



# Building on core strengths in a growing industry

Goldman Sachs Communacopia XIX Conference  
New York, September 21-22, 2010

Telefónica, S.A.

*Telefónica*

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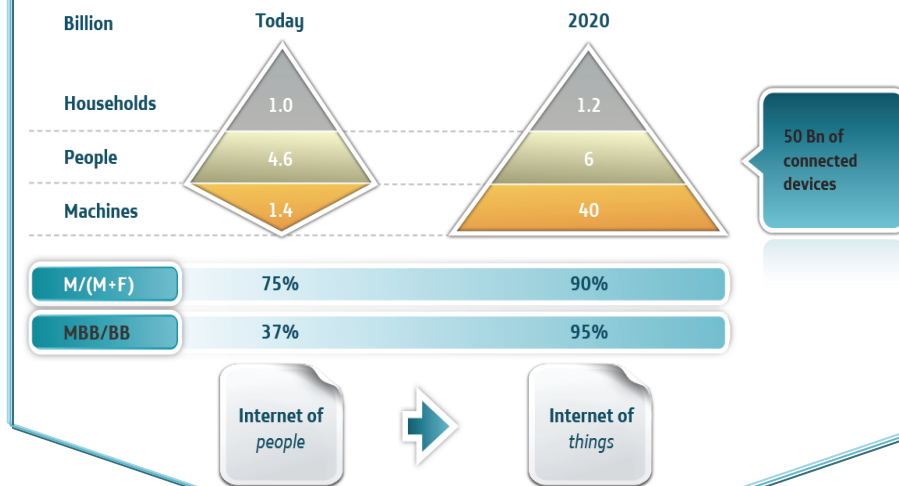
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# Telecoms, a sector with significant growth opportunities ahead

## Massive penetration of accesses & BB<sup>(1)</sup>

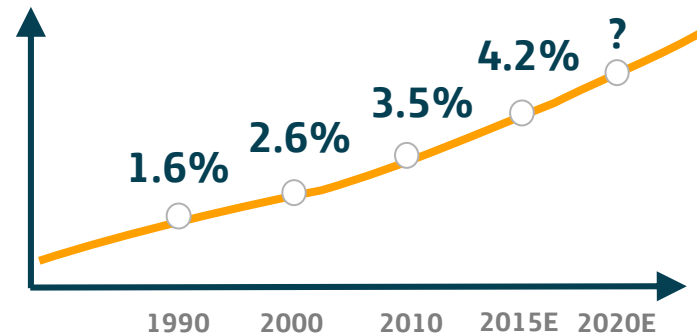


## Traffic explosion



## Increasing share in consumer's wallet

Communication Expenditure / Total Consumer expenditure<sup>(2)</sup>



# Telefónica is best placed to take full advantage of this growth

## We have the scale ...

- 278 m accesses (Jun-10)
- # 5 worldwide
- Strategic Alliance (CU) & Industrial Partnership (TI)

## the right assets ...

- Controlled operations in 22 countries; #1 or #2 in most
- Integrated player
- 70% of sales outside Spain<sup>(1)</sup>
- Ability to set “the speed of change”

