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Investor  
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# Transformation for delivering sustainable growth

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Chief Operating Officer

9 October 2009

*Telefonica*

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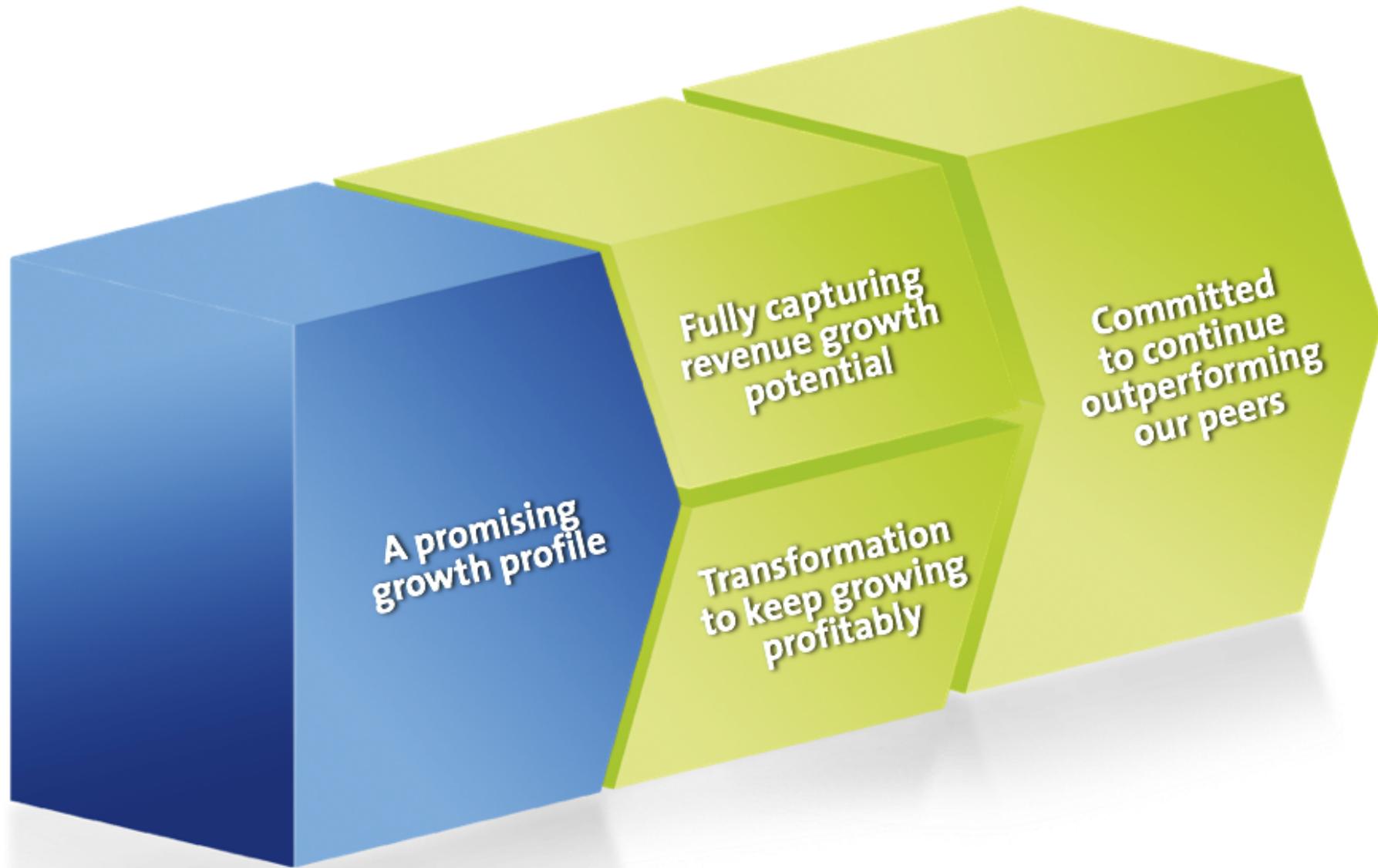
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# Content





CAGR 08 – 12 E number of accesses and traffic

## Customer demand drivers

- **Everybody and everything connected**
- **Social networking**
- **User Generated Content**
- **Huge increase in digital content**
- **Hundred thousands of applications**
- **e-World: e-Health, e-Learning, e-Finance services, e-Travel**
- **M2M<sup>6</sup>: smart metering, e-Car, e-Logistic, vending**
- **Powerful devices**

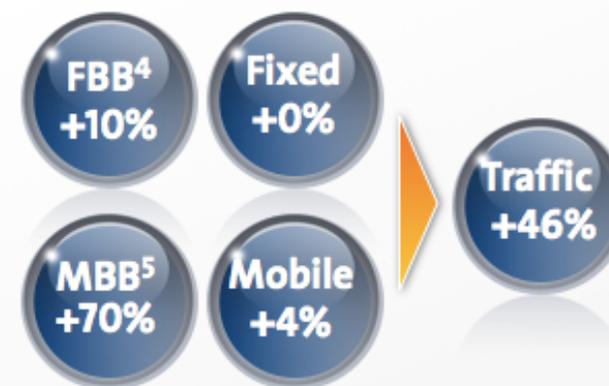
### Telefónica mature markets<sup>1</sup>



### Telefónica emerging markets<sup>2</sup>



### Telefónica markets<sup>3</sup>



**Broadband everywhere**  
**Access to support broadband**  
**Traffic explosion**

1. Telefónica Mature Markets: Spanish and European markets from Telefónica footprint  
 2. Telefónica Emerging Markets: Latam markets from Telefónica footprint  
 3. Telefónica Markets: Total markets from Telefónica footprint

4. FBB: Fixed Broadband  
 5. MBB: Mobile Broadband. Growth considers Big Screen only  
 6. M2M: Machine to Machine



# New pricing schemes are viewed as a significant opportunity



## Enhanced offering

- **Consumer:** Communication (IM<sup>1</sup>, VoIP, e-mail...), TV, File & content sharing, Home device management, Transactional services...
- **Enterprise:** Virtual Hosting, Virtual Desktop Management, Storage, Software as a Service (CRM<sup>2</sup>, ERP<sup>3</sup>...), Emergency solutions, M2M solutions ...



## Value driven bundles

- More **revenue** per customer
- More **stickiness** (less churn)
- More **value for money**

## Customer behaviour

- **Consumer vs. Enterprise**
- **Bipolarized consumers:**  
Low cost / simple  
Premium / sophisticated

### Usage:



- **Specific service requirements**



## Pricing opportunities

- Providing as much as possible **on-demand**

- Bandwidth
- QoS
- Volume
- Latency
- Peak – offpeak



- Storage
- Processing
- Security
- Authentication



1. IM: Instant messaging  
2. CRM: Customer Relation Management  
3. ERP: Enterprise Resource Planner  
4. XaaS: Everything as a service



