

# Telefonica US \$ bond issue June 2009

June 22, 2009



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## Disclaimer (2)

The risks and uncertainties involved in our businesses that could affect the matters referred to in such forward-looking statements include but are not limited to:

- ✓ Changes in general economic, business or political conditions in the domestic or international markets (particularly in Latin America) in which the Telefónica Group operates or has material investments that may affect demand for its services;
- ✓ Changes in currency exchange rates, interest rates or in credit risk in the Telefónica Group treasury investments or in its financial transactions;
- ✓ Existing or worsening conditions in the international financial markets;
- ✓ The actions of existing and potential competitors in each of the Telefónica Group markets;
- ✓ The impact of current, pending or future legislation and regulation in countries where the Telefónica Group operates;
- ✓ The potential effects of technological changes;
- ✓ The impact of limitations in spectrum capacity;
- ✓ The outcome of pending litigation.

Some of these and other important factors that could cause such differences are discussed in more detail in Telefónica S.A.'s Annual Report for the year ended December 31 2008 filed on Form 20-F with the U.S. Securities and Exchange Commission (the "SEC") on April 30, 2009, under "Item 3—Key Information—Risk Factors", "Item 4—Information on the Company", "Item 5—Operating and Financial Review and Prospects" and "Item 11—Quantitative and Qualitative Disclosures About Market Risk".

This presentation may contain non-GAAP financial measures. Reconciliations of such non-GAAP measures to the closest GAAP measures are contained in Telefónica S.A.'s Annual Report on Form 20-F for the year ended December 31, 2008 and Telefónica S.A.'s interim consolidated financial information included on Form 6-K for the first quarter of 2009 filed with the SEC on June 17, 2009.

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## 1 Telefónica's highlights

