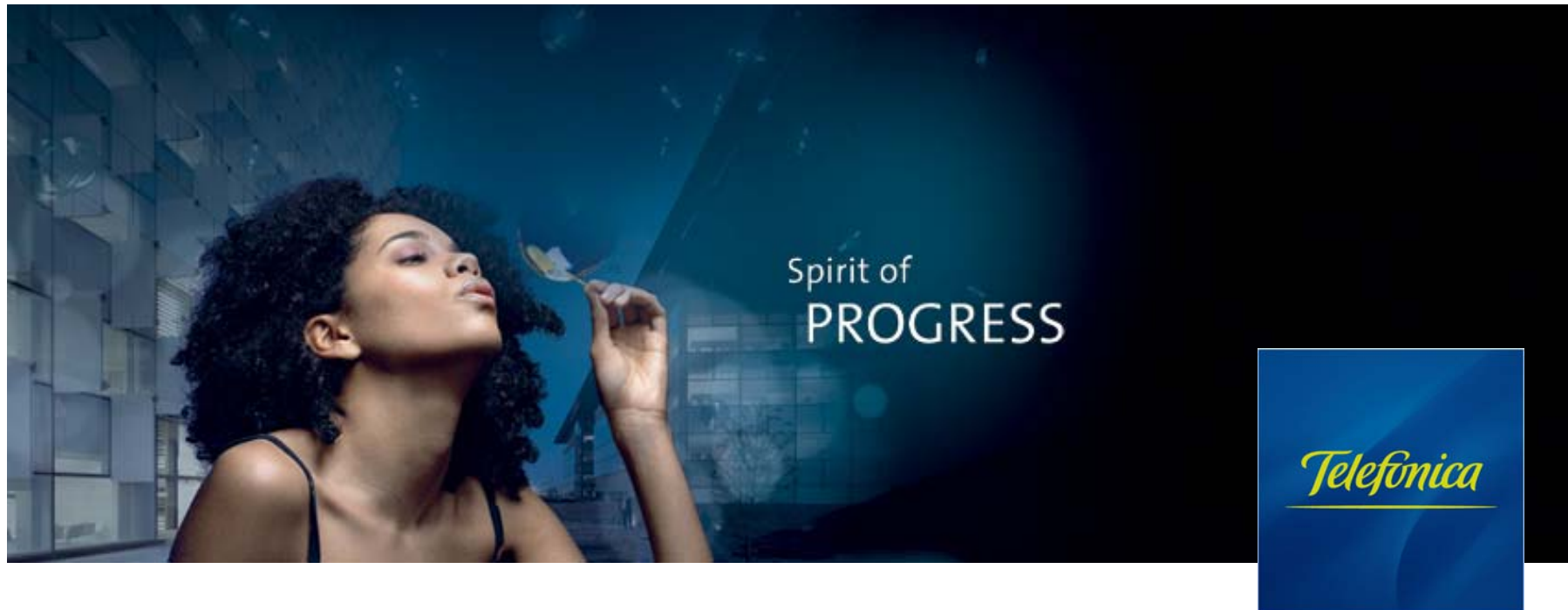


**Citi** 10<sup>th</sup> Annual European & EMEA Telecommunications  
Conference 2010  
London (UK)

**Antonio Marti**  
*CFO of Telefónica España*

March 23<sup>rd</sup>, 2010



# Disclaimer

This document contains statements that constitute forward looking statements in its general meaning and within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

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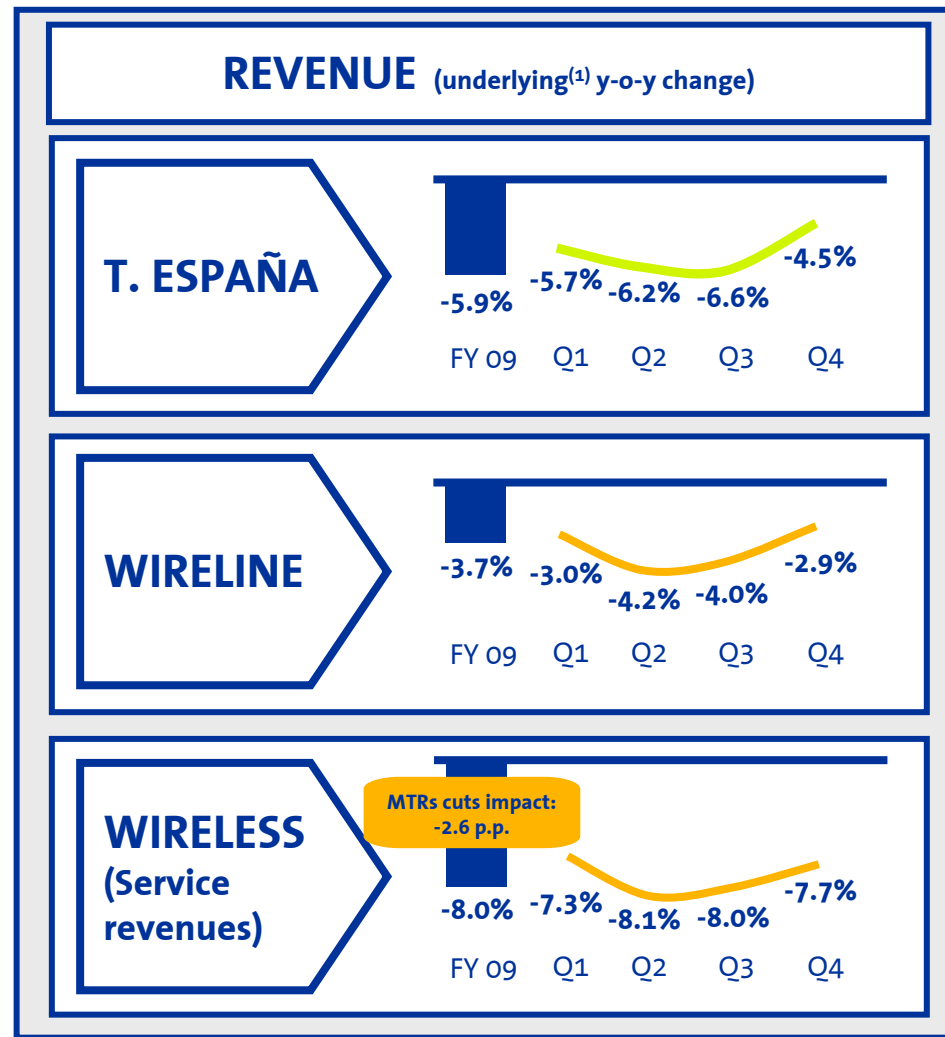
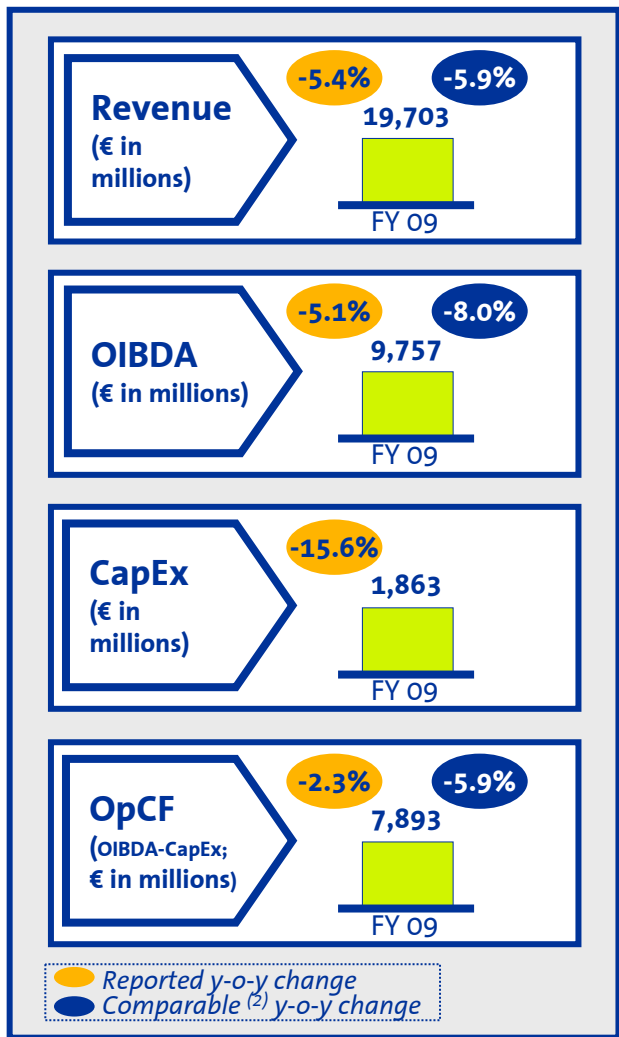
## **1 2009 results**