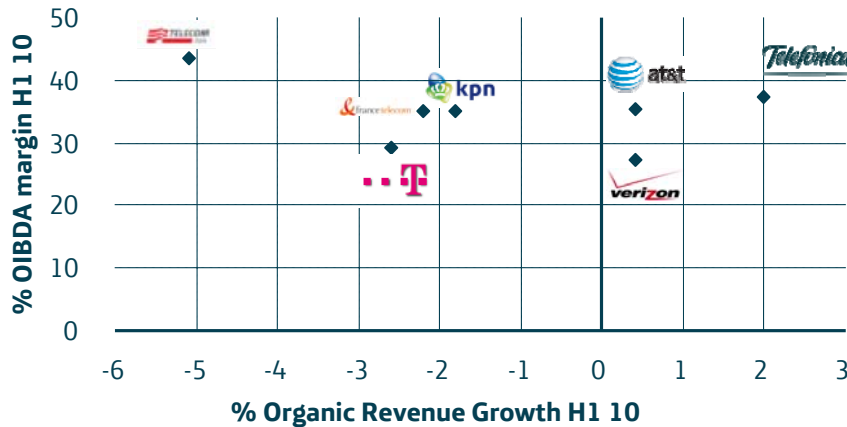
## ... the vision to do so



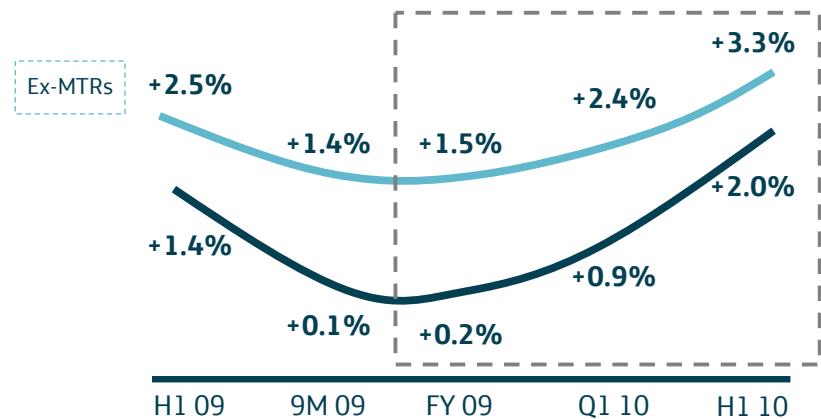
## A differentiated growth profile

### Ahead of the pack <sup>(2)</sup>

+3.4 p.p.  
Rev gap



### Telefónica organic <sup>(3)</sup> revenue (y-o-y growth)



TELEFONICA S.A.  
Investor Relations

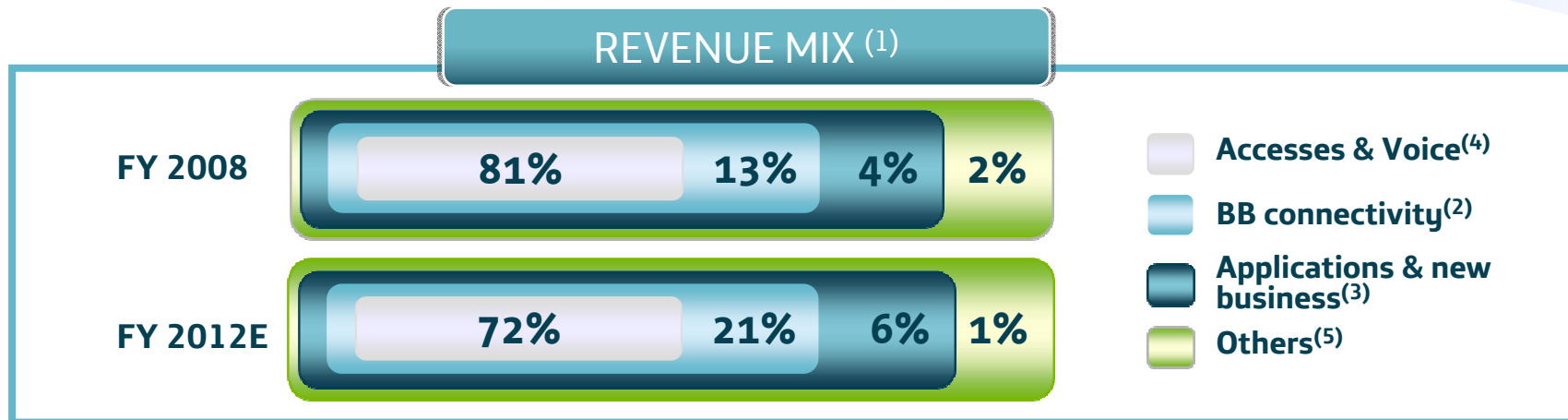
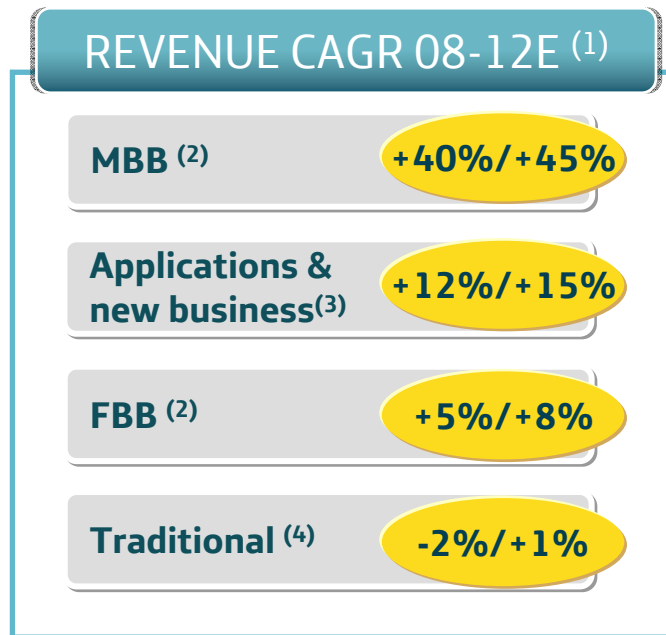
(1) Rebased figures, assuming 100% of Vivo from Jan-10. Includes all the revenues from Group companies except Telefónica España.