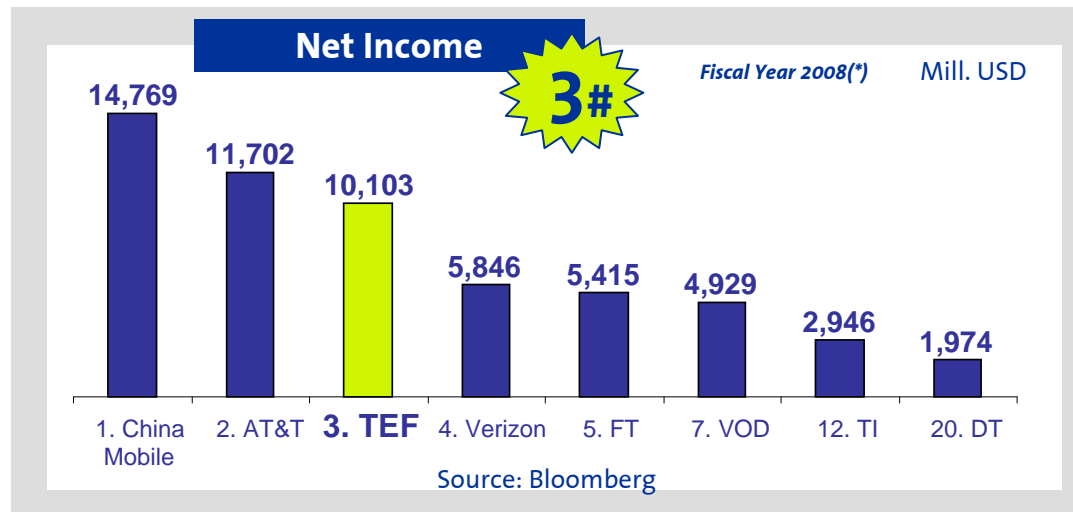
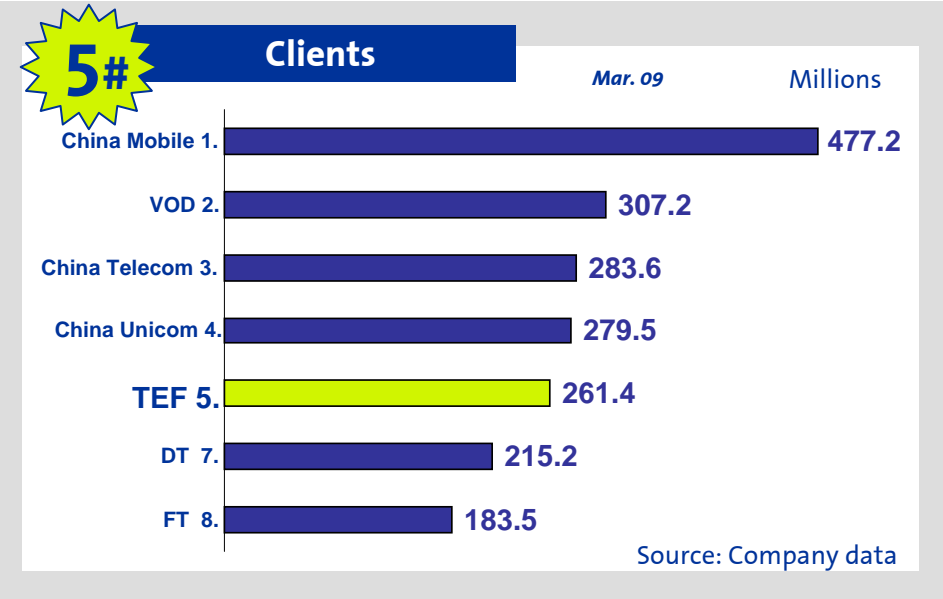
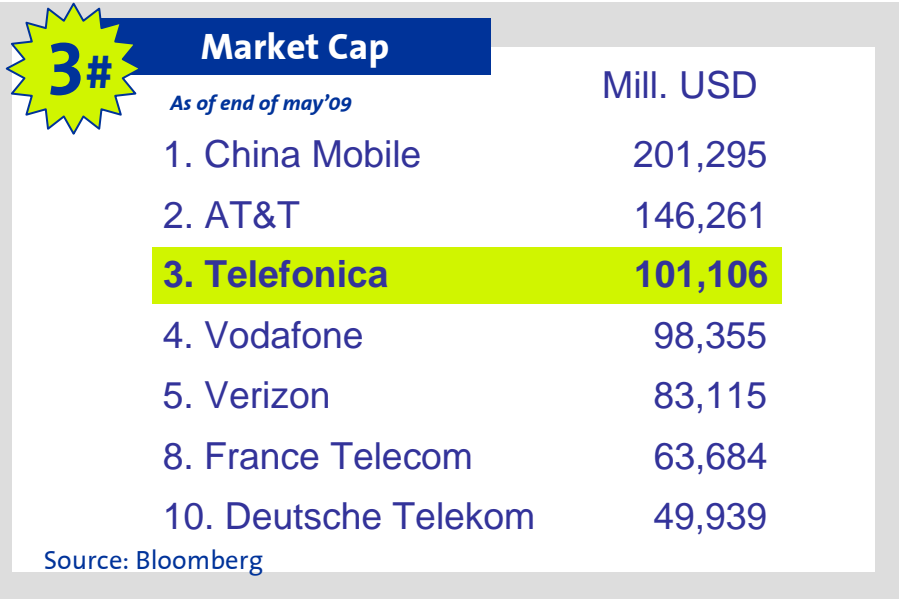
2 Business growth

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# 1 Telefónica a reference in the industry ....



(\*) Vodafone 9months, Mar.08 – Dec.08

# 1 ... with global reach and multiservice operator ...

#1 or #2 position in most markets where we operate



Customer share market position (Mar-09)

WIRELESS X

WIRELINE X

93% of revenues generated in markets where we hold #1 or #2 position

Note: Most relevant minority financial stakes are China Netcom (5%), Portugal Telecom (10%) and Telecom Italia (10%)