- **Focus on cash flow generation**
- **Increasing commercial activity and improving revenue trends in H2 09**

## **2 Looking ahead**

- **External factors**
- **Our priorities**

# 2009 results: rich cash-flow generation with improving revenue trends in last 2Qs



(1) Excluding USO (Q4 09, Q1 09 and Q3 08), seasonality in Q2 09 and Application Sale in Q3 09.

(2) Excludes impact of USO in Q4 09 on revenues (Wireline: € 148 m) and OIBDA (Wireline: € 91m; and Wireless: € -44 m), in Q1 09 on revenues (Wireline: € 75 m) and OIBDA (Wireline: € 46 m; Wireless: € -24 m) and Q3 08 on revenues (Wireline: € 183 m) and OIBDA (Wireline: € 110 m; Wireless € -59 m), bad debt recovery in Q1 08 (Wireline: € 17 m; Wireless: € 8 m), Real Estate capital gains (Wireline: € 6 m in FY 09 and € 74 m in FY 08), revision of the estimates for the adjustment to workforce adaptations plans provided for in prior periods, which resulted in lower expenses in Q2 09 (Wireline: € 58 m; Wireless: € 32 m); the sale of applications rights (Wireless: € 48 m on revenues and OIBDA); and capital gains from the disposal of Medi Telecom (Wireless: € 220 m).

# Evidences of top line recovery by services



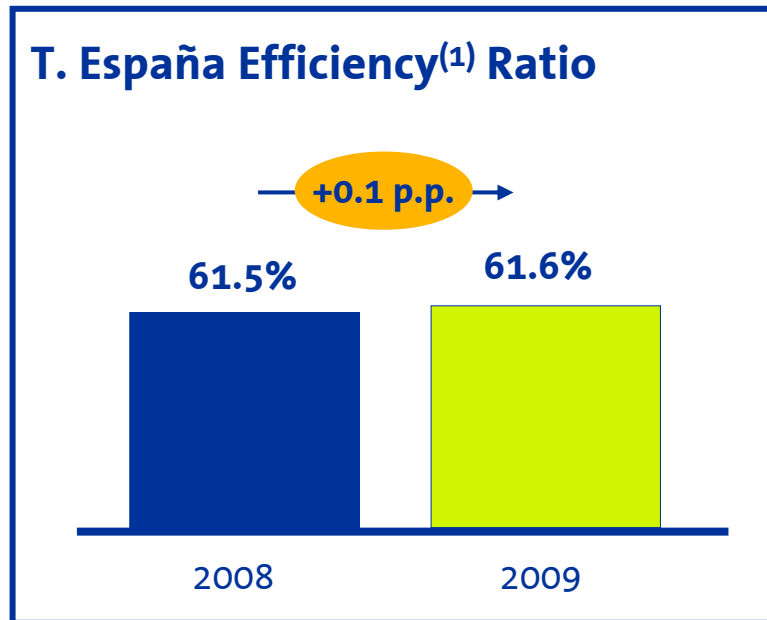
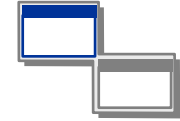
**Oct-09 ID target**  
 ICT and new revenue sources  
 ≈€1bn in 2012E

Wireline	Revenues (y-o-y)	Q2 09	Q3 09	Q4 09	FY 09	% of revenues (FY 2009)
	IT	+4.8%	+11.1%	+19.5%	+14.7%	
Data <sup>(1)</sup>	+7.1%	+12.7%	+11.3%	+8.7%	10.6%	
Voice service	-12.1%	-10.8%	-9.5%	-10.2%	32.7%	
Retail BB	-2.2%	-3.2%	-2.7%	-1.7%	21.3%	

Wireless	Revenues (y-o-y)	Q2 09	Q3 09	Q4 09	FY 09
	Data connectivity	+56.6%	+46.9%	+55.1%	+52.2%
Outgoing	-6.6%	-5.3%	-4.5%	-5.4%	
Mobile ARPU ex-MTRs	-7.8%	-7.1%	-6.6%	-7.2%	

(1) Data revenues include revenue from leased lines/circuits to T.España Wireless Business.

# We have focused on efficiency along the year...

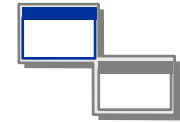


**2009 OpCF  
€7,893 M**

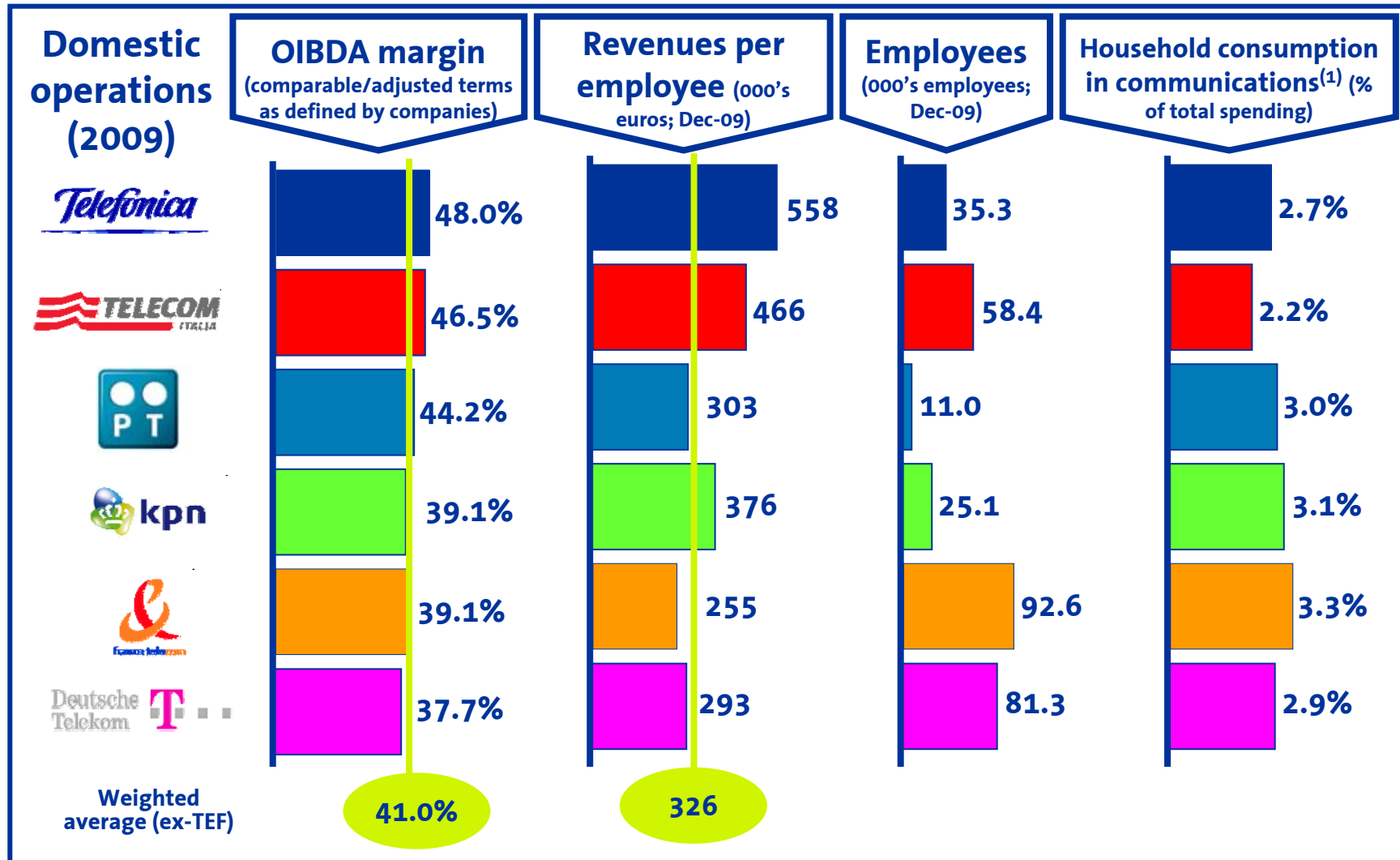
**Highest  
conversion rate of  
revenues into  
OpCF across  
Europe**