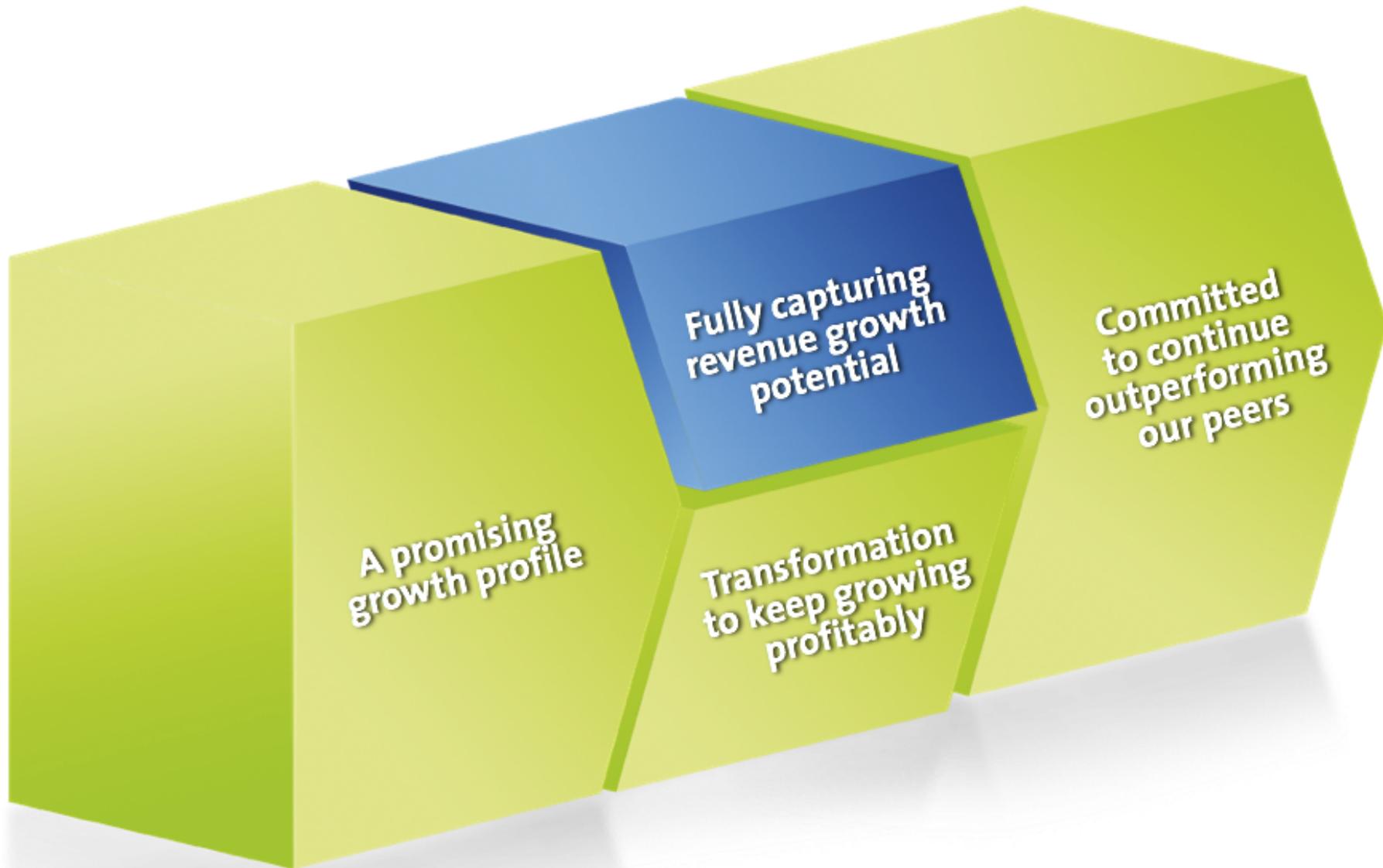
# Our markets still offer significant growth potential



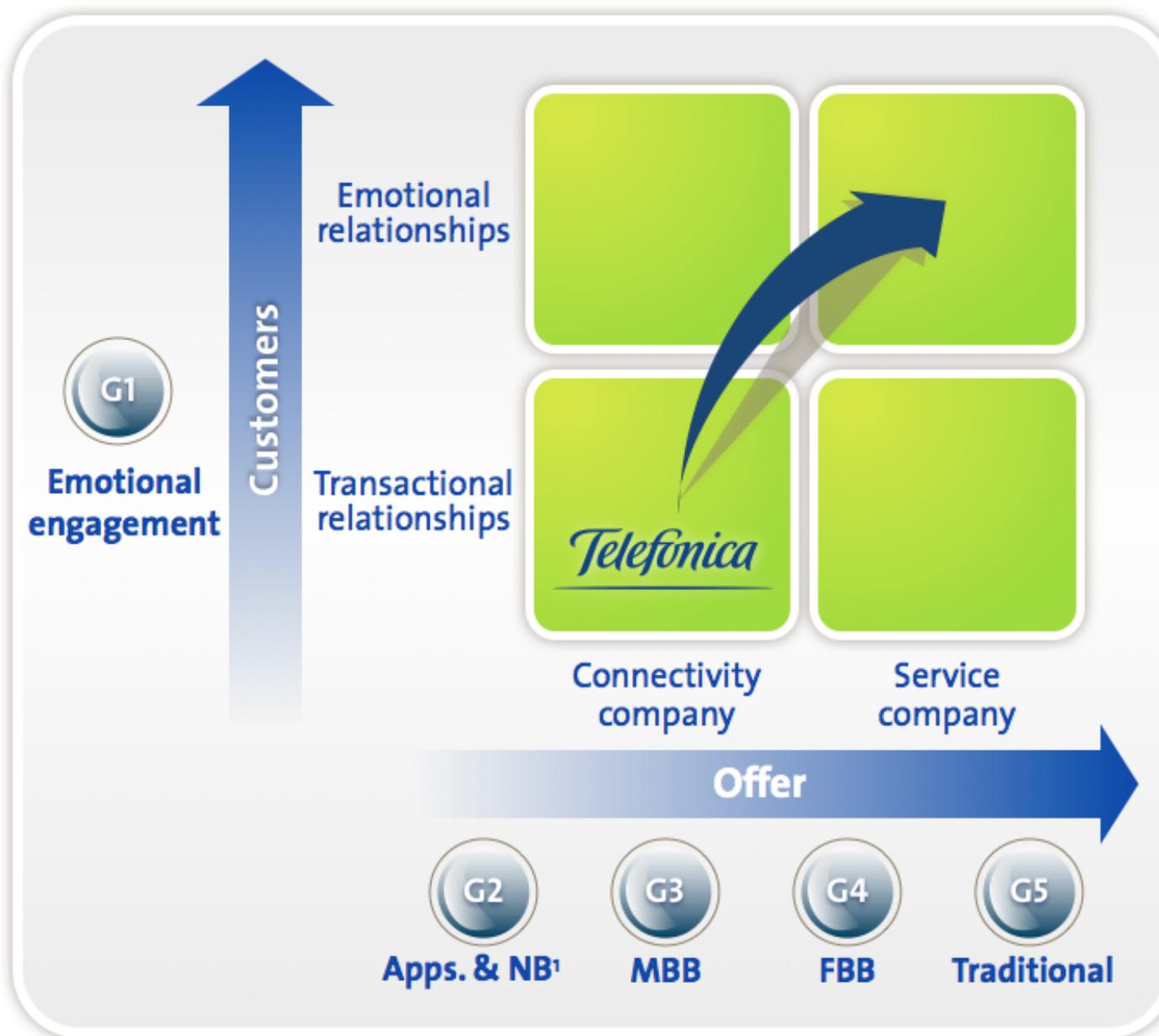
1. Telefónica Markets Revenue: Estimated market evolution in Telefónica footprint (countries and services), including Fixed, Mobile, MBB, FBB and Pay TV  
2. Assumes 2008 constant FX (average FX08)



# Content



# Our strategy enables growth potential to be captured



1. Apps. & NB: Applications & New Business





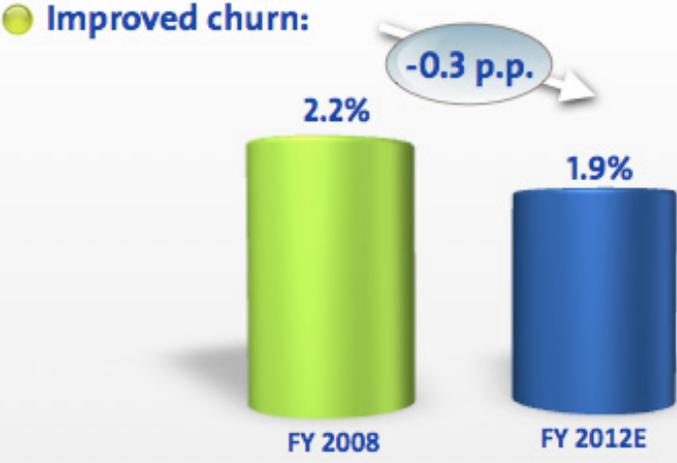
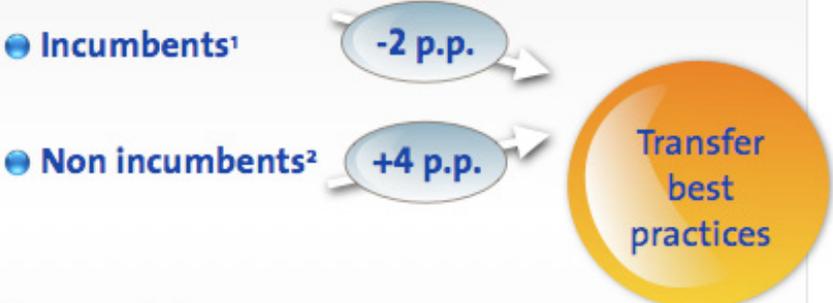
## Customer journey



