

# TELEFONICA: “Solid fundamentals, benchmark results”

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TELEFÓNICA, S.A., CEO

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TELEFONICA S.A.

*Telefonica*

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# Continuing to deliver benchmark results in our industry

€ in millions	Jan-Dec 2008	Change FY 08/FY 07	Change organic <sup>(1)</sup> FY 08/FY 07
<b>Revenues</b>	57,946	+2.7%	+6.9%
<b>OIBDA</b>	22,919	+0.4%	+14.7%
<b>OIBDA Margin</b>	39.6%	-0.9 p.p.	+2.6 p.p.
<b>OI</b>	13,873	+3.6%	+28.7%
<b>OpCF<sup>(3)</sup></b>	14,519	-1.9%	+20.2%
			Change <sup>(2)</sup> FY 08/FY 07
<b>Net income</b>	7,592	-14.8%	+38.0%
<b>EPS</b>	1.63€	-12.7%	+41.4%

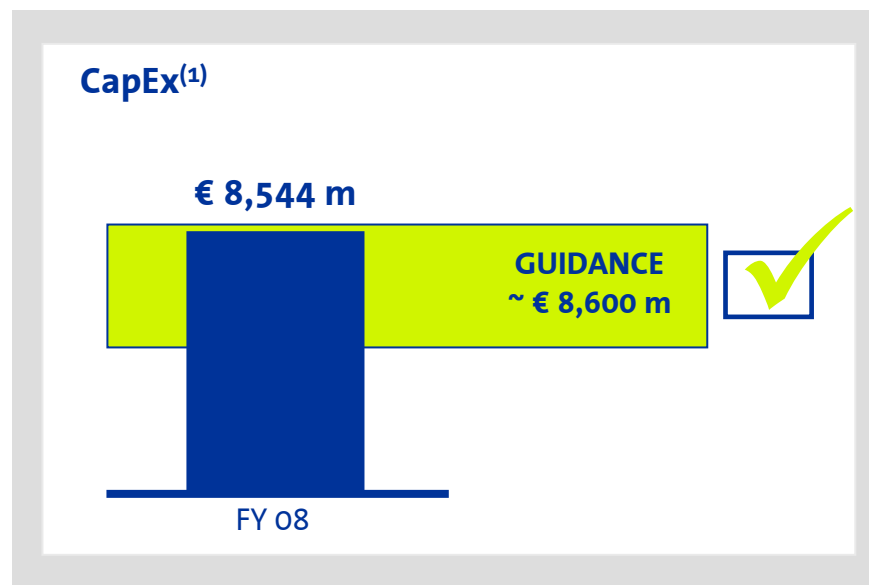
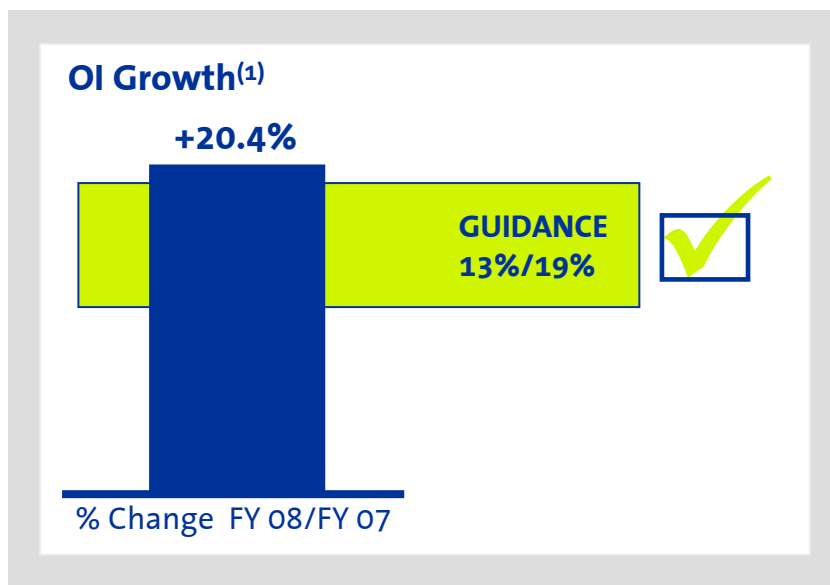
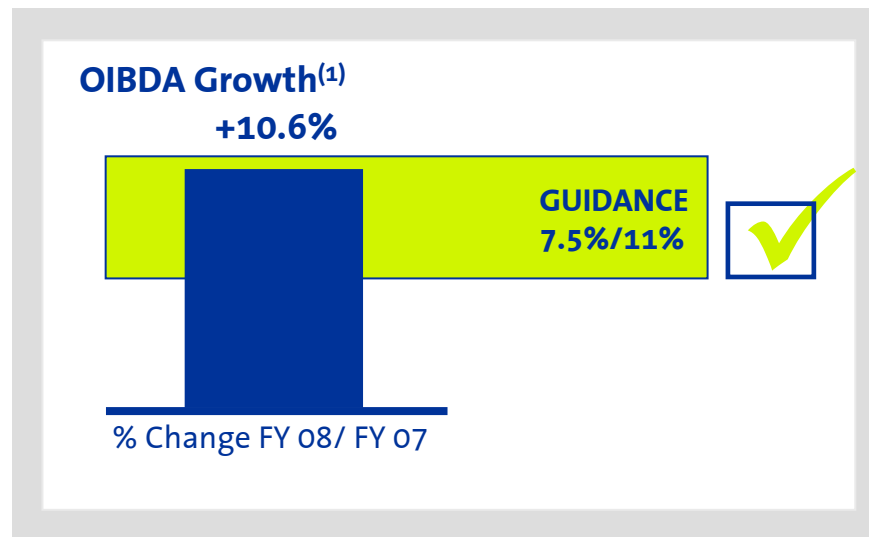