(2) For US companies OIBDA calculated as OI+D&A. Source: Companies' press releases & DB estimates.

(3) Organic growth revenues assumes constant exchange rates as of H1 09 (average fx) and excludes the consolidation of HanseNet (since mid February) and Jajah (January-June) in 2010. Telyco Morocco results are excluded in January-June 2009. It excludes hyperinflationary accounting in Venezuela in both years.

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# We will capture revenue growth potential in our markets



(1) Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation.

(2) BB connectivity (MBB & FBB). FBB connectivity: (DSL, FO, cable modem ...), fixed data services, retail and whole sale equipment. MBB connectivity: big and small screen, mobile email, and WAP browsing revenue.

(3) Apps. & New business revenue: TV, ICT solutions, on line advertising (e-Commerce, Terra), MBB VAS (mobile content/ application downloaded), other FBB VAS, new growth sources and other digital content service revenue.

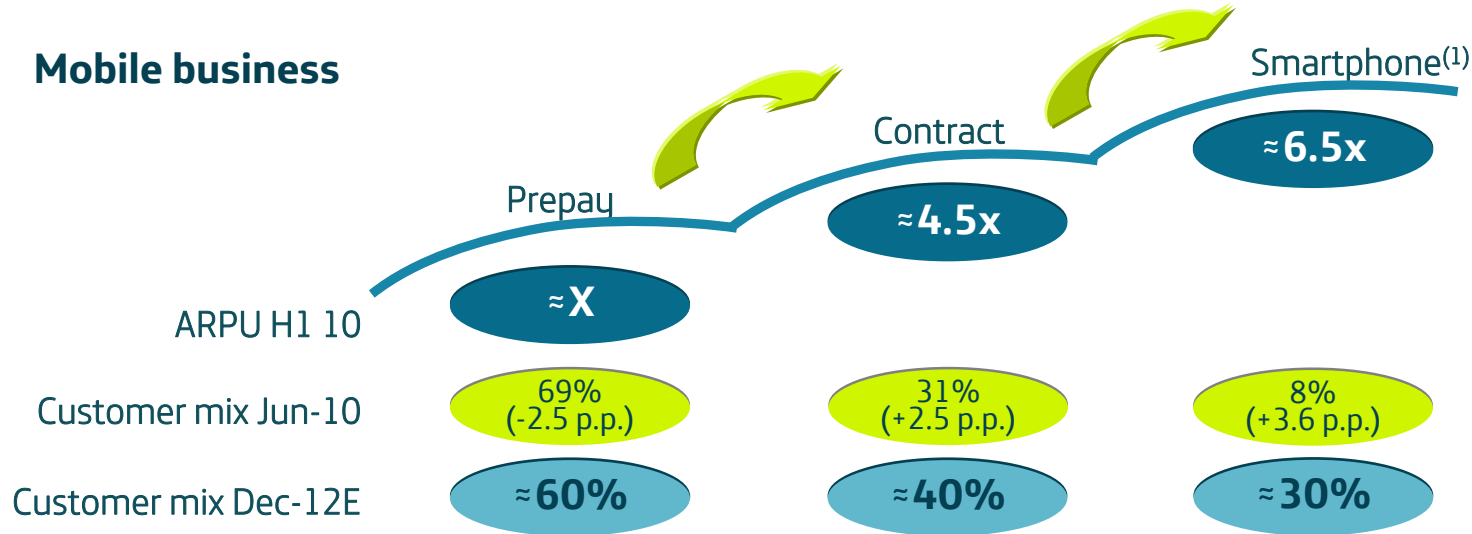
(4) Access & Voice: fixed and mobile access & voice (SMS included), fixed and mobile equipment, narrowband internet and M2M revenue.