## Our targets

VARIATION 08-12 E

- CSI leaders across footprint by 2012
- Outperforming the industry in market share by customers and revenue



1. Incumbents: Spain, Brazil, Argentina, Chile, Peru, Colombia, Czech Republic  
 2. Non Incumbents: UK, Germany, Ireland, Slovak Republic, Venezuela, Mexico, El Salvador, Guatemala, Panama, Nicaragua, Uruguay, Ecuador



### Mobile applications:

- **Global TEF branded and 3rd party services (Open Telefónica) focused on communication (IM<sup>2</sup>, email, VoIP ...), communities, transactions and entertainment (mstore), deploying new monetization models (advertising) and personalized experiences leveraging new Smart SIMs**

### Digital Home services:

- **Home device management (gateway, mediabox, set top box, jogger) and new integrated TEF services (gateway storing, security and control, LAN management...)**

### Enhanced TV:

- **Differentiated offer delivering attractive content, advanced features, solid interactive user experience and cross-platform approach (e.g. PVR programming from PC or Mobile)**

### ICT solutions:

- **Services to address employee needs (e.g. desktop), infrastructure alternatives (e.g. virtual hosting) and processes (e.g. emergency platforms) leveraging Cloud Computing and M2M functionalities**

### New Business:

- **e-Finance (Remittances & NFC<sup>3</sup>), e-Health (Tele-assistance, remote health monitoring...), e-Travel, e-Learning and e-Security**

## FY 2012 E

>120m

Mobile applications downloaded

>4.5m

Pay TV customers



1. **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 services revenue

2. **IM:** Instant Messaging

3. **NFC:** Near Field Communications

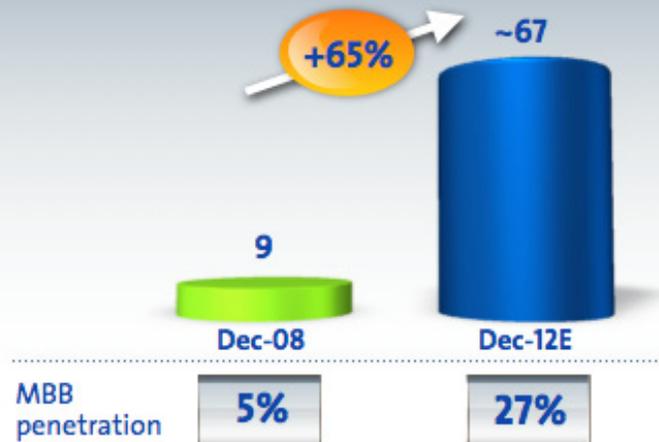
4. Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation





### MBB accesses<sup>1</sup> millions

● CAGR 08-12 E  
 ■ MBB penetration:  
 Big and Small screen  
 accesses over  
 mobile accesses



### MBB connectivity revenue<sup>2</sup> € in billions

● CAGR 08-12 E<sup>4</sup>



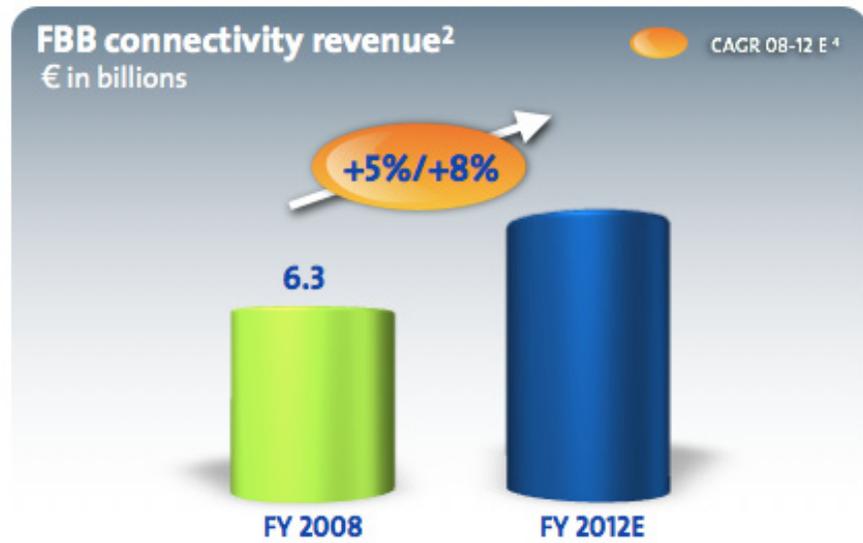
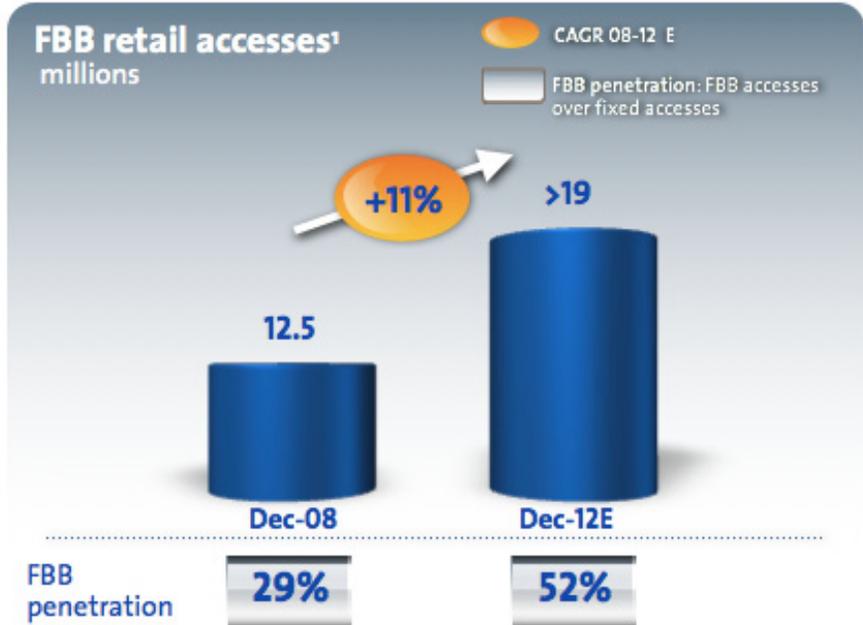
- Exploit the **MBB potential** by leveraging **distinct attributes** (mobility, simplicity, convenience) and facilitating **Internet access**:
  - Differentiate **positioning** across footprint (**complementary** to FBB vs. **substitutive**)
  - Lead the **small screen** opportunity by supporting **mobile applications** and selectively exploiting exclusivities and attractive prices (<€150) to make Telefonica “**the home of the smartphone**”
  - Drive profitable **big screen** by extensive **datacard** deployment through **new channels** (e.g. OEM<sup>3</sup> collaboration on embedded 3G laptop) and **new devices** (netbook, e-Reader)
  - Develop **gateway** linking Small Screen to Big Screen enabling customers to connect how, where and when they want
- Offer **core mass product** based on **rational bandwidth (1 to 2 Mbps)** and **prepay products** to increase broadband penetration
- Deliver **competitive market pricing** based on a **combination of traffic volume, unique services** (e.g. video download) and **speed** required to address different usage patterns

1. MBB accesses: Including Big and Small Screen

2. MBB connectivity revenue: Including Big and Small Screen, mobile email and WAP browsing revenues

3. OEM: Original Equipment Manufactures

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



## DSL:

- **Drive leadership** through an increasingly segmented offer:
  - **Entry level** to **expand** broadband markets in low coverage areas and into low income segments
  - **Standard offer** with speed adjusted to demand and competitive dynamic
  - **Premium offer** at high speed (**>10 Mbps**) with coverage leveraging VDSL from CO<sup>3</sup> and additional features (symmetric access...)