(1) Defined as last twelve months (OpEx+CapEx- Internal exp. Capitalized in fixed assets)/Revenues. CapEx excludes the acquisition of spectrum and Efficiency Program.

# and remained a European benchmark

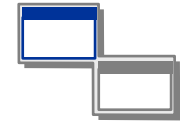


## TEspaña to remain a efficiency reference in EU market

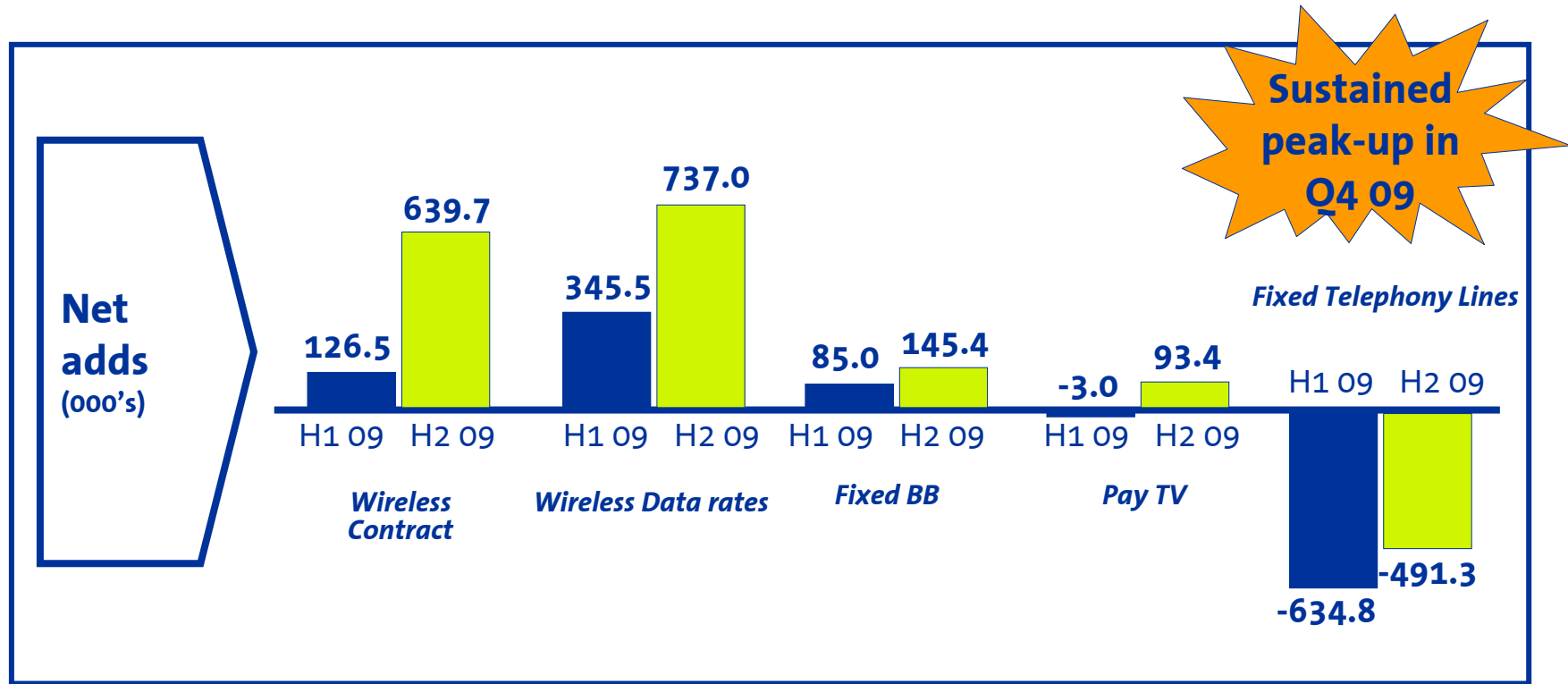


(1) Eurostat's Home Budgeted Survey, 2005.

# While adapting our commercial strategy to market conditions



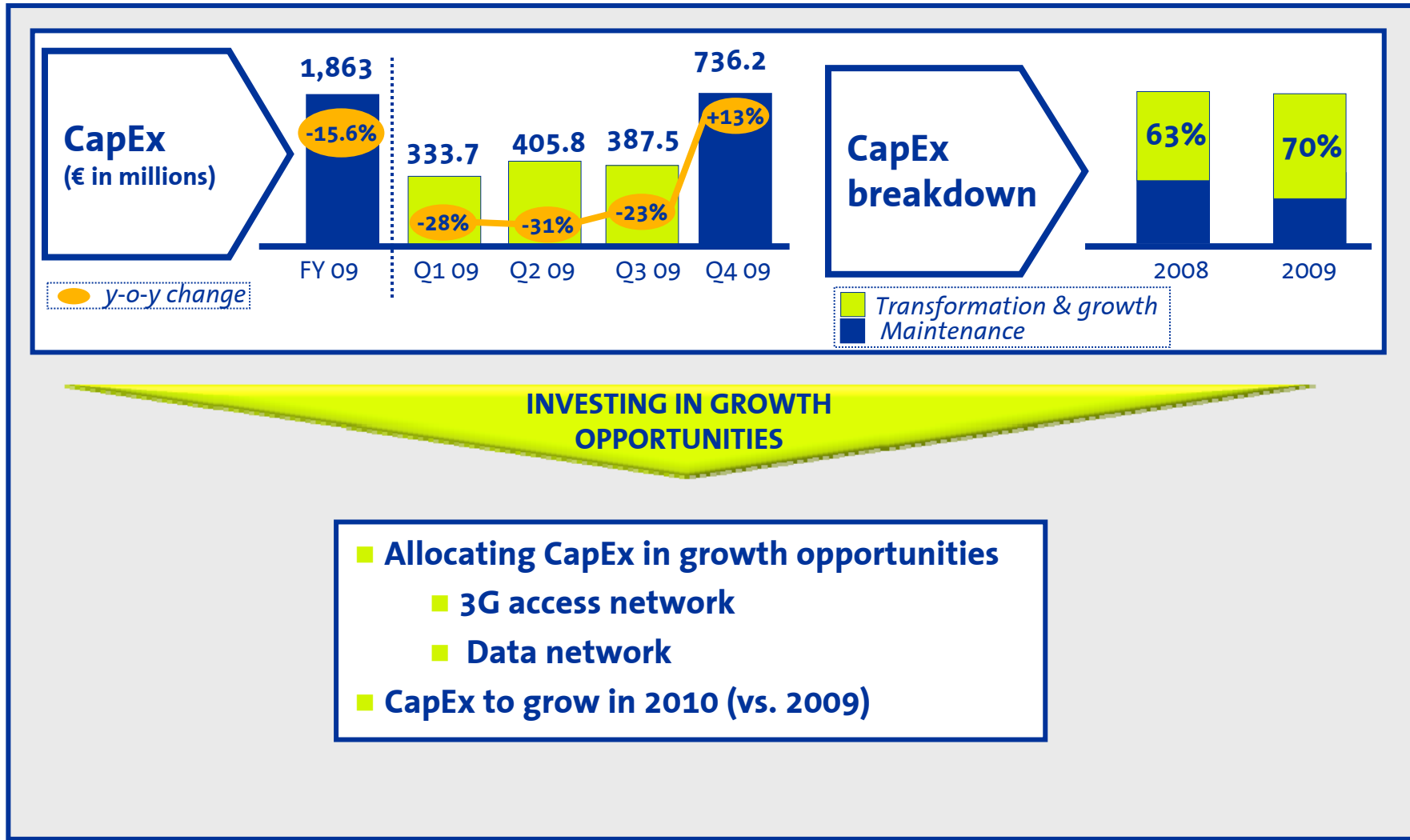
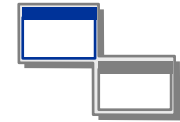
**Strong commercial activity in the last part of the year...**



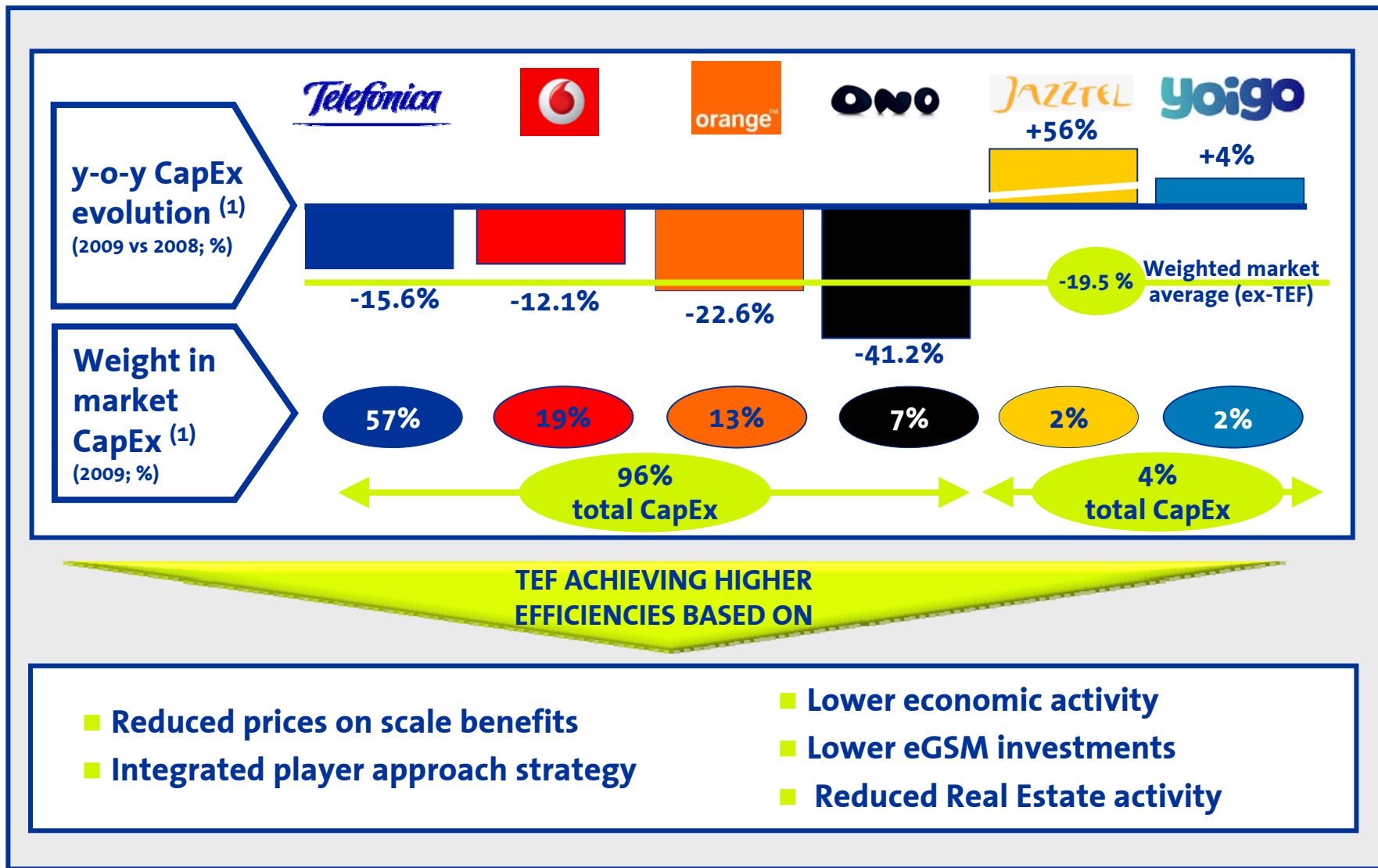
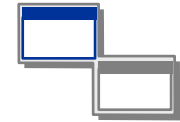
**... building foundations for 2010**



# Adapting investments to market conditions ...

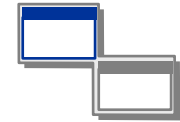


# ... while increasing competitive advantage

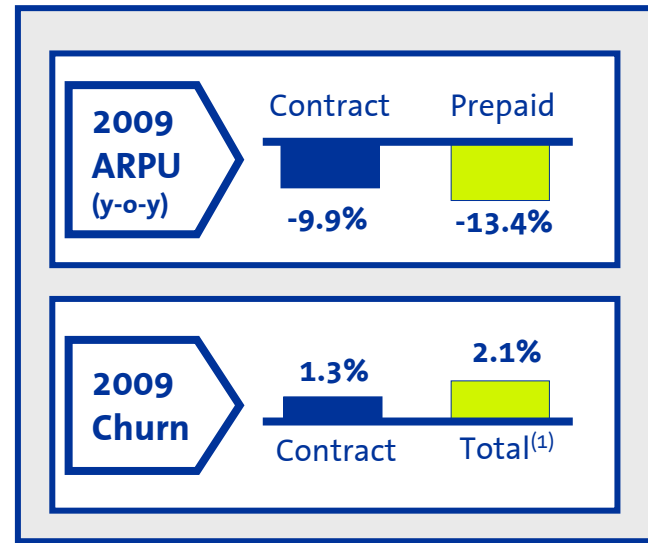
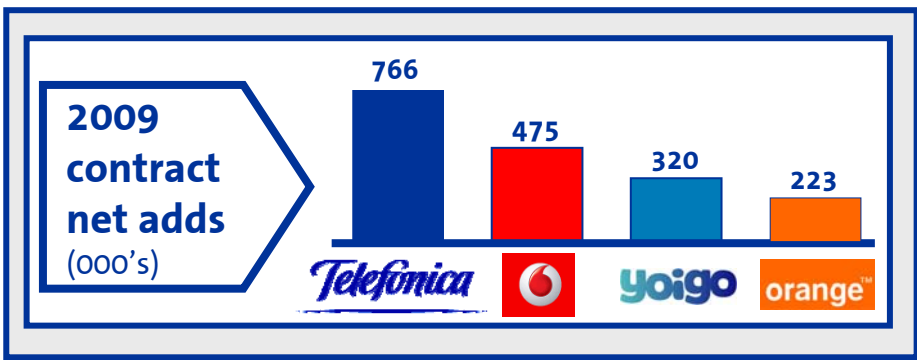
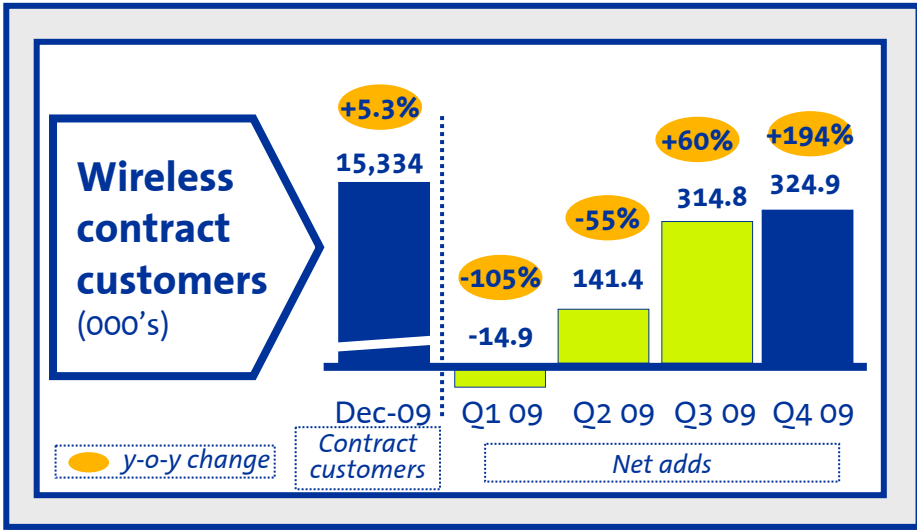


(1) Expansión: March 10<sup>th</sup>, 2010 (Vodafone data 12 months to Sep-09 vs. 12 months to Sep-08 in local currency)

# Mobile customers: focus on value

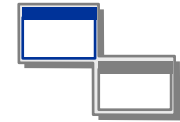


**Contract customers up to 65% of total customer base**



(1) Excluding disconnection of inactive prepaid lines in net adds and growth rates

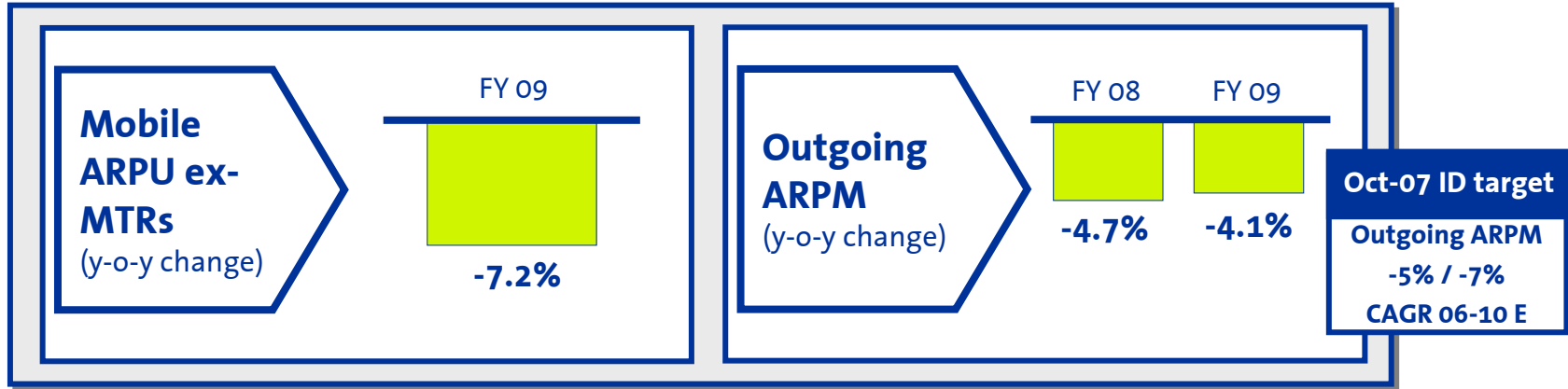
# Mobile customers: rational pricing environment



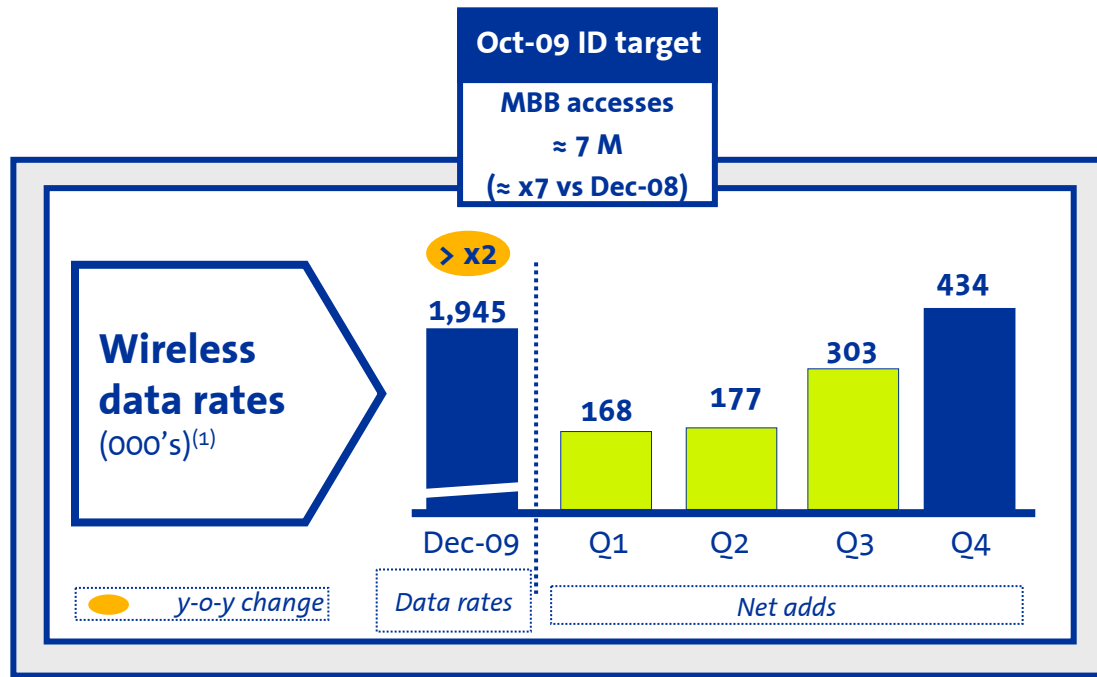
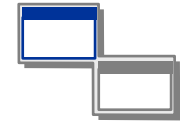
Wide range of attractive offers to foster usage and capture new clients ...



... without losing focus on profitability



# Mobile broadband: exploiting growth opportunity



**Fostering data usage**

- 38% of total customer base on 3G as of Dec-09 (+11 p.p. vs. Dec-08)
- Tiered pricing, avoiding flat rates

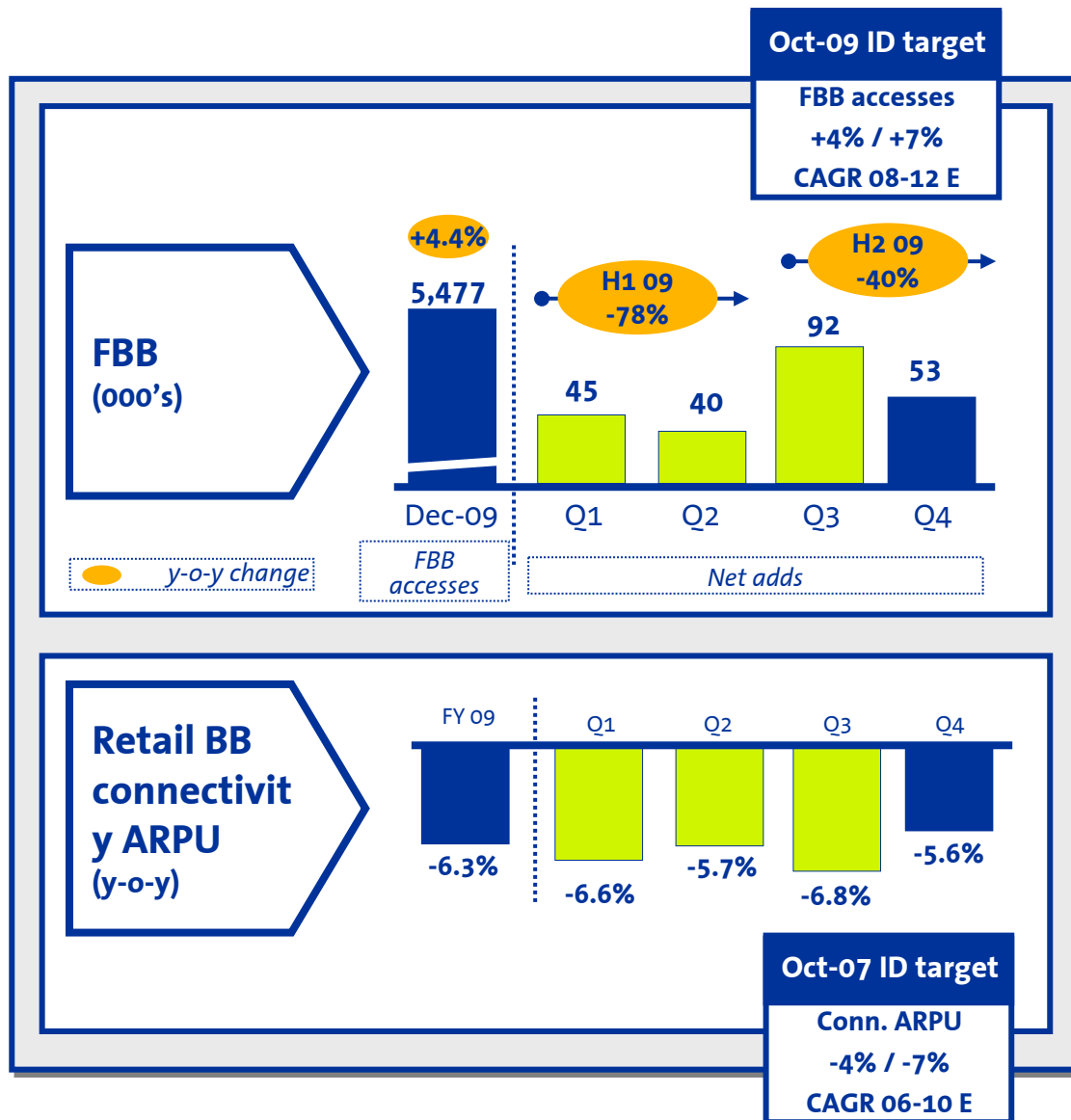
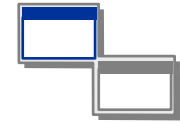


**Only 5% of current MBB customers substitute the FBB<sup>(2)</sup>**



(1) Monthly rates  
 (2) Data for residential customers as of Q1 09

# Fixed broadband: sustaining 56% market share

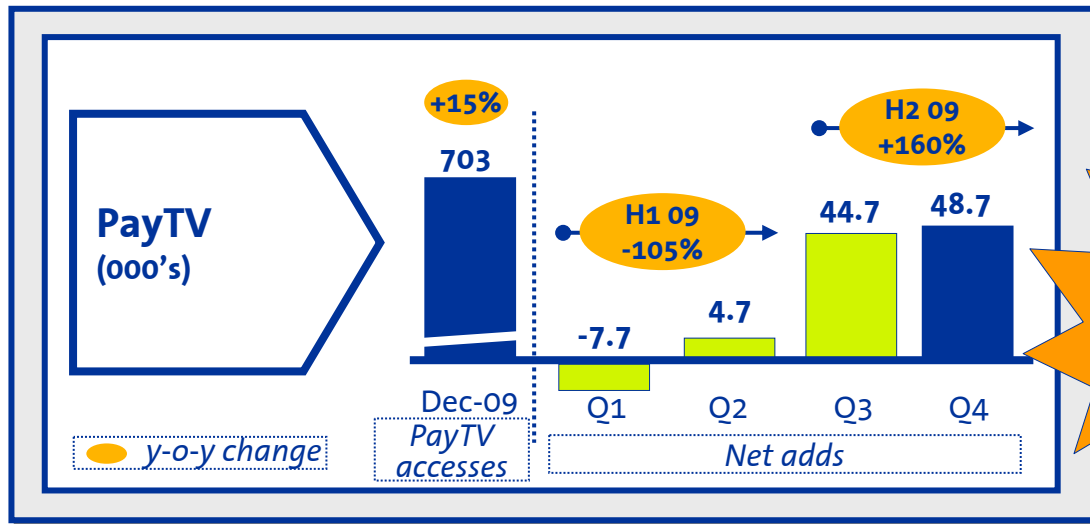
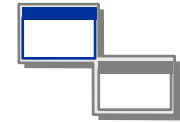


**Quality based offering**

- New 2P reference offer: 10 Mbps for 41.9 €/month
- Increasing upload speeds for 10 & 6 Mbps
- Speed upgrade of FO based services with TV going HD

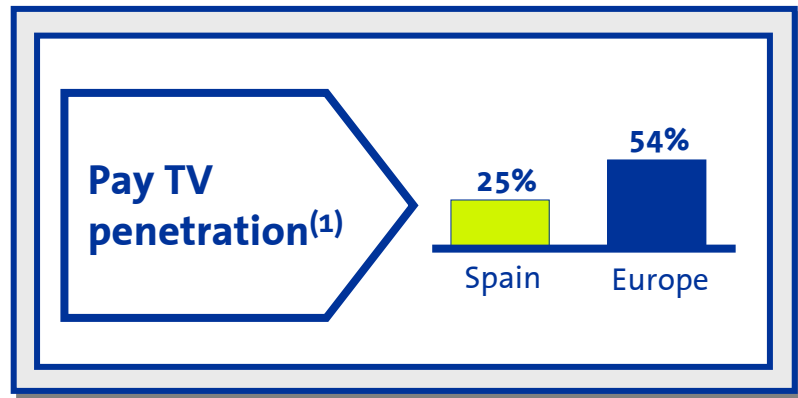
**Stable churn in 2009**

# PayTV: accelerating in H2 09 and further growth potential ahead



**Market share increased to 17% despite limited coverage**

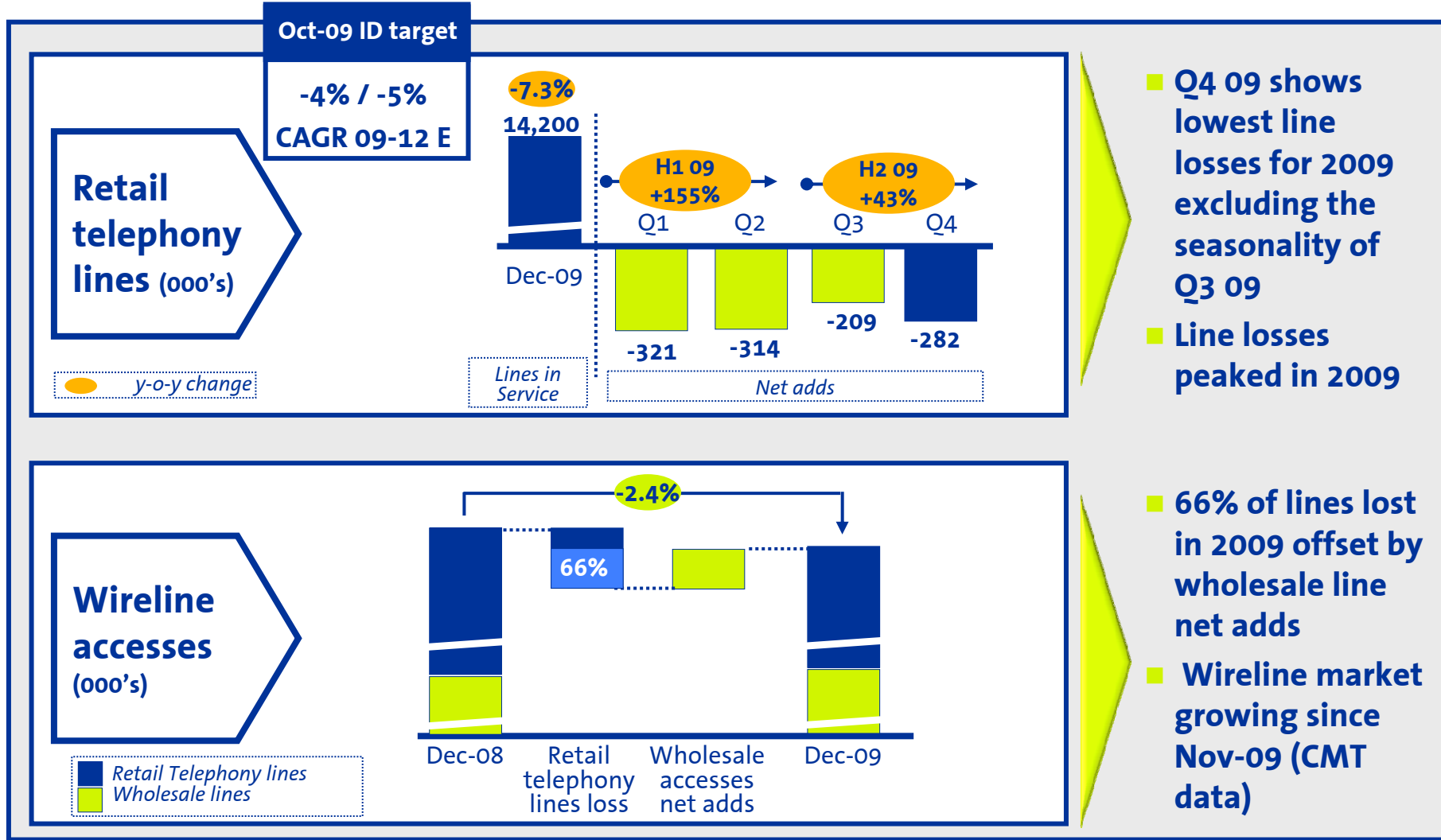
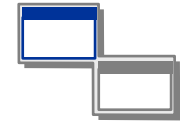
## GROWTH POTENTIAL ON LOW PENETRATION LEVELS IN SPAIN



(1) Pyramid Research. Penetration over households (Dec-09).

# Fixed telephony accesses: line losses

## decelerating along 2009

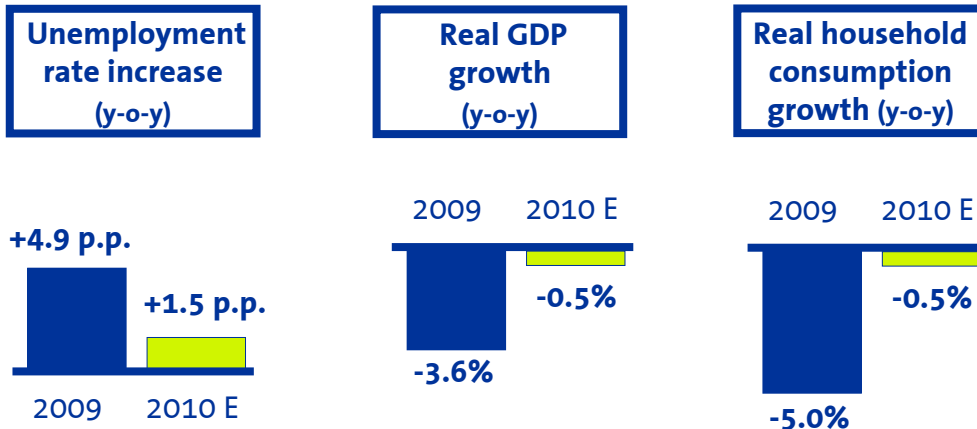




# 2010: Economy environment

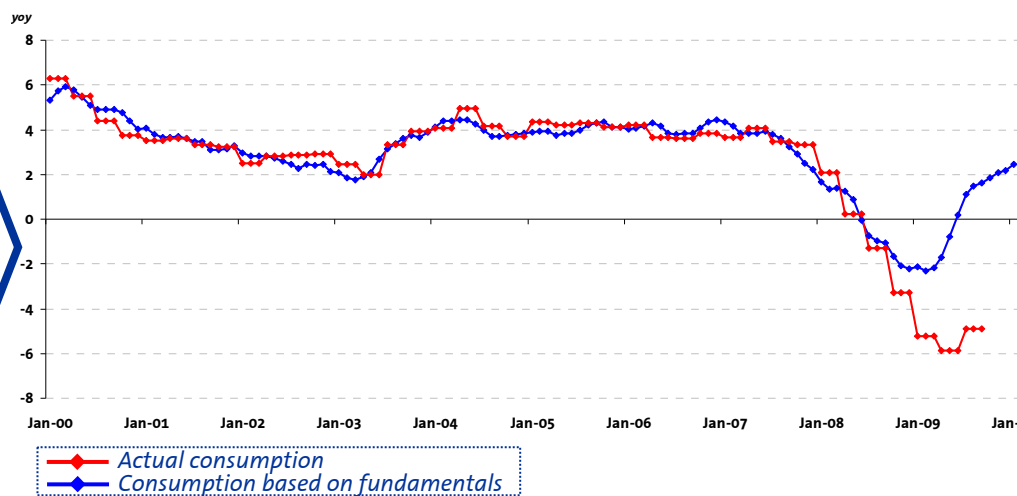


## Economy indicators<sup>(1)</sup>



■ Gradual improvement

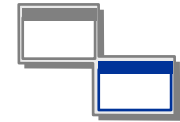
## Consumption growth (%)



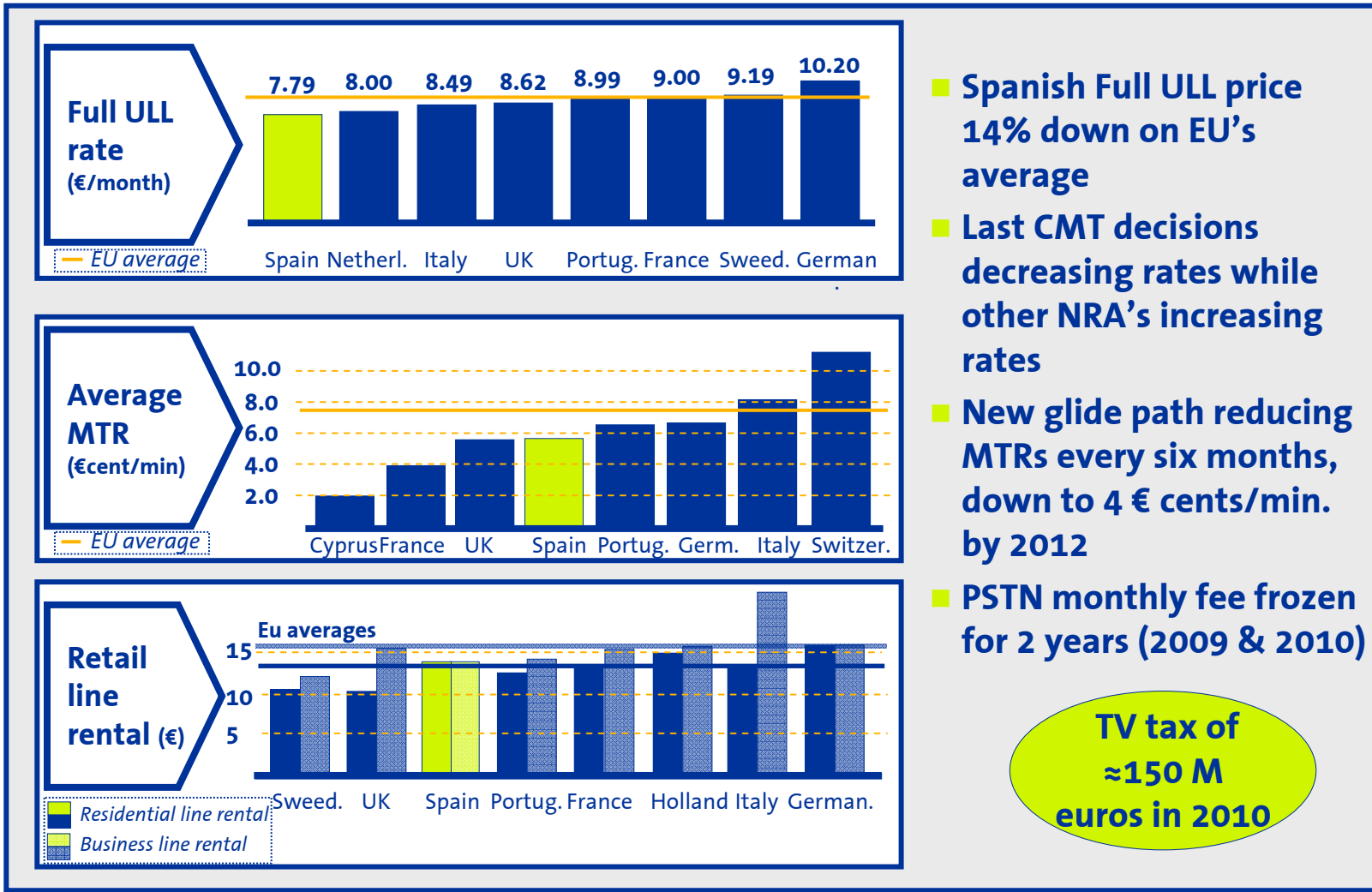
■ Growth far away from fundamentals

(1) Analysts' consensus for 2010 forecasts

# 2010: Spanish BENIGN regulatory environment?

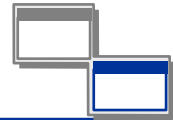


## Wholesale pricing among lowest in Europe



- Spanish Full ULL price 14% down on EU's average
- Last CMT decisions decreasing rates while other NRA's increasing rates
- New glide path reducing MTRs every six months, down to 4 € cents/min. by 2012
- PSTN monthly fee frozen for 2 years (2009 & 2010)

# Our 2010 and long term priorities



## 2010

- Maintain a strong commercial momentum (FBB & MBB) and market leadership to capture market recovery

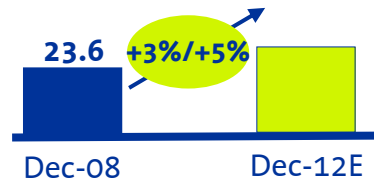
January 2010 FBB and Mobile customers net adds similar to full Q1 09

## 2011

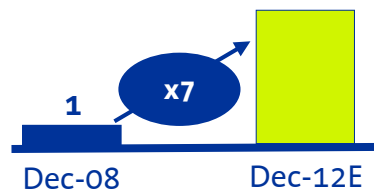
- Market back to growth in 2011

## 2012 targets

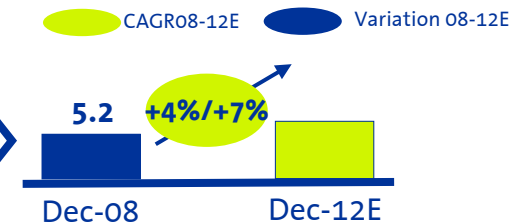
**Mobile  
Accesses (1)**  
millions



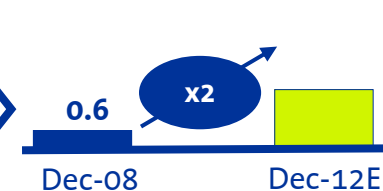
**MBB  
Accesses (2)**  
millions



**Retail FBB  
accesses**  
millions



**Pay TV  
Accesses**  
millions



(1) Mobile accesses including voice, MBB data-only cards and M2M access base. Prepay identification effect not included  
 (2) MBB Including: Big and Small screen

# Our 2010 and long term priorities



## 2010

- Reinvest efficiency gains in the short term to ensure business growth prospects
- Deliver a strong cash-flow generation

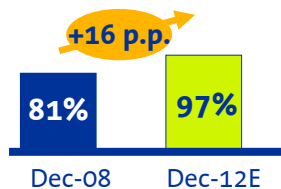
Low commercial activity and USO revenues during Q1 09, and TV tax through 2010 to weight on Q1 10 vs. Q1 09 comparison

## 2012 targets

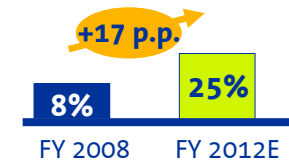
>70% CapEx resources for growth and transformation

≈55% OpEx(1) resources for customer focus

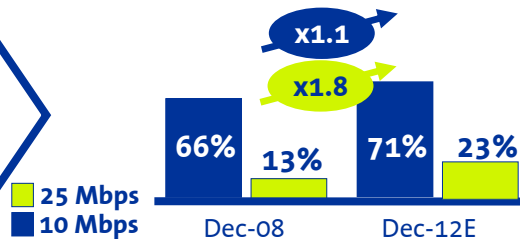
3G cover over population



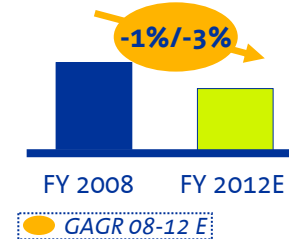
Share of online transactions



Local loop coverage by speed



Non commercial OpEx / access (2)



GAGR 08-12 E

(1) OpEx considered for this calculation defined as revenues – OIBDA  
 (2) Non-Commercial OpEx: Network & Operations, IT, Admin. & Support, Bad debt, Taxes and non-recurrent results

# Conclusions

**Rich cash flow generation in 2009 through focus in efficiency:  
T.España a benchmark among peers**

**Underlying revenue trends improving for second quarter  
in a row**

**2010 focus in commercial activity and market leadership  
to capture market recovery**

*Telefonica*

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