(5) Revenues from subsidiaries and other companies.

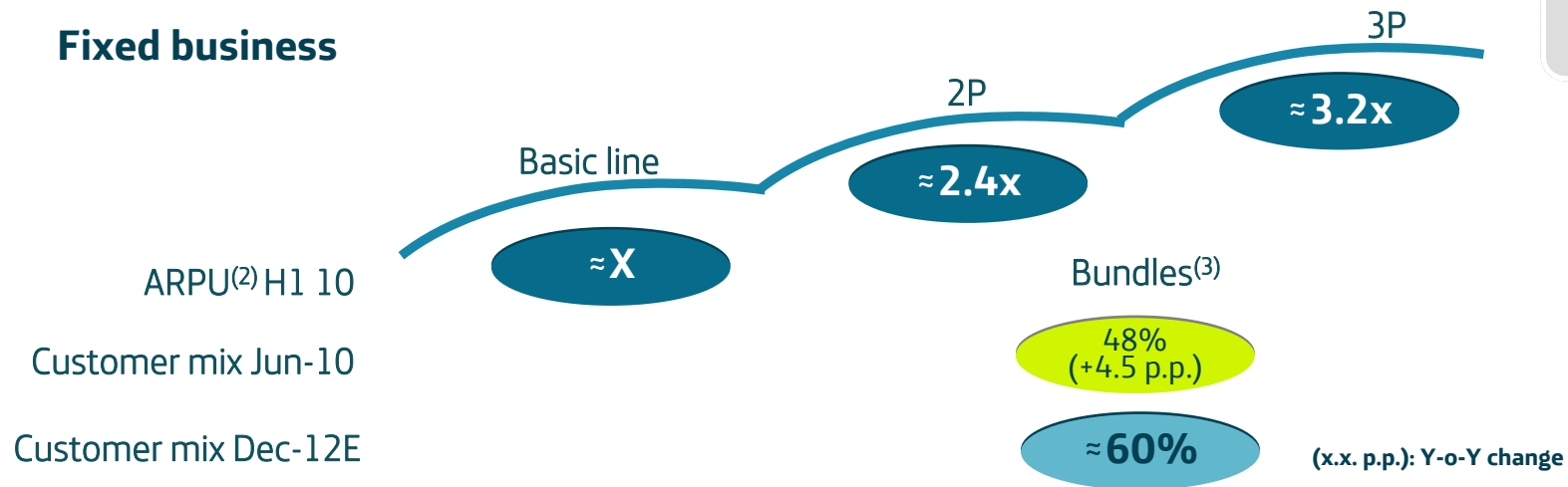
# We will further exploit growth levers

Enhancing the quality of a growing customer base  
Clear trend towards Smartphones & 3P/4Ps across markets

## Mobile business



## Fixed business



Increased ARPU & lower churn

(1) In terms of customer mix, it refers to total MBB lines (smartphones + Big Screen).  
(2) ARPU figures for T. España.  
(3) Bundles: (1P+2P+3P+4P) over total fixed accesses ex Public Use Telephony.