## FO:

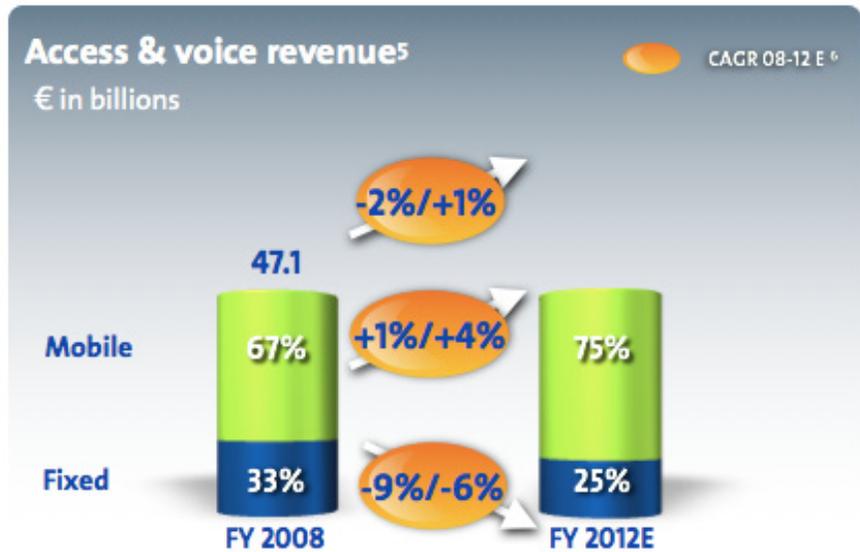
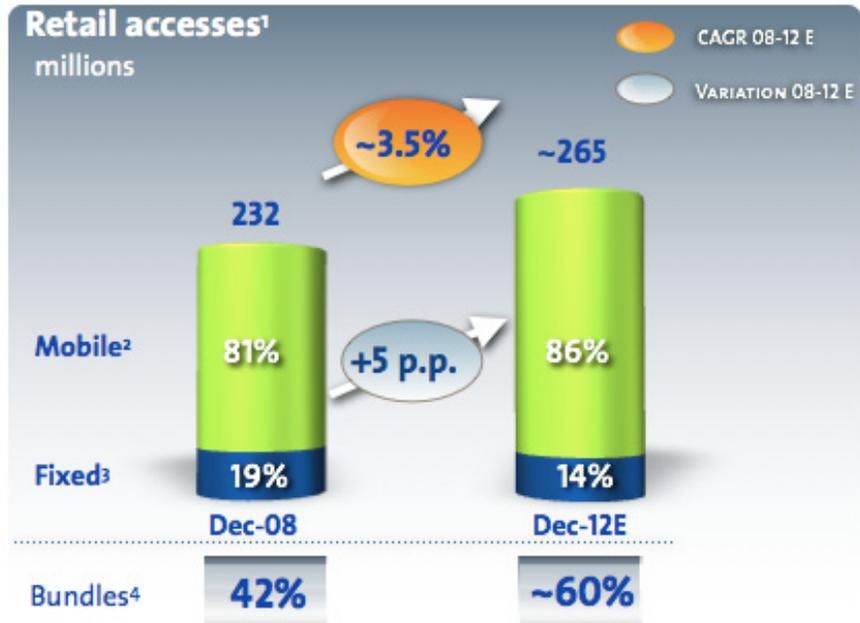
- **Selective deployment** (new residential areas, high-income areas, dedicated corporate connectivity ...) facing competition with **video, speed (>25 Mbps)** and an **exciting customer experience**

## Bundles:

- **Consumer:** FBB to drive bundles including **voice** (fixed and mobile), **MBB** and **TV**
- **Enterprise and SME:** FBB as part of **integrated ICT solution**

1. FBB retail accesses: includes FO, DSL, Cable modem and satellite  
 2. FBB connectivity revenue: includes connectivity (DSL, FO, Cable Modem...), fixed data services, retail and wholesale and equipment revenue  
 3. CO: Central Office  
 4. Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation





#### Fixed Voice:

- **Bundle access with fixed and mobile voice** to retain fixed voice only customers and increase fixed line value through **BB adoption**
- **Prepay BB model** to defend access in low mid-end segments
- **Manage fixed to mobile substitution** optimally
- **Proactively manage churn** through specific call centre offers and by monitoring potential churners (cross selling retail promotions)

#### Mobile Voice:

- Capture **penetration growth** opportunities
- **Prepay to contract migration** (e.g. on-net voice bundles)
- Innovative tiered **price plans**, improving modularity and flexibility (e.g. semi flat rates)
- Develop **customer experience** through **segmented loyalty programs**, enhanced customer attention and value & behavioural segmentation
- Enhance **distribution** model focusing on a differential customer experience ("flagship")

1. Morocco excluded in 2008 for comparison reasons

2. Mobile: Mobile voice accesses. M2M and Small Screen are included

3. Fixed: PSTN, Public Use Telephony, ISDN, Fixed wireless lines, self consumption, test and social interest lines, naked DSL, VOIP lines and narrowband Internet accesses

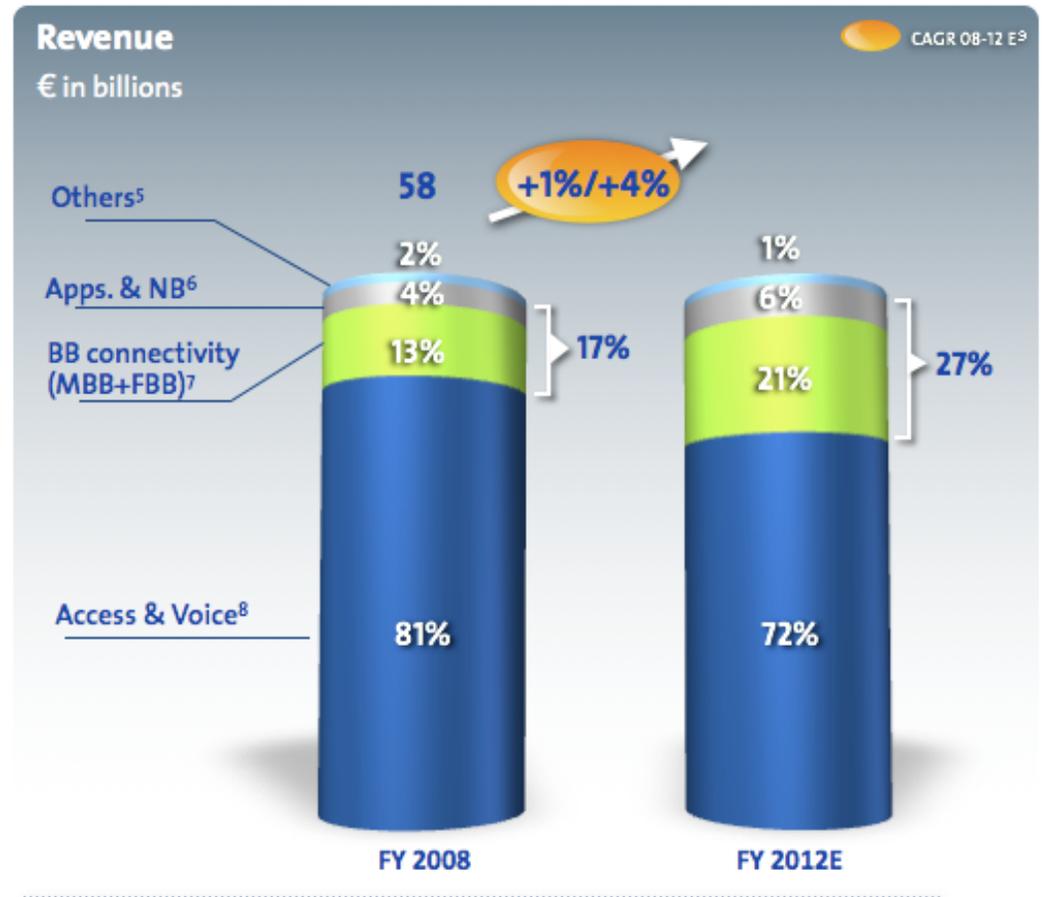
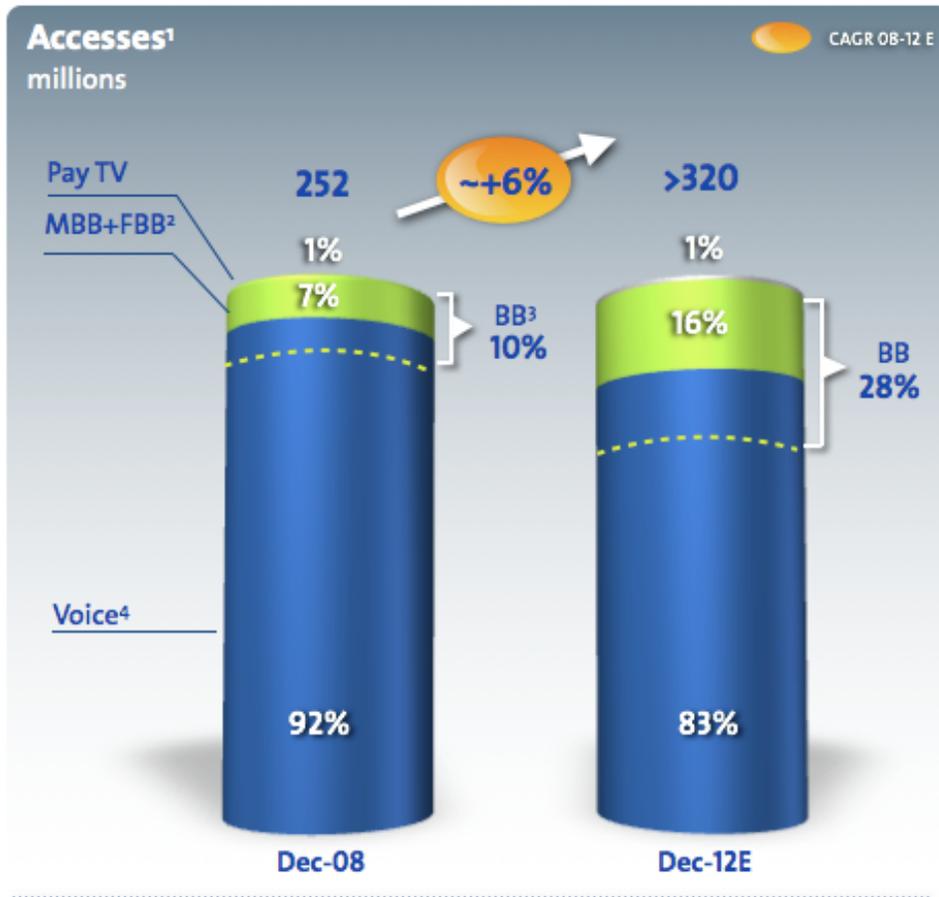
4. Bundles: [1P+2P+3P+4P] over total fixed accesses ex Public Use Telephony

