

09/10/2009

Telefónica reinforces its position as an international benchmark in the telecommunications industry in front of its investors

CÉSAR ALIERTA ANNOUNCES A 21.7% INCREASE IN TELEFONICA'S DIVIDEND FOR 2010 WITH PLANS TO PAY OUT AT LEAST EUR 1.75 PER SHARE IN 2012

- The company will propose to shareholders at its next General Shareholders' Meeting the payment of a Eur 1.40 per share dividend charged against 2010, earnings, compared to the current Eur 1.15. With this announcement, Telefónica reinforces its international leadership position in the telecommunications sector with regard to shareholder remuneration.
- Over 300 investors and analysts gathered in Madrid to attend Telefónica's traditional Investor Conference. Now in its seventh year, the aim of this year's event was to share with the market the company's main strategic and financial objectives through to 2012.
- César Alierta is confident that the telecoms sector will continue to grow given its greater penetration and the new services offered, giving rise to a new Totally Digital Life. He also assured that Telefónica is one of the best placed companies to take advantage of and obtain a return from this growth in the market

Madrid, 9 October 2009.- César Alierta, chairman of Telefónica, announced today in Madrid that Telefónica is to propose to shareholders at its next General Shareholder's Meeting a 21.7% increase in its 2010 dividend, up to Eur 1.40 a share, compared to Eur 1.15 at present. The company has also set a target of paying out a dividend of at least Eur 1.75 in 2012, making Telefónica's shareholder remuneration policy the most attractive in the sector.

The company has focused on constantly improving shareholder remuneration and has gradually increased its dividends to become the global telecom operator with the highest dividend payout, standing at 11.5% of its total revenue.

Speaking to investors Telefónica's chairman also explained the keys which reinforce the company's role on the international stage as a global benchmark in the telecoms industry and highlighted the three foundations on which it bases its unique profile: its shareholder remuneration policy and the presentation to the market and sustained compliance with its financial guidance; the group's current strengths and its continual focus on a growth strategy.

According to Alierta, values such as the scale and geographical diversity of its businesses, constant growth ratios, the strength of its brands, compliance with objectives and the commitment of its management team, all set Telefónica apart from other companies in the

sector. Other attributes include “the group’s financial strength, its excellent efficiency ratios, its successful commitment to certain industrial and strategic alliances and its noteworthy track record in social responsibility”.

The chairman’s speech focused on two main fronts: the company’s objective of capturing future growth in the market and turning this into profits, which will in turn lead to a permanent improvement in shareholder remuneration.

In this respect, and not only referring to the company but the sector as a whole, César Alierta stated that “our sector will continue to be a constant source of growth, poised to reach massive penetration levels in terms of accesses and broadband while anticipating an explosion of traffic, thanks to the multiple applications and new services which the “Totally Digital Life” will bring.

Medium term objectives: 2009-2012

Telefónica will receive more than 300 members of the international financial community, including investors and analysts, at its operating headquarters, District C, today. This is the seventh meeting of this kind to be held by Telefónica since the first conference was held in Rio de Janeiro in March 2001. The Telefónica Investor Conference is a platform where the company’s senior managers can publicly disclose their medium strategic objectives, in this case for the period 2009-2012. The conference is also designed to reflect the high levels of transparency and the group’s commitment to its shareholders, the global market and all its stakeholders.

Julio Linares, CEO of Telefónica, gave details of the company’s strategy to capture potential growth, explaining how it will change while keeping its operations profitable, and how, also, the operator will continue to stand out from its peers. “In all regions where we operate, Telefónica is already working from the perspective of a new operating model that will allow us to execute the growth strategy we are presenting today”, explained Julio Linares. Following his speech, Guillermo Ansaldo, chairman and CEO of Telefónica España, José María Álvarez Pallete, chairman and CEO of Telefónica Latinoamérica and Matthew Key, chairman and CEO of Telefónica Europa, presented detailed information on the medium term strategies for their respective regions.

Santiago Fernández Valbuena, CFO of Telefónica then made a presentation in which he addressed the probability of the company successfully meeting the strategic objectives outlined during the conference. Its robust financial position, efficiency and debt levels, classified by Fernández Valbuena as “satisfactory, both for credit entities and for our shareholders”, are the cornerstone of the operator’s medium term strategy and the guarantee that will allow Telefónica to grow on the security and confidence provided by its unique profile and size.

During this 7th Investor Conference, Telefónica reiterated its EPS 2010 target of Eur 2.10 and set the following guidance for the consolidated group:

	2008 Adjusted ¹ (million euros)	CAGR ^{2,3} 2008-2012E (%)
Revenues	57,946	+1%/+4%
Operating Income Before Depreciation & Amortization (OIBDA)	22,602	+2%/+4%
Operating Income	13,556	+4%/+7%
Operating Cash Flow (OIBDA – CapEx)	14,201	+5%/+7.5%

	Cumulative ³ 2009-2012E (billion euros)
CapEx	~30
Operating Cash Flow (OIBDA – CapEx)	>64
Free Cash Flow ⁴	>40

- (1) 2008 adjusted figures for guidance include 9 months of consolidation of Telemig in Telefónica Latinoamérica and exclude Sogecable capital gain (€ 143 m) and the application of provisions made in Telefónica Europe in respect of potential contingencies deriving from the past disposal of shareholdings, one these risks had dissipated or had not materialized (€ 174 m).
- (2) CAGR: Compounded Annual Growth Rate.
- (3) Figures assuming 2008 constant exchange rates (average exchange rates in 2008) and excluding changes in consolidation. In terms of guidance calculation OIBDA exclude capital gains and losses from sale of companies and write-offs. Group CapEx excludes Real Estate Efficiency Program of Telefónica España and spectrum licenses.
- (4) Free Cash Flow available to remunerate Telefónica's shareholders, to protect solvency levels (financial debt and commitments), and to accommodate strategic flexibility.