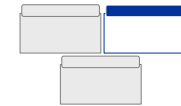
**Wireline 2P & 3P adoption**

**4.6 m Duo & Trio bundles**  
**86% of retail BB accesses**

(1) Outgoing services

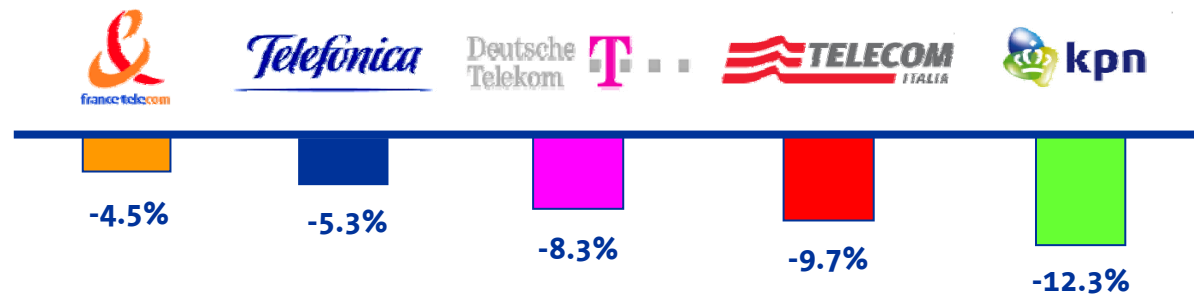
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# Outperforming our peers in our traditional business, despite the worse trading conditions



## Fixed Domestic Telephony Lines<sup>(1)</sup>

(Mar 09 y-o-y change)

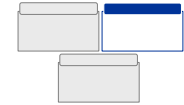


- 53% of Q1 09 line losses are compensated by wholesale lines and continue to generate revenue stream
- Remaining 47% due to shrinking market and indirect access
- Lines lost have lower ARPU than average

(1) Source: companies press releases.

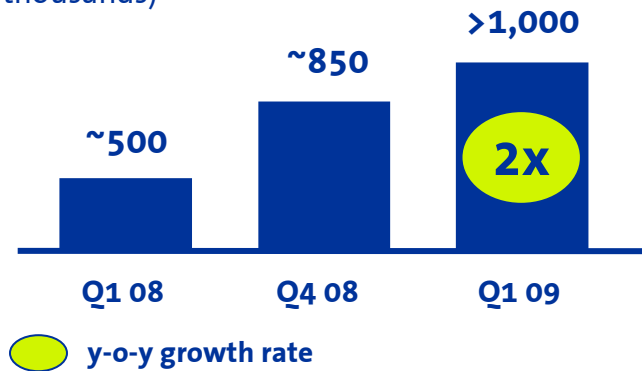


## 2 Capturing growth opportunities in mobile broadband and IT services



### Flat rate wireless data plans

(in thousands)



- Almost 7 mill 3G devices in Mar 09 (1.6x vs. Mar 08)
- Leading 3G devices growth in Spain

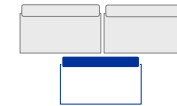


- Strong IT revenue growth (+24.5% y-o-y)
- Sound evolution of wireline data revenues (+3.6% y-o-y)

Data at Q109

3

# Adapting our value proposition to stimulate demand elasticity



NUEVO PLANAZO 19€ SIN HORARIOS

Mobile flat rates for Residential

Libertad total en tus llamadas los fines de semana

Mobile flat rates on weekends

+RECARGA = EN FEBRERO RECARGA TU MÓVIL Y PODRÁS GANAR: 50.000€

Top-ups promotions

Línea de teléfono Sólo en telefonica.es AHORRA más de 8€

Fixed line offers for Residential

10€ / MES TARIFA PLANA DE INTERNET EN EL MOVIL 1 MES GRATIS

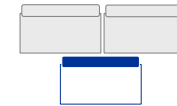
Flat rates allowing connection from any mobile device

Tarifa Profesional 9 CÉNTIMOS MINUTO TODAS LAS LLAMADAS POR SOLO

Mobile offers for SMEs and SOHOs

3

# Focusing the commercial effort on convergent and simple bundles



**dúo Kit ADSL 10 Mb**  
12 meses a  
**33,90 €/mes**  
Alta y router Wi-Fi **GRATIS**

**Bundling products Dúo/Trío (voice+ADSL+TV) ...**

SÓLO en telefonica.es  
Las mejores ofertas de ADSL + **Imagenio**

ADSL 6 Mb + <b>Imagenio</b>	12 meses <b>32,90 €/mes</b>	Descodificador <b>GRATIS</b>
<b>Imagenio Familiar 6 Mb</b>	12 meses <b>41,90 €/mes</b>	Router Wi-Fi + Instalación <b>GRATIS</b>

Si no tienes línea, contrátala GRATIS. Gratis el primer mes todos nuestros canales temáticos.

**... and Dúo/Trío (voice+ADSL+TV) + mobile voice for Residential**

**¡SÓLO EN TELEFONICA.ES!**  
**Puestos de Voz**

Línea Teléfono  
Instalación y mantenimiento

Alta de línea y de teléfono **GRATIS**

Todo por 1 **única cuota al mes** y con opciones para **personalizar su Puesto.**

▶ LE AYUDAMOS A ELEGIR

**RESPUESTA PROFESIONAL**  
**Puesto Informático**  
Ordenador, ADSL y mantenimiento

Desde **65 €/mes**

Ahora sí que le interesa tenerlo todo por una **CUOTA FIJA**

**Puesto Integral**

- Línea y Teléfono
- ADSL y Ordenador
- Instalación y mantenimiento
- Renovación de equipos informáticos cada 3 años

Alta y 2 cuotas **GRATIS**

Todo por 1 **única cuota al mes** y con opciones para **personalizar su Puesto.**

▶ LE AYUDAMOS A ELEGIR

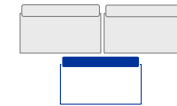
**Many convergent offers for SOHOs and SMEs (including voice, ADSL, equipment, maintenance..)**

10



# 3

## Besides, we continue developing our capabilities to offer a superior customer experience



### Recent prizes and awards

#### Customers

- Best **broadband provider** in Spain (ADSLzone.net / AI)
- Best **customer services** in Spain (AIAREC / AI)
- Most **valuable Spanish brand** – **Movistar** (Interbrand)



#### Employees

- One of the **TOP companies to work** in Spain (CRF)
- Best **management team** among Spanish companies (El Economista)



#### Accessibility

- Best **work on accessibility** (AUTELSI)
- Most **accessible website** (TecNet)



#### Sustainability

- Best **contribution to environment and sustainable use of ICT** in Spain (ASIMELIC)



#### Certifications



## In summary

**Despite worse trading conditions, we are successfully delivering our commitments optimizing OpCF generation and defending our revenues market share**

**We will keep safeguarding our highest value customers while capturing new growth opportunities**

**We are rationally adapting our offer to customers' needs in order to stimulate demand and sustain our market leadership**

*Telefonica*

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