5. Access & Voice: Fixed and mobile access & voice (SMS included), fixed & mobile equipment, narrowband Internet and M2M revenue

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



# Revenue growth will be based on broadband and mobile

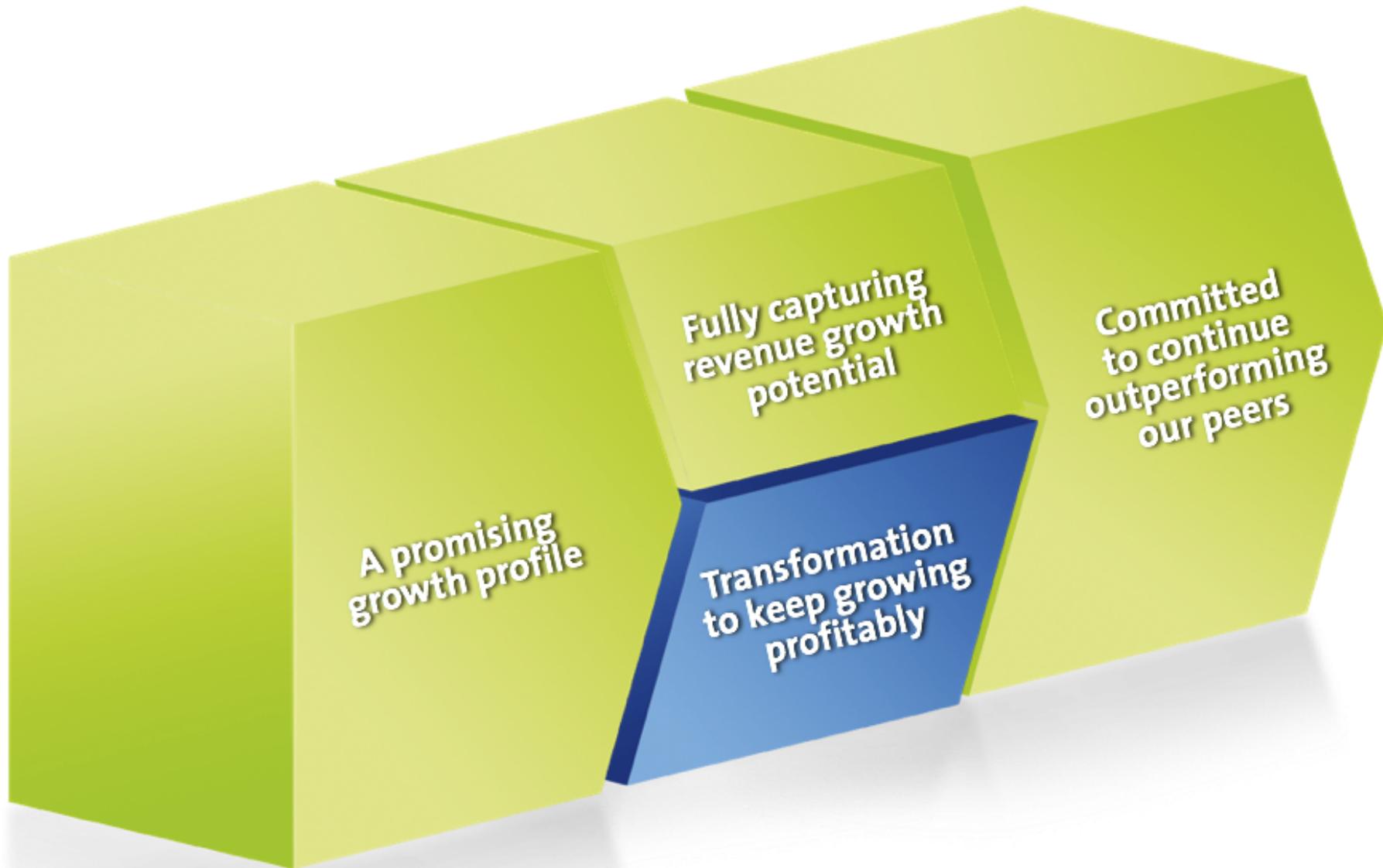


1. Morocco excluded in 2008 for comparison reasons  
 2. MBB+FBB: FBB, MBB (Big Screen only) and wholesale accesses  
 3. BB: MBB (Big and Small Screen) + FBB and wholesale accesses  
 4. Voice: Fixed, mobile and narrowband accesses, M2M and MBB Small Screen users  
 5. Others: Subsidiaries and other companies  
 6. Apps. & NB: TV, ICT solutions, online advertising, MBB VAS and other FBB VAS, new growth sources and other digital content services revenue