# We are already taking the right steps to profitably monetize Mobile Internet and MBB opportunity

## Offer

- Positioning complementary to FBB
- Growth focused on **small screen**
- Improved **customer experience**
- From unlimited **flat tariffs** to **tiered pricing**

## Infrastructures

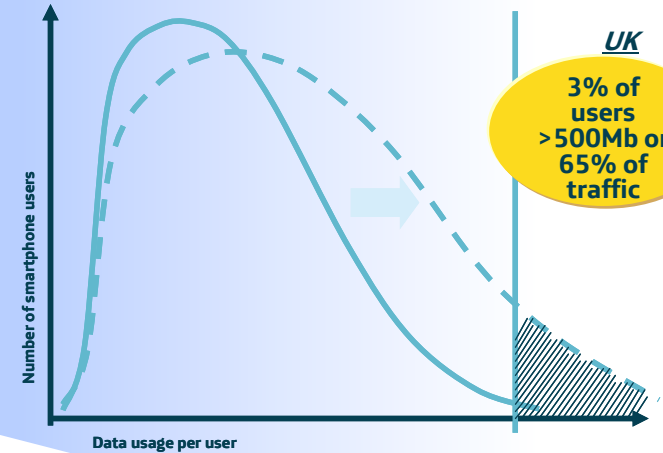
- + **Data capacity optimisation**
  - Increase number of sites
  - Increase frequency carriers/site
- + **Reduce cost/Mbyte**
  - Use low frequency spectrum
  - Gradual migration to LTE & FO
- + **Traffic management**
  - Promote WiFi usage
  - Selective Femtocell deployment

*Spain*

Only 3% of MBB connections cannibalise FBB

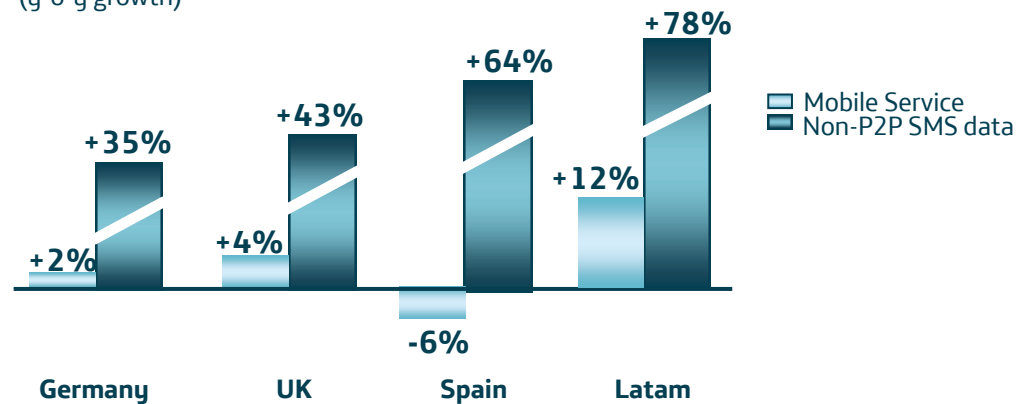
*UK*

3% of users >500Mb or 65% of traffic



## Mobile data, our key growth driver

H1 10 Organic <sup>(1)</sup> revenue (y-o-y growth)

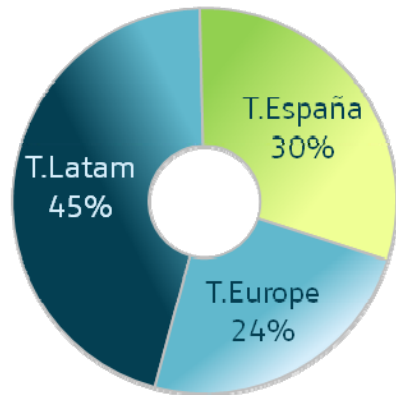


(1) In Germany, excludes the consolidation of HanseNet in January-June 2010, in UK and Spain, reported in local currency and in Latam assumes constant exchange rates and excludes hyperinflation accounting in both years.