# 1 ... characterized by a strategically diversified asset portfolio, execution skills and integrated management model

*Telefónica is a ...*



€58bn Revenue

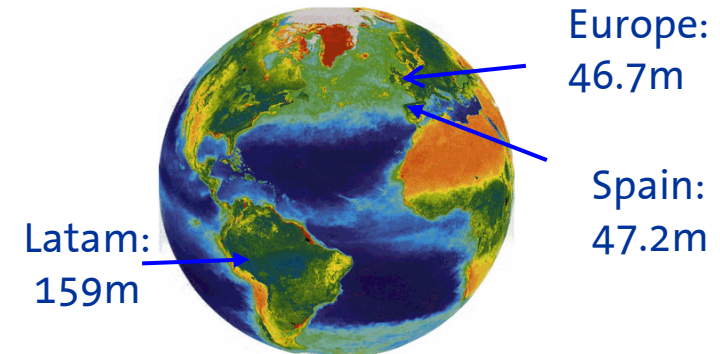
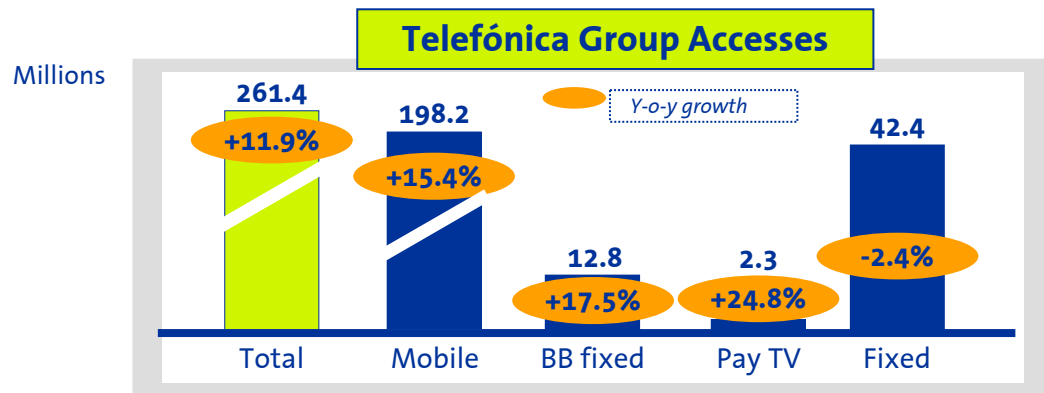


€23bn OIBDA  
(39,6% margin)

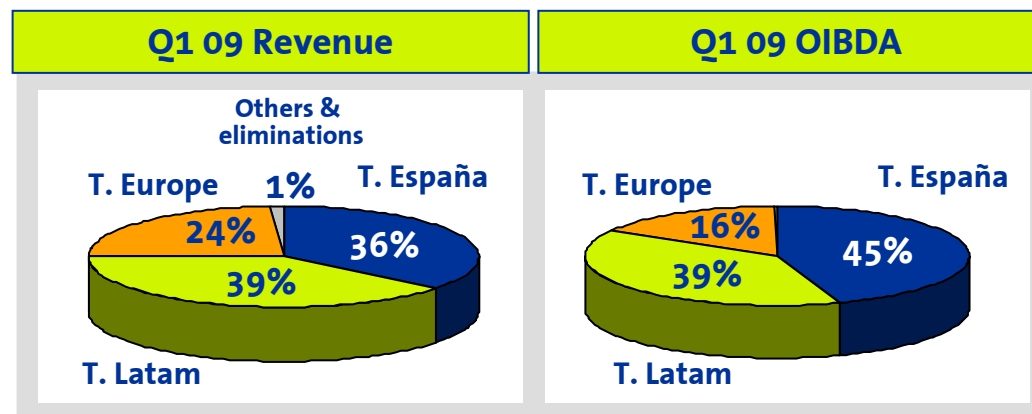


€15bn OpCF company...

*... with more than 250m clients across the Globe ...*



*...benefiting from the value of being diversified*



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## 2 Solid Q1 09 Group performance leveraging diversified portfolio ...

€ in millions	Jan-Mar 2009	Change O1 09/O1 08	Change organic <sup>(1)</sup> O1 09/O1 08
<b>Revenues</b>	13,703	-1.4%	+2.8%
<b>Operating Income before D&amp;A (OIBDA)</b>	5,354	-0.4%	+2.5%
<b>OIBDA Margin</b>	39.1%	+0.4 p.p	-0.1 p.p.
<b>Operating Income (OI)</b>	3,190	+2.9%	+3.9%
<b>Net income</b>	1,690	+9.8%	
<b>OpCF (OIBDA-CapEx)</b>	4,154	+2.4%	+4.5%

84% of OpCF  
stemming from  
Investment  
Grade countries

✓ **Negative impacts in nominal growth rates due to FX, deducting:**

- Revenues: -4.7 p.p.
- OIBDA: -3.3 p.p.
- OI: -1.3 p.p.




(1) Organic growth: Assumes constant exchange rates and includes the consolidation of Telemig in January-March 2008 for comparison purposes because Telemig was first included in the Telefónica Group's consolidation perimeter in April 2008.

## 2 ...outperforming our main European peer group in size and operationally

Q1 2009

### Business figures # 1/2

**2#**

€ in millions	Revenues
 Deutsche Telekom	15.902
	13.703
	12.685




### Clients and Mkt. Cap # 1

**1#**

In millions	Clients
	261
	189
	184

### OIBDA margin # 1




**1#**

% Margin	OIBDA
	39,1%
	33,9%
	31,1%

**1#**

€ in millions	OIBDA
	5.354
	4.942
	4.300

**1#**

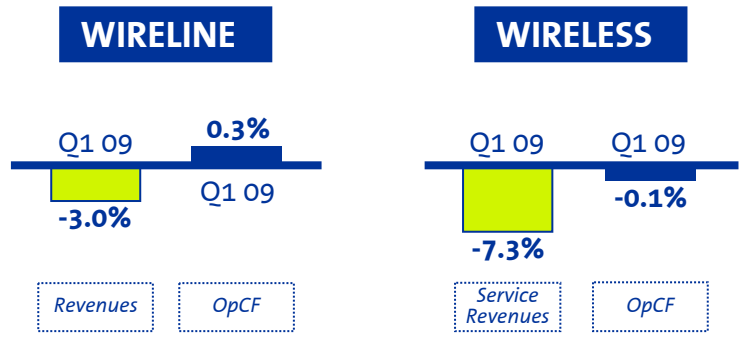
€ in millions	Market Cap <sup>1</sup>
	71.610
	45.105
	35.370

Source: Companies' 2009 Q1 Results (Press Release)  
Growth figures Q1 2009 vs. Q1 2008

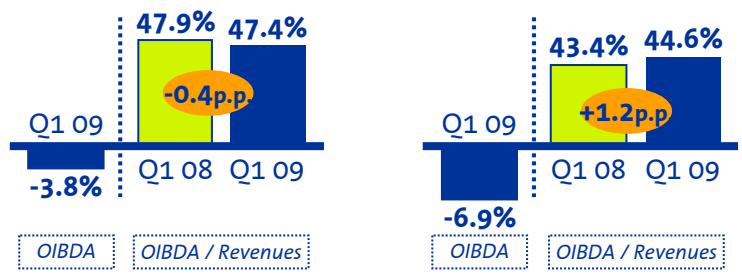
1. As of May 29th closing

## 2 T.España: Successfully managing OpEx and CapEx to improve OpCF

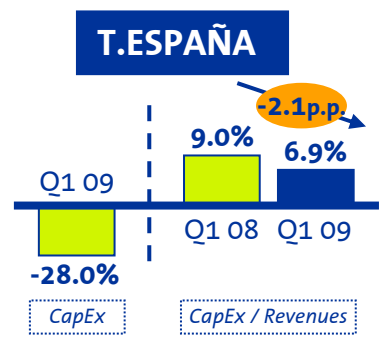
**Revenues & OpCF**  
(comparable <sup>(1)</sup> y-o-y change)



**OIBDA and OIBDA margin**  
(comparable <sup>(1)</sup> y-o-y change)



**CapEx and CapEx over revenues;**  
(comparable<sup>(1)</sup>)

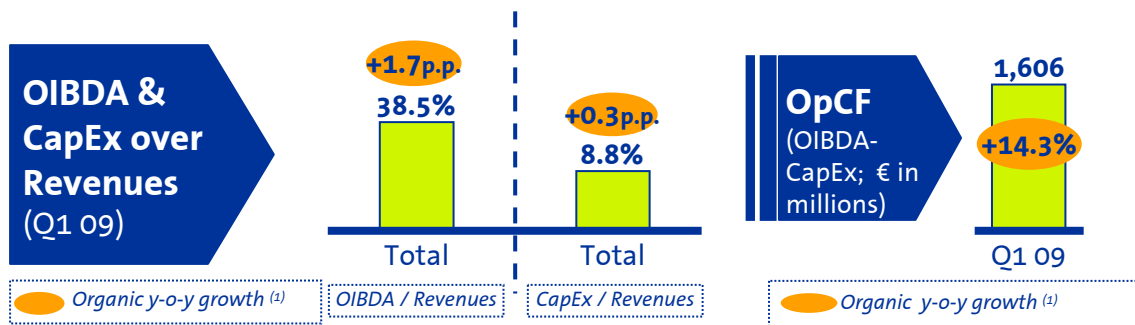
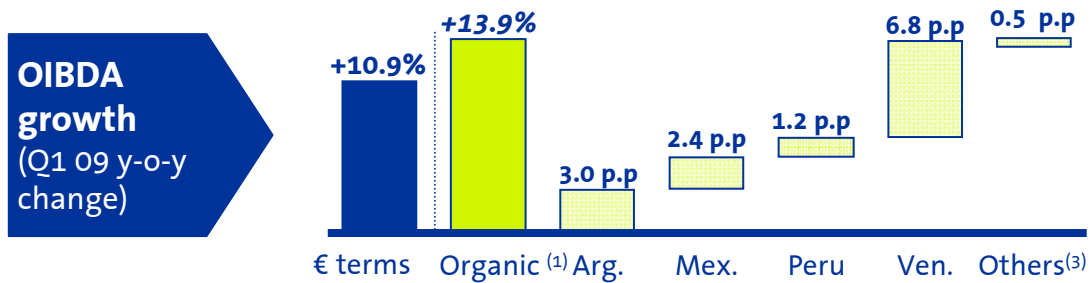
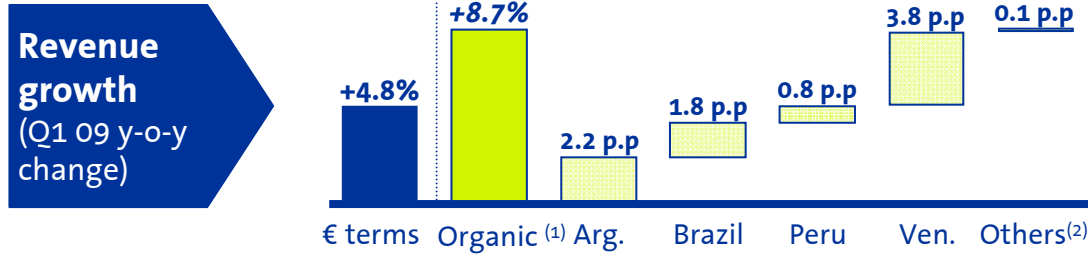


- ✓ Focus on OpCF across businesses without jeopardizing revenue share leadership
- ✓ Limiting top line pressure with efficiency gains and CapEx discipline
  - Sustaining solid margins: flat in wireline, while expanding in wireless
  - CapEx adapted to current trading environment

**T. España OpCF: €2,068m; +0.2%<sup>(1)</sup> y-o-y**

(1) Excludes impact on revenues (Wireline: € 75.3 m) and OIBDA (Wireline: € 45.6 m; Wireless: € -23.9 m) of Universal Service Obligation 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).

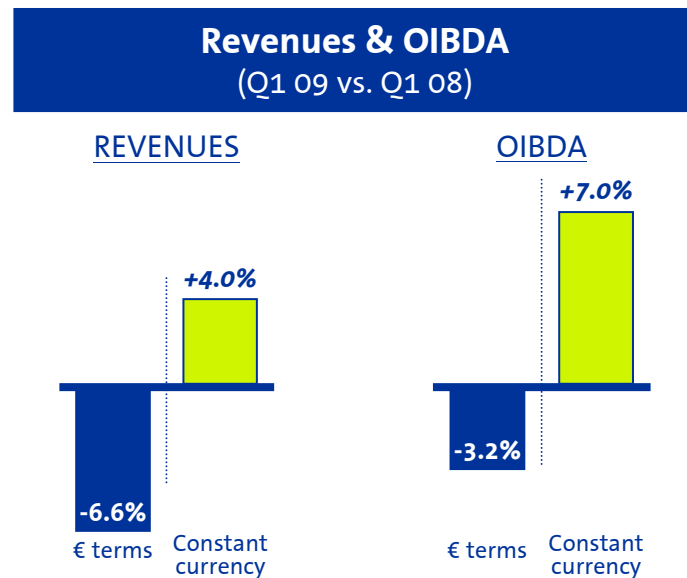
## 2 T.Latam: sustained strong results combining growth & enhanced efficiency



- ✓ **Healthy customer growth** across businesses: total accesses up 12.6%<sup>(4)</sup> y-o-y driven by mobile (+15.8%<sup>(4)</sup>) and BB (+18.6%)
- ✓ **Strong y-o-y organic revenue growth** driven by robust mobile and Internet & TV revenue growth
- ✓ **OIBDA margin expansion** supported by mobile business leveraging scale economies and lower commercial activity
- ✓ **Significant OIBDA margin expansion across every mobile operation**: +5.6 p.p. in Argentina, +9.8 p.p. in Mexico, +8.3 p.p. in Peru
- ✓ **Solid OpCF** despite strong investments in growth platforms

- (1) Organic growth: Assumes constant exchange rates and includes the consolidation of Telemig in January-March 2008 for comparison purposes because Telemig was first included in the Telefónica Group's consolidation perimeter in April 2008.
- (2) Includes Central America, Colombia, México, Ecuador, Chile, Uruguay and Others.
- (3) Includes Brazil, Central America, Colombia, Ecuador, Chile, Uruguay and Others.
- (4) Includes Telemig from April 2008.

## 2 T. Europe: Delivering on cash flow generation through a more rebalanced portfolio while maintaining momentum



### ✓ Solid Q1 09 performance across markets in an increasingly tough trading environment

- +9.0% y-o-y increase in total customer base.
- Increasing value through product innovation and customer insight: flat rates, SIM-only, Mobile BB and retention activity:
  - Exceptional performance in mobile contract: 82% of new total accesses added in Q1 09.
  - Solid mobile BB adoption, leading to a +28.5% y-o-y growth in non P2P-SMS data revenue <sup>(1)</sup>.
- Continued optimizing behaviour of customers using bundles, less prepaid and roaming activity.

### ✓ Ongoing efficiency programmes and improved customer retention to deliver strong OpCF

- OIBDA margin up 0.9 p.p. year-on year to reported 27.2%.
- More streamlined commercial approach, mainly through direct channels.
- Improved profitability of fixed BB on increased scale.
- Keeping flexibility on CapEx commitments.

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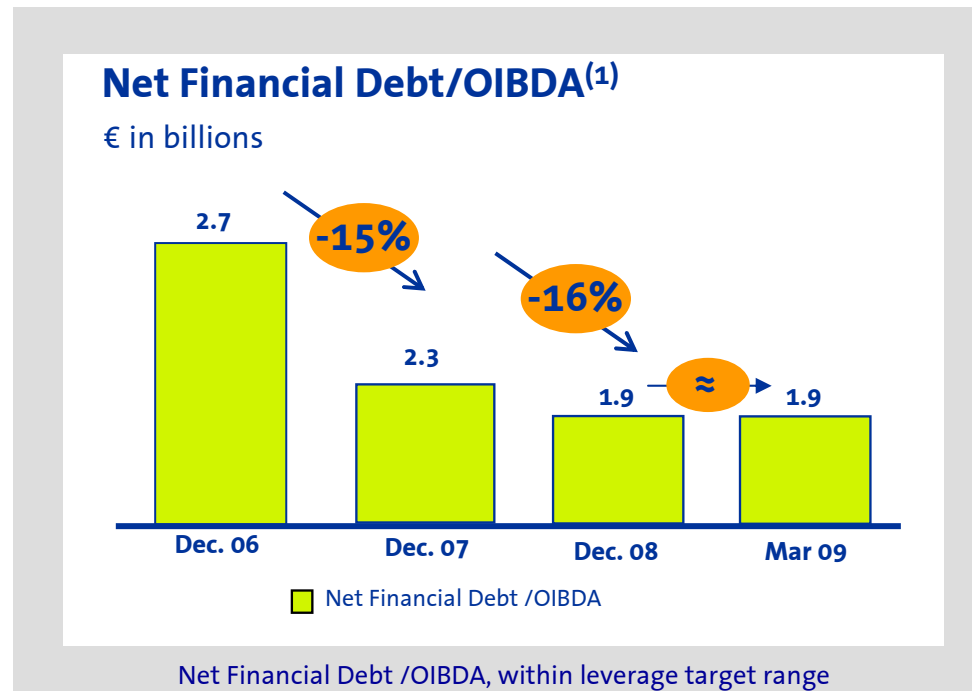
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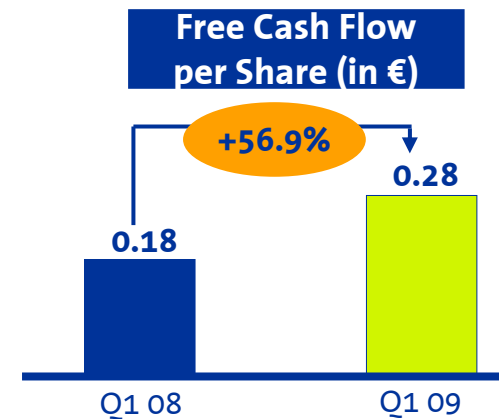
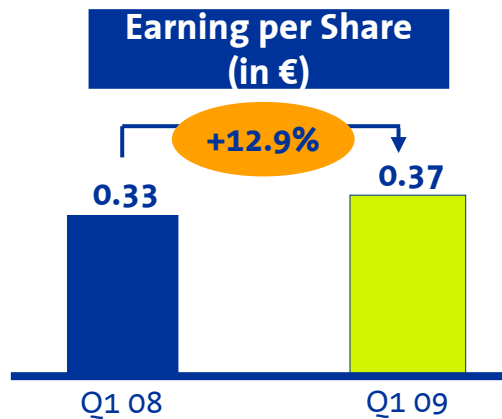
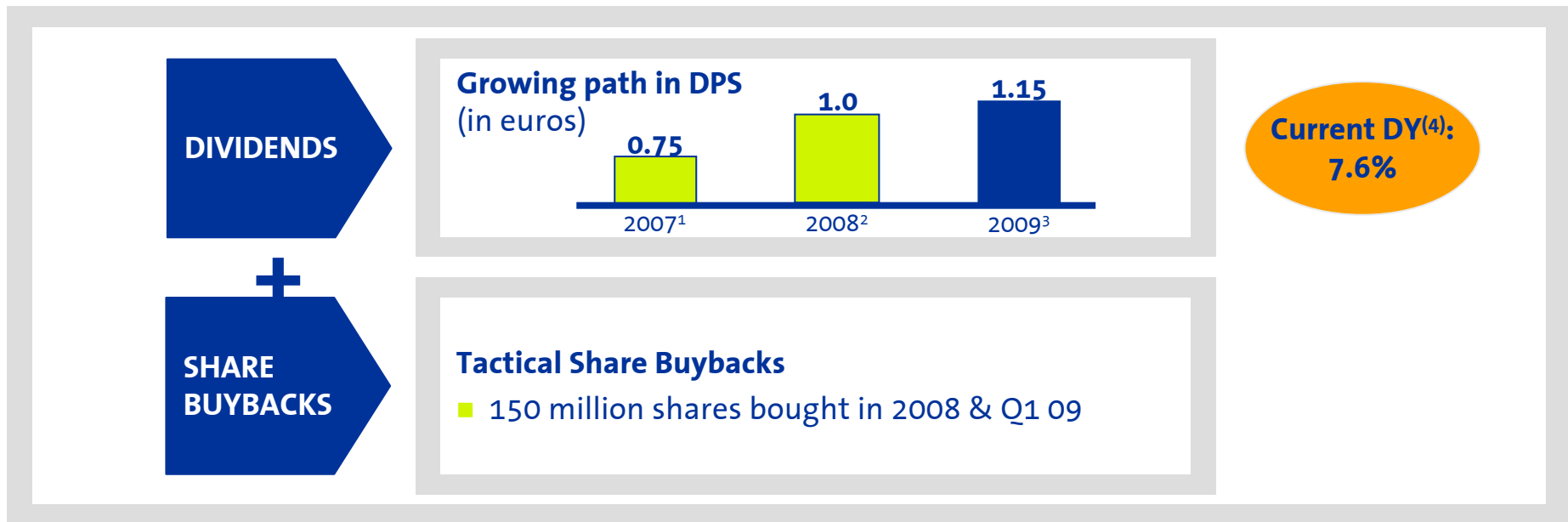
### 3 Leverage below 2x,...



- Outlook upgrade to positive by Moody's (Baa1/positive) in Q1 09, following rating upgrades in Q4 08 by the other rating agencies (Fitch and Standard&Poors, A-/stable, JCR A/stable).
- Leverage ratio continues below 2x (Net Financial Debt/OIBDA<sup>(1)</sup>). We have further reduce our net financial debt since March 2009 .

(1) Calculated based on Q1 09 OIBDA figure annualized excluding results on the sale of fixed assets  
Source: Company data

### 3 compatible with robust shareholders return, ...



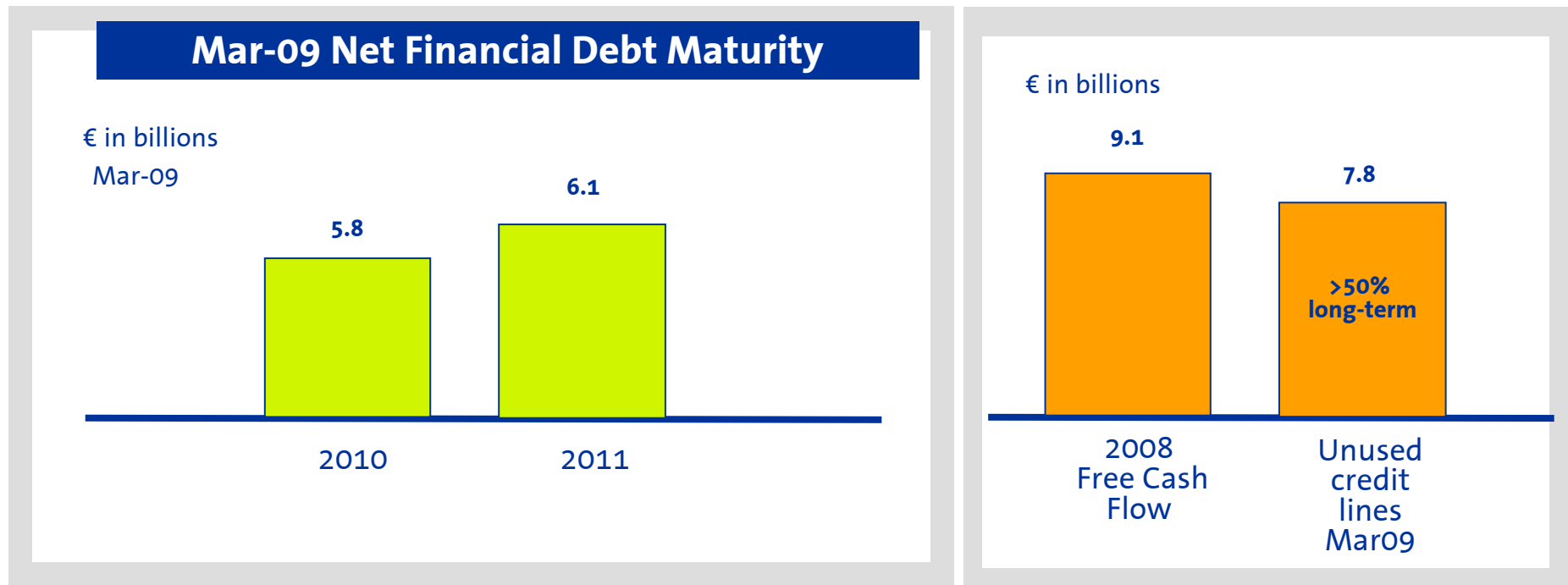
- (1) Paid in H2 07 (0.35€) and 0.4€ paid in H1 08.
- (2) Fiscal year 2008, paid in H2 08 (0.5€) and paid in H1 09 (0.5€).
- (3) BoD approved the proposal to increase the dividend corresponding to the 2009 fiscal year. It is the Company's intention to maintain its current practice to pay its dividend in two annual installments.
- (4) Based on Telefónica stock price as of May 29th 2009.

### 3 ... and M&A

#### M&A to foster growth

- ✓ **Brazil** - Interested in acquiring remaining **50%** of **VIVO**
- ✓ **China** - Interested in reaching up to **10%** of **China Unicom**
- ✓ **Germany** – looking at Hansenet

### 3 Debt profile smoothed with previous transactions



- Almost €8bn refinancing YTD09 (50-50 bond-loans) reducing by almost 40% maturities in 2009-2011.
- Average debt life above 6 years, longer than the time expected to be needed for full repayment

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## 4 Proposed issue

- ✓ **Issuer:** Telefónica Emisiones, S.A.U.
- ✓ **Guarantor:** Telefónica, S.A.
- ✓ **Rating:** A- sta (S&P's and Fitch)  
Baa1 pos (Moody's)
- ✓ **Issue price:** Par
- ✓ **Security type:** Senior Unsecured Notes
- ✓ **Form of issuance:** US Shelf Program, expected NYSE listed
- ✓ **Tranches:** Long 5y Fixed (2015) & 10y (2019)

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## 5 Conclusions

### ✓ Combining business growth and efficiency

- Close to 3% revenue and OIBDA organic growth<sup>(1)</sup> in Q1 2009
- Leveraging our scale and diversification
- Largest European telco by market cap

### ✓ Robust financial position coupled with strong cash flow generation

- Net financial debt below 2 times OIBDA.
- Balanced policy, with significant shareholder remuneration and room for M&A.
- Year to date, we have issued close to €4bn the in capital markets.

### ✓ Prudent approach to Credit Markets as regular issuer

(1) Organic growth: Assumes constant exchange rates and includes the consolidation of Telemig in January-March 2008 for comparison purposes because Telemig was first included in the Telefónica Group's consolidation perimeter in April 2008 .

*Telefonica*

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