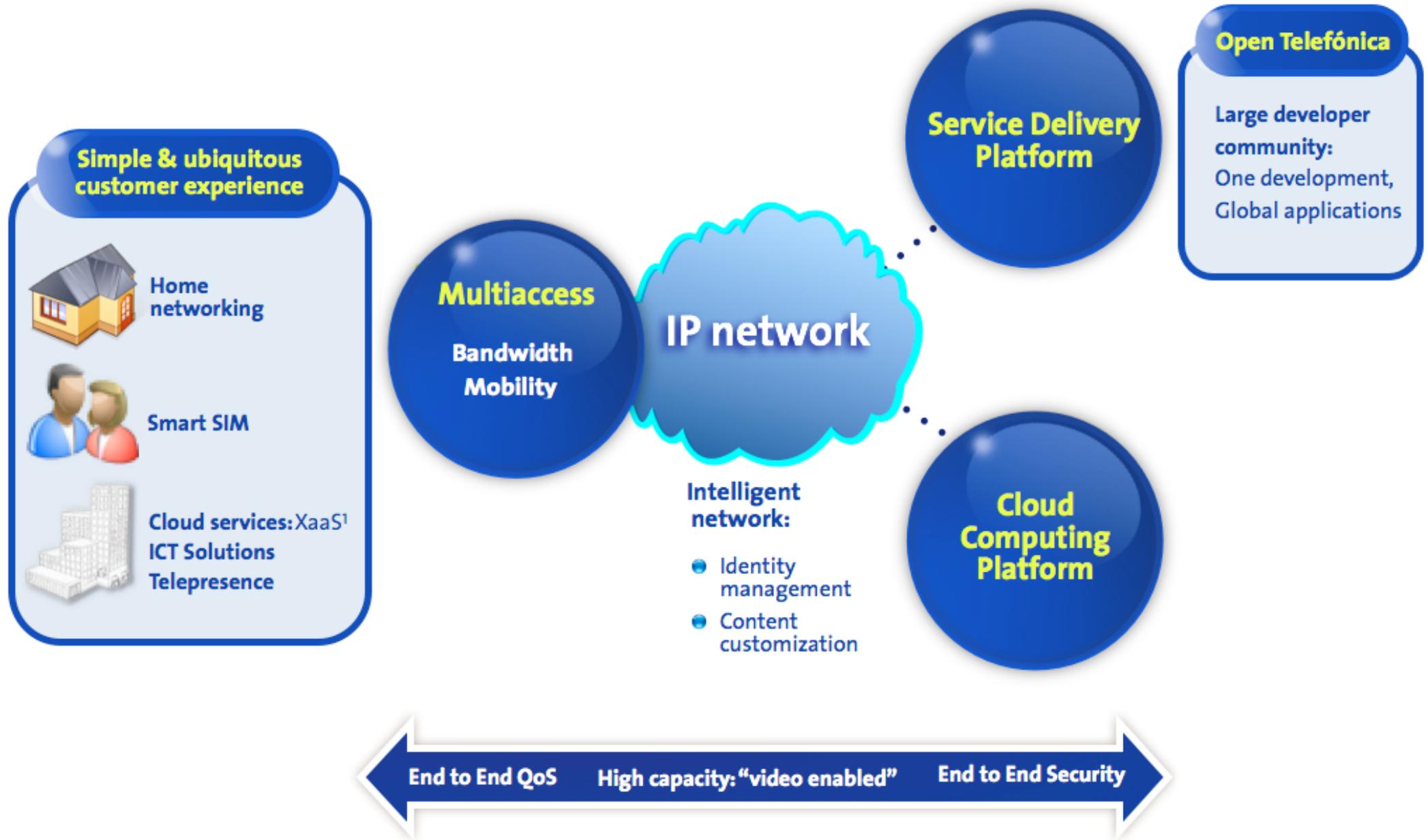
7. BB Connectivity (MBB+FBB): FBB connectivity, retail and wholesale, equipment, and fixed data services, MBB connectivity (Big & Small Screen) revenue  
 8. Access & Voice: Fixed and mobile access & voice (SMS included), fixed & mobile equipment, narrowband internet and M2M revenue  
 9. Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation



# Content



# Profitable growth requires a new operating model

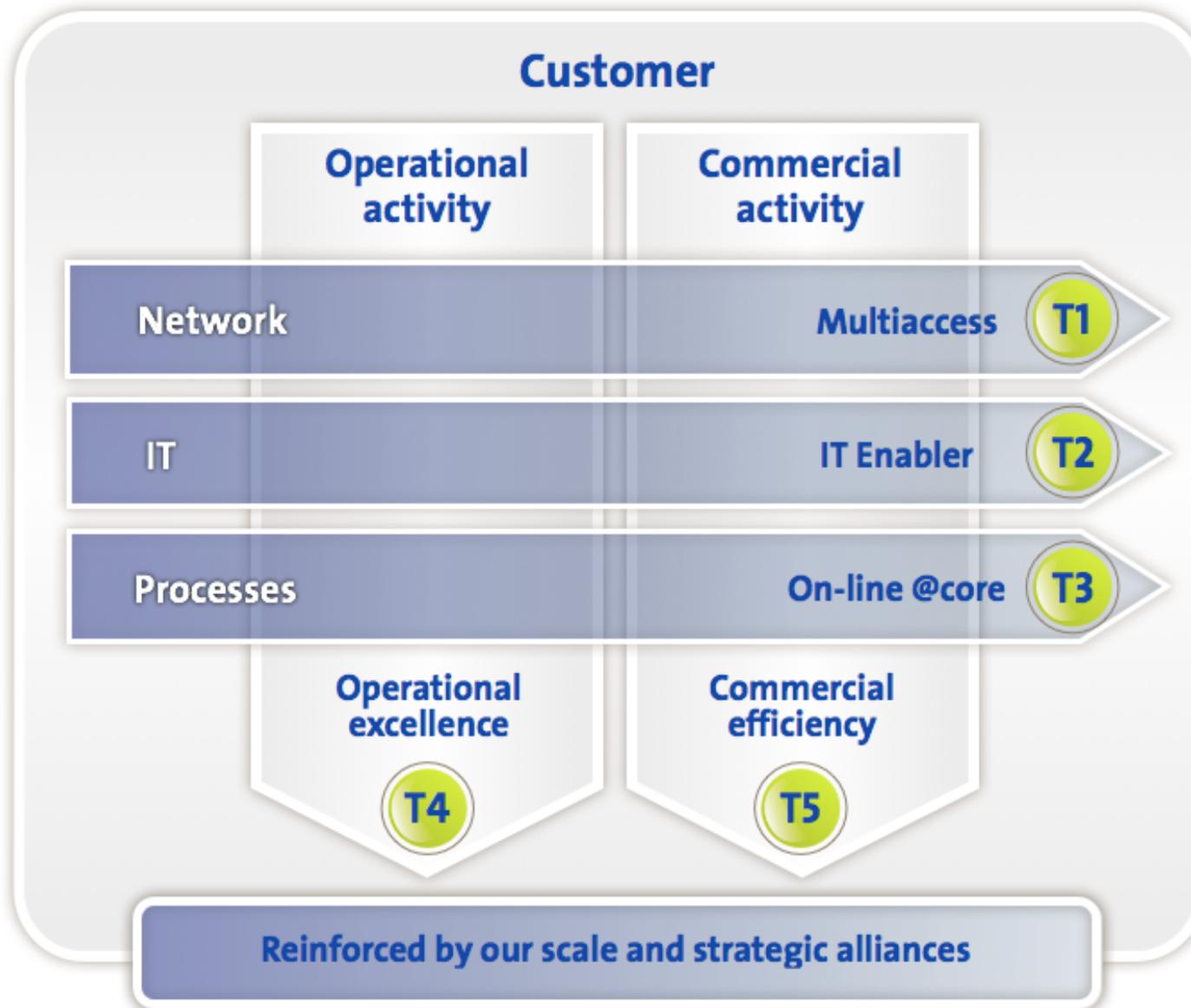


1. XaaS: Everything as a service

# Profitable growth requires a new operating model



# Profitable growth requires a new operating model





## Network & operation CapEx per access

CAGR 08-12 E<sup>1</sup>



### Efficient CapEx management:

- Minimize investment in **copper plant**
- Migrate to **wireless** for unprofitable COs<sup>2</sup>
- **Contain 2G investment**, as main areas are already covered
- Improve **integrated access solutions** (e.g. seamless WiFi/3G handover)

### Focus investment in new revenue streams:

- Selective deployment of **High Speed BB** access (VDSL2 and FO)
- Expansion of **MBB (3G and beyond) capacity and coverage**:
  - Femtocell selective rollout
  - Fiber backhaul in main sites
  - Selective deployment of **HSPA+**
  - **LTE** launch not before 2011
- **Spectrum opportunities management**:
  - Priority to low-frequency bands and **LTE**
  - According to technology availability and business opportunity
- **Increase integrated backbone capacity**

## FY 2012 E

**x9**  
Lines passed with >25 Mbps

**x2**  
Population covered with MBB

**x4**

1. Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation  
 2. CO: Central Office