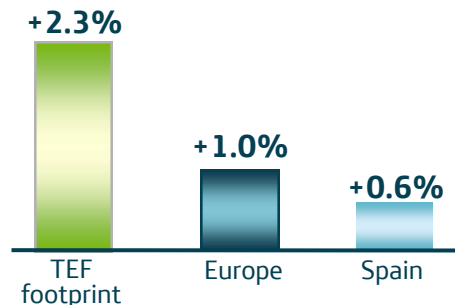


# We are well positioned to outperform in the “European Age of austerity”

Revenue Mix. H1 10 <sup>(1)</sup>



Private consumption CAGR 09-12E <sup>(2)</sup>



## Increased exposure to Emerging Markets

- Further diversification post stake increase in Vivo (Brazil)
- Latin America, our key growth engine

## Limited exposure to the Public Sector in Europe

- **T. España:**
  - Mid single digit of total revenue, below average OIBDA margin
  - Multiyear contracts
- **T. Europe:**
  - Low single digit of total revenues
  - Relatively low exposure in the UK & Germany
  - Higher exposure in the Czech Republic

## Potential additional tax pressure?

- New public TV tax in Spain already implemented for 2010
- VAT increase in Spain (Jul-10) and the UK (Jan-11E). Lower sensitivity in the contract segment (66% in Spain; 47% in the UK)
- Not major changes in European corporate taxes expected

(1) Rebased figures, assuming 100% of Vivo from Jan-10.

(2) Source: Consensus forecasts, European Commission, IMF and internal estimates. Telefónica footprint figure calculated as the weighted average of Private Consumption in each country according to its contribution to Group's revenues.



# Best placed to take full advantage of the growth potential in Brazil

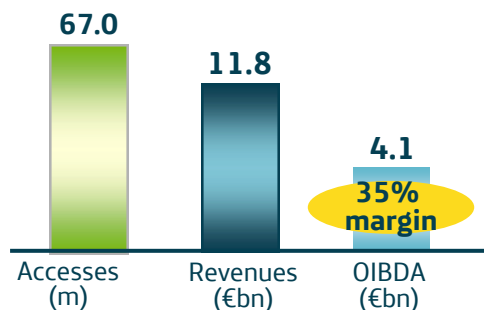


Estimated year for the Brazilian economy to reach ...

	 Italy	 France	 Germany
2003E	2025	2031	2036
2009E	2020	2027	2029

Source: GS, Dec-09.

Vivo + Telesp  
FY 2009 <sup>(1)</sup>



## • Building the leading integrated telco in Brazil:

- Expanding nationwide leadership in wireless, specially in contract & data. Leading the MBB deployment in the country
- Maintaining strong commercial momentum in FBB, on the back on enhanced quality & churn reduction

## • The most profitable player, with room for further efficiency gains:

- Significant operating & regional synergies from Telesp/Vivo combination

## • Fast growing market, ahead of expectations:

- 96% wireless penetration in Jun-10 (+13 p.p. y-o-y)
- Current estimates for Dec-12 exceed 120% vs. 105% expected in Oct-09
- 26% FBB penetration/Telesp's fixed accesses in Sao Paulo in Jun-10 (+3 p.p. y-o-y), exceeding 40% by Dec-12E

# We are committed to a disciplined use of FCF

Predictable M&A strategy (Investor Conference; Oct. 2009)	Oct. 2009-YTD
+ Spectrum auctions in current markets to foster growth	<input checked="" type="checkbox"/> New spectrum in Germany & Mexico
+ In-market consolidation	<input checked="" type="checkbox"/> Hansenet (Germany), Vivo (Brazil)
+ Increase shareholding in China Unicom to 10%	<input type="checkbox"/> Pending

## Shareholder oriented mindset

### Growing DPS

FY 2009 <sup>(1)</sup>	FY 2010E <sup>(1)</sup>	FY 2012 <sup>(1)</sup> minimum target <sup>(2)</sup>
€1.15	€1.40	€1.75

- **Tactical share buybacks to be considered for FCF excesses:**
  - 1.1% of share capital held in treasury (Jun-10)
  - Derivatives on 150m shares (Jun-10)

(1) It is Company's intention to maintain its current practice so that dividends will be payable in two tranches.

(2) Targeted under current guidance hypothesis.

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