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Telefónica
INDEX

01 Riding the Macro wave
02 Leverage: Suitable for creditors and shareholders alike
03 Financial efficiency and risk reduction: FX & Interest rate management
04 Conclusions
01. A changing environment...

Private Consumption in Telefónica's countries

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...

**SPAIN: Private Consumption**
(Index: 2007=100)

Source: Consensus forecast
01. ... with laggards pointing north in the medium term...

UK: Private Consumption
(Index: 2007=100)

Source: Consensus forecast
01. ... with laggards pointing north in the medium term...

ARGENTINA: Private Consumption
(Index: 2007=100)

Source: Consensus forecast
01. ... and leaders almost intact in growth prospects...

BRAZIL: Private Consumption
(Index: 2007=100)

Source: Consensus forecast
01. ... and leaders almost intact in growth prospects

PERU: Private Consumption
(Index: 2007=100)

Source: Consensus forecast
01. Green shoots even in Spain

Economic Sentiment Indicator
GDP y-o-y (2m lagged)

Source: European Commission and Spanish Statistical Office (INE)
01. Green shoots even in Spain

Consumer confidence
Household consumption y-o-y (6m lagged)

Source: European Commission and Spanish Statistical Office (INE)
01. UK economy turning around?

Economic Sentiment Indicator

UK GDP y-o-y

% y-o-y

Source: European Commission and UK National Statistics
01. UK economy turning around?

GFK Consumer confidence
Household consumption (% y-o-y, 6m lagged)

Source: European Commission and UK National Statistics
01. Expecting elasticity to work on the upside

CAGR 06-08
- Private Consumption growth: 3.0%
- Spain Wireless Market, Sales growth: 2.3%

H109
- Private Consumption growth: -5.4%
- Spain Wireless Market, Sales growth: -8.5%

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

- 40 million out of poverty
  - 192 million in 90s
  - 264 million in FY 2009E
  - Increase of 48.3% to 34.2%

- 97 million of new urban population
  - 70.5% in 90s
  - 79.5% in FY 2009E

- Increase of more than US $780bn of Private Consumption
  - US $1.2 trn in 90s
  - US $2.0 trn in FY 2009E

- 72 million of jobs created
  - 13% in 90s
  - 8.3% in FY 2009E

- 17 million out of illiteracy

Source: ECLAC
1. Assumes constant exchange rates as of 2000
01. Brazil: the unstoppable ascent of the middle-class

Middle-Class:
- Dec-03: 53.2%
- Pre crisis (Jul-08): 46.8%
- Today: 31.8%

Upper-Middle Class:
- Dec-03: 67.0%
- Pre crisis (Jul-08): 68.2%
- Today: 33.0%

% of population (15-60 years old):
- Dec-03: +17 millions
- Pre crisis (Jul-08): -13 millions
- Today: -1 million
02. Debt ratios well positioned in absolute and relative terms...

2008 Leverage ratio: Net financial debt/OIBDA

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...

2008 OIBDA margin & FCF/Revenues

1. OIBDA margin calculated as reported OI/EA 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, ST & 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 accommodate strategic flexibility
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 & commitments to be kept in the 2.0-2.5x OIBDA range

- **Debt average life**
  - Dec-08: 5.9 years
  - Jun-09: 6.6 years

- **Unused committed credit facilities**
  - Dec-08: 7.4
  - Jun-09: 8.2

**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**

- **EUR**: 67%
- **US $ + Latam**: 17%
- **GBP**: 7%
- **CZK**: 9%

**Debt FX savings since Oct-07**

- **GBP**: €-0.9 bn
- **CZK**: €+0.1 bn
- **US $ + Latam**: €-0.7 bn
- **Total**: €-1.5 bn
03. Solvency protected from FX depreciations...

Debt/OIBDA ratio fairly stable

Net financial debt / OIBDA Ratio

<table>
<thead>
<tr>
<th>Currency</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>2.00</td>
</tr>
<tr>
<td>US $ + Latam</td>
<td>2.12</td>
</tr>
<tr>
<td>Czech Koruna</td>
<td>1.99</td>
</tr>
<tr>
<td>Pound Sterling</td>
<td>1.99</td>
</tr>
<tr>
<td>Venezuelan Bolivar</td>
<td>2.07</td>
</tr>
</tbody>
</table>

Currencies losing 25% of their values vs. euro
03. ...though overall risk is smaller than many think...

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

Latam 12 month rolling OpCF in billion euros
changes in working capital included

13% CAGR line
03. ...and keeping financial expenses under control

Benefiting from floating exposure both in Europe & America

FY 2010 E

Below 6% interest expenses target in the medium term

Jun-09

Total

Europe

US $ + Latam

Floating

Bounded

Fixed

Lower fixed debt proportion: 50.2% Telefónica vs. 69% peers¹

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

- 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

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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

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 – 2.5\(^\times\) 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

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1. Free Cash Flow available to remunerate Telefónica's shareholders, to protect solvency levels (financial debt and commitments), and to accommodate 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.