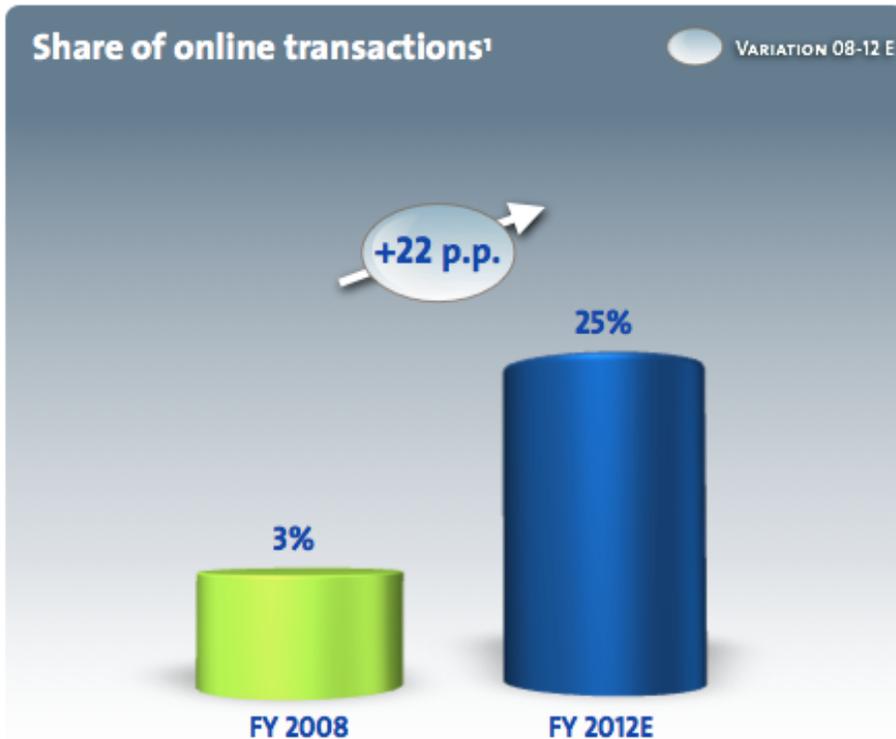
## IT CapEx &amp; OpEx per access

CAGR 08-12 E<sup>1</sup>

- **6 Datacenters in mid to long term (from 70)**  
Common technical architecture and management process
- **One Global workplace**  
Single personal computer, mail service, corporate network
- **Single architecture framework and foundations**  
In cooperation with world leading technology players
- **Key core global applications when applicable**  
Applications aligned to business needs with high re-use level
- **Global IT governance and security management**  
Common process and tools, aligned with standards
- **Global partnerships with selected IT vendors**  
Selected activities under no full outsourcing models
- **Global Application Management centers (SW factories)**  
Low cost/high talent locations and managed with common IT processes

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

# T3 Online at the core to increase agility and efficiency in our relationship with stakeholders



## Enhanced customer experience:

- Move **customer-facing activities online**: marketing, sales, e-Care, and e-Billing supported by one account approach
- Upgrade capabilities to **increase online customer satisfaction**
- Facilitate customer access to **new services**
- Increase **commercial effectiveness**

## Agile contacts with suppliers:

- **Single online tool** for procurement: > 95% of purchases online by FY 2012E, 40% of them auctions

## Simplified interactions with third party developers:

- **Open Telefónica** (Movilforum Movistar, O2 Litmus,...)

## Tools to enable new working environments:

- Extensive use of **online applications** for back office administration and knowledge sharing

<sup>1</sup>. Share of on-line transactions: (Gross Adds Online + Customer Service Transactions Online) / (Total Gross Adds + Total Customer Service Transactions)



## Non-commercial OpEx<sup>1</sup> per access

CAGR 08-12 E<sup>2</sup>



### ● Maximize process automation:

- **Zero-touch copper:** minimize provisioning and reduce delivery time
- **Customer self-service:** self-installation and self-care
- **Efficient delivery:** increase quality by end-to-end tracing provisioning and care processes

### ● Extend scope of outsourcing:

- **Full network outsourcing** where managed services market reaches maturity with specialized multi-vendor partners
- **Outsource non differentiating support functions**

### ● Globalization/regionalization:

- **Operations consolidation:** Regional/Global network monitoring and maintenance
- **Global network O&M<sup>3</sup> agreements** (IP network, 2G/3G, microwaves...)

### ● Extend Network Sharing with other partners and infrastructures

### ● Moving to higher energy efficiency (Green)

1. Non-commercial OpEx: All other costs not included under Commercial OpEx + COGS

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

3. O&M: Operations & Maintenance



### Commercial OpEx<sup>1</sup> + COGS<sup>2</sup> per access

CAGR 08-12 E<sup>3</sup>

~2.5 p.p.  
reduction  
from ITX

-6.5%/-3.5%



FY 2008



FY 2012E

#### New dynamics on subsidies:

- Acquisition costs focused on high value customers
- Take advantage of increasing **SIM only** adoption
- Reduce **retention** costs through higher **F&M integration** and shifting marketing focus to **service attractiveness**

#### Channel optimization:

- Evolve channel mix to reduce cost per gross add
- Focus **commission** schemes on **churn reduction**

#### Excellence on P&S:

- More efficient P&S **globalization and development**
- **Portfolio simplification**

#### Reduction in COGS<sup>2</sup>:

- Reduce **total interconnection cost**, leveraging MTRs reduction, market share and on-net schemes
- Optimize **content expenses** by focusing on **differentiating content** and leveraging **sponsorships**

1. Commercial OpEx + COGS: Includes interconnection and Other Costs of Goods Sold, Commercial, including client management cost

2. COGS: Cost of Goods Sold

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

# Our management model maximizes the benefits of our scale and strategic alliances



## Multilocal integrated management

### Local Management

- Customers
- Factories
- Regulation

### Global Management

- Procurement and roaming centers in Germany
- MNC global unit
- Network & IT planning and evolution
- Development of global products leveraged on Telefónica I+D
- Negotiations with partners
- Shared services
- Unified employees' talent development and careers

Increase attractiveness for partners

Increase effective scale

## Partnerships and industrial alliances

### Synergies from Strategic Alliances with other operators



- >650 million combined customer base<sup>1</sup>, a ~10% of world's population

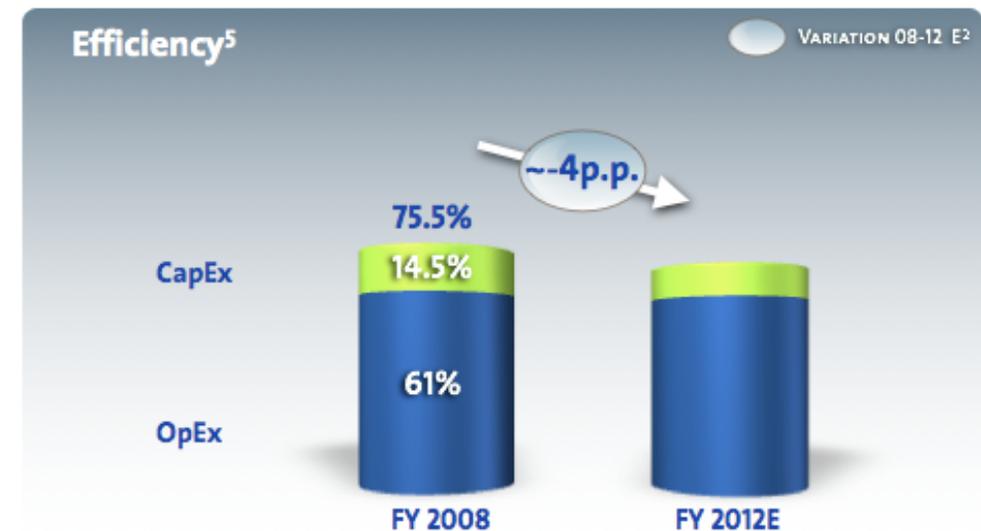
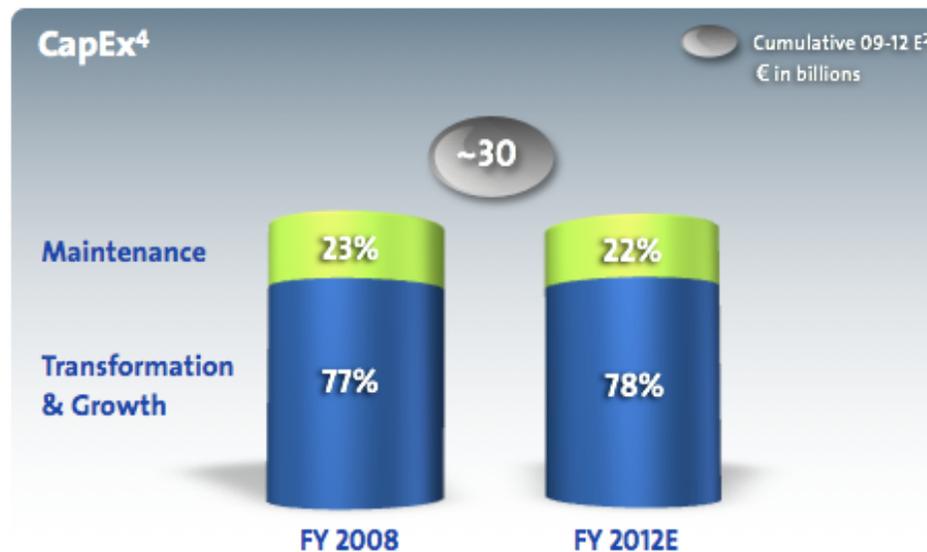
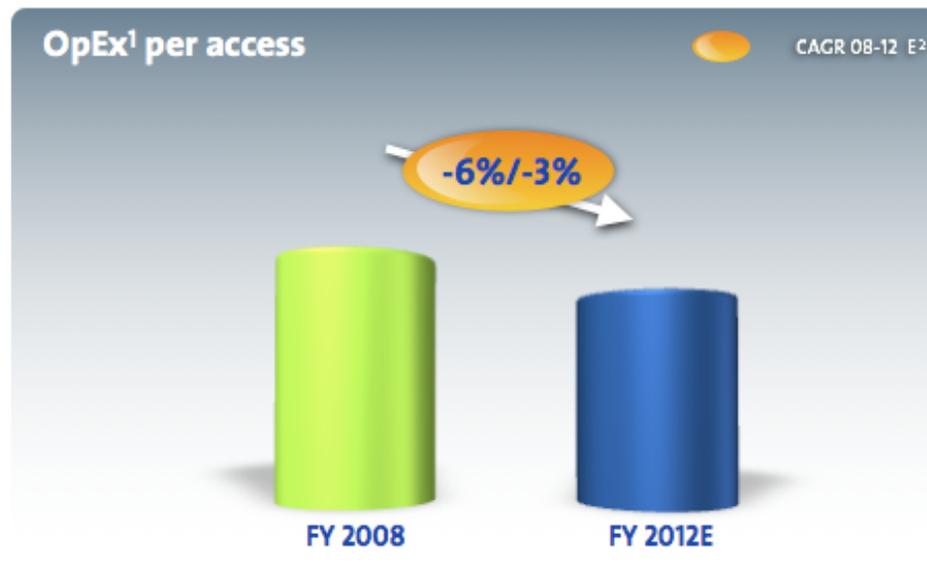
### Agreements with other industry players

- Internet
- Content
- Handset
- Outsourcing

1. Accesses from Telefónica, Telecom Italia and China Unicom by Jun-09



# Transformation is key for our superior margin and efficiency



1. OpEx considered for this calculation is Revenue-OIBDA

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

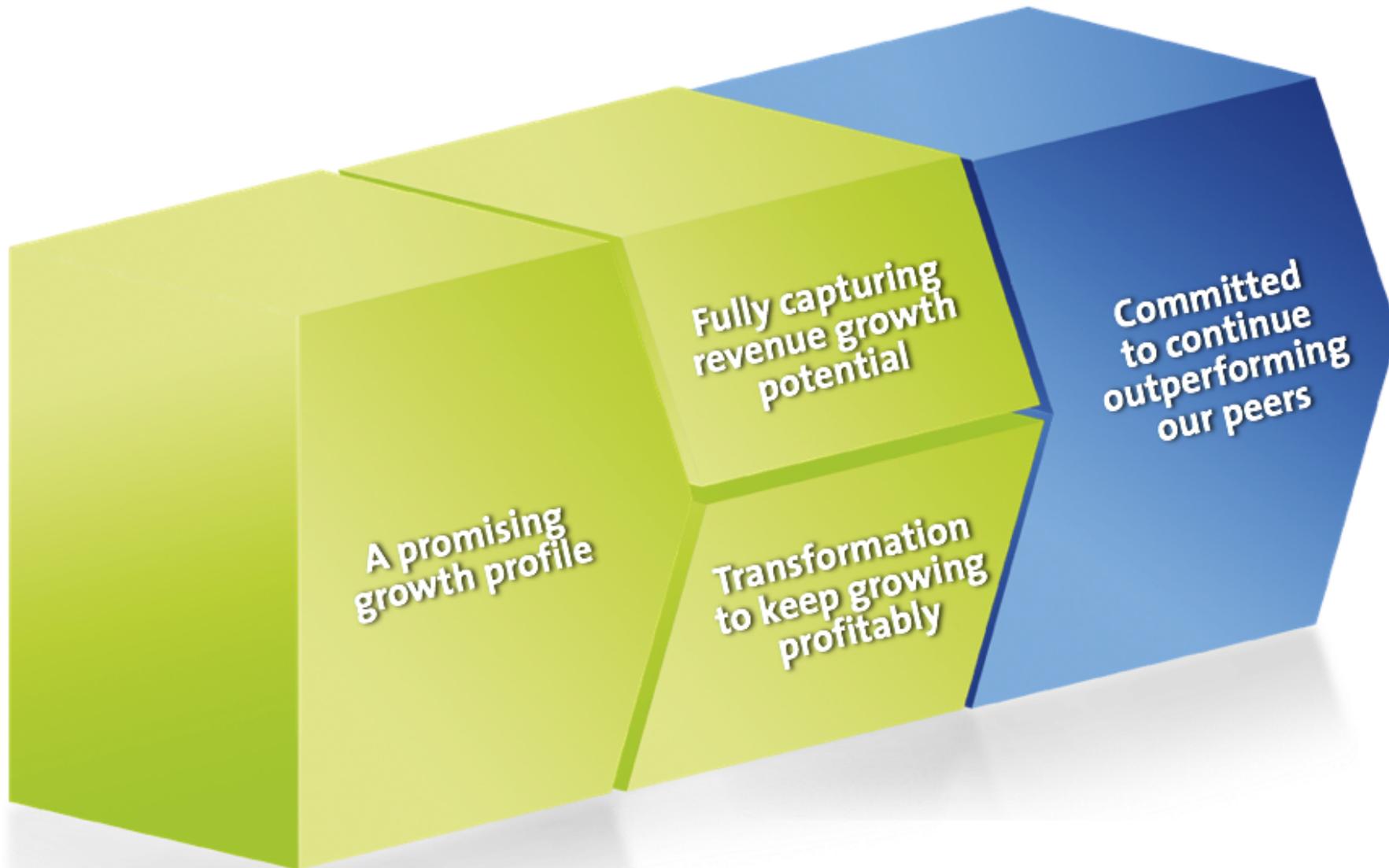
3. OIBDA: 2008 adjusted figures for guidance exclude Sogecable capital gain (€ 143 m) and the application of provisions made in T. Europe in respect of potential contingencies deriving from the past disposal of shareholdings, one these risks had dissipated or had not materialized (€ 174 m), includes 9 months of consolidation of Telemig in T. Latam. In terms of guidance calculation OIBDA excludes capital gains and losses from sale of companies and write-offs

4. CapEx: Excludes Real Estate Efficiency Program of T. España and spectrum licenses

5. Efficiency ratio: (Operating Expenses + CapEx-internal Expenses capitalised in fixed assets) / Revenue



# Content



# Our strategy delivers ambitious commitments for the coming years



## Growth



- G1 Emotional engagement
- G2 Apps. & New Business
- G3 MBB
- G4 FBB
- G5 Traditional

## Transformation



- T1 Multiaccess
- T2 IT Enabler
- T3 Online @ core
- T4 Operational excellence
- T5 Commercial efficiency

## Guidance

### CAGR 08-12 E<sup>1</sup>

Revenue **+1%/+4%**

OIBDA<sup>2</sup> **+2%/+4%**

OI<sup>2</sup> **+4%/+7%**

OpCF<sup>2,3</sup> **+5%/+7.5%**

### Cumulative FY 2009-FY 2012 E<sup>1</sup>

CapEx<sup>4</sup> **~€ 30 bn**

OpCF<sup>3</sup> **>€ 64 bn**

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

2. OIBDA, OI, OpCF: 2008 adjusted figures for guidance exclude Sogecable capital gain (€ 143 m) and the application of provisions made in T. Europe in respect of potential contingencies deriving from the past disposal of shareholdings, one these risks had dissipated or had not materialized (€ 174 m), Includes 9 months of consolidation of Telemig in T. Latam. In terms of guidance calculation OIBDA excludes capital gains and losses from sale of companies and write-offs

3. OpCF: OIBDA - CapEx

4. CapEx: Excludes Real Estate Efficiency Program of T. España and spectrum licenses



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