XVI Santander Telecommunications Conference
Sintra (Portugal)

Guillermo Ansaldo
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
Delivering a sound operating cash-flow within a pressuring environment

T. España Q1 09
(y-o-y growth in comparable terms(1))

-5.7%  |  -5.0%  |  +0.2%
Revenues  |  OIBDA  |  OpCF(2)

49.2% (+0.4 p.p.)

- Strong focus on OpCF
- OIBDA margin improvement

(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.
With solid margins in wireline and wireless business

T. España – Wireline business Q1 09
(y-o-y growth in comparable terms(1))

-3.0% Revenues
-3.8% OIBDA
47.4% (-0.4 p.p.) OIBDA margin
+0.3%

T. España – Wireless business Q1 09
(y-o-y growth in comparable terms(2))

-7.3% Service Revenues
-6.9% OIBDA
44.6% (+1.2 p.p.) OIBDA margin
-0.1%

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

- Lowering pressure on personnel costs
- Lower commercial\(^{(1)}\), handsets and interconnection costs
- Logistics and third party relations model simplification
- Energy rationalization & efficiency program

**Efficiency ratio**
\[
\frac{\text{OpEx+CapEx}}{\text{Revenues}} \quad \text{(2)}
\]
-1.3 pp y-o-y to 61.1%

\(^{(1)}\) Handset subsidies, commissions to dealers and advertising
\(^{(2)}\) \(\frac{\left(\text{OpEx+CapEx-Internal exp.capitalized in fixed assets}\right)}{\text{Revenues}}\)
Limiting top line pressure through CapEx discipline, without impairing our future growth opportunities

**CapEx**
Q1 09 vs. Q1 08 (€ in millions)

- 463
- 334
- 7 p.p.
- 7 p.p.
- Internet & BB accesses
- GSM
- Traditional access
- Other

**Focus on growth businesses: mobile data**

**Enhanced CapEx efficiency**: significant vendors per unit cost reductions benefiting from Group purchasing power

**Lower investment in GSM** and traditional access, and fiber rollout adapted to current environment

2009 committed CapEx as of March: < € 600 Mill

There is still room for more efficiency gains with IT systems rationalization and network integration
Focusing on value market share, with strong leadership in wireless and wireline

**Focus on revenue share leadership**
- Maintaining leadership in wireless services market share\(^{(1)}\): +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**

<table>
<thead>
<tr>
<th>Mar-09 y-o-y change</th>
<th>TOTAL</th>
<th>Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>+2.6%</td>
<td>+4.3%</td>
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</tbody>
</table>

62% of total customer base

**Wireless churn**

<table>
<thead>
<tr>
<th></th>
<th>Q1 08</th>
<th>Q1 09</th>
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<tbody>
<tr>
<td></td>
<td>1.8%</td>
<td>1.9%</td>
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</tbody>
</table>

**Wireline 2P & 3P adoption**

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

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(1) Outgoing services

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

- 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

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(1) Source: companies press releases.
Capturing growth opportunities in mobile broadband and IT services

Flat rate wireless data plans (in thousands)

- Q1 08: ~500
- Q4 08: ~850
- Q1 09: >1,000

- 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
Adapting our value proposition to stimulate demand elasticity

- Mobile flat rates for Residential
- Mobile flat rates on weekends
- Top-ups promotions
- Fixed line offers for Residential
- Flat rates allowing connection from any mobile device
- Mobile offers for SMEs and SOHOs
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) ...

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

Many convergent offers for SOHOs and SMEs (including voice, ADSL, equipment, maintenance..)
3 Launching new products adapted to the current environment

Offers in order to assist unemployed people

PLAN AYUDA A CLIENTES EN PARO
50% Descuento en factura de fijo y de móvil durante 2009 con un límite máximo de 20 € por factura

SIM-only offers: low cost rates with the quality of Telefónica services

Telefónica está a tu lado en los momentos difíciles

¡PROMOCIÓN!
Nuevos Empresarios
50% de descuento en tráfico de voz móvil durante 12 meses

PROMOCIÓN
Puesto de Voz
Alta de línea y instalación de teléfono GRATIS
Ahora más de 119 euros

Discounts and special offers for newly created businesses

Virtual hosting

Security from the network

Products and services targeted at improving the companies efficiency
Besides, we continue developing our capabilities to offer a superior customer experience.

### Recent prizes and awards

<table>
<thead>
<tr>
<th>Category</th>
<th>Awards</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customers</strong></td>
<td>- Best broadband provider in Spain (ADSLzone.net / AI)</td>
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<tr>
<td></td>
<td>- Best customer services in Spain (AIAREC / AI)</td>
</tr>
<tr>
<td></td>
<td>- Most valuable Spanish brand – <strong>Movistar</strong> (Interbrand)</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>- One of the TOP companies to work in Spain (CRF)</td>
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<td></td>
<td>- Best management team among Spanish companies (El Economista)</td>
</tr>
<tr>
<td><strong>Accessibility</strong></td>
<td>- Best work on accessibility (AUTELSI)</td>
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<td></td>
<td>- Most accessible website (TecNet)</td>
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<tr>
<td><strong>Sustainability</strong></td>
<td>- Best contribution to environment and sustainable use of ICT in Spain (ASIMELIC)</td>
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<tr>
<td><strong>Certifications</strong></td>
<td>- [Logos of various certifications]</td>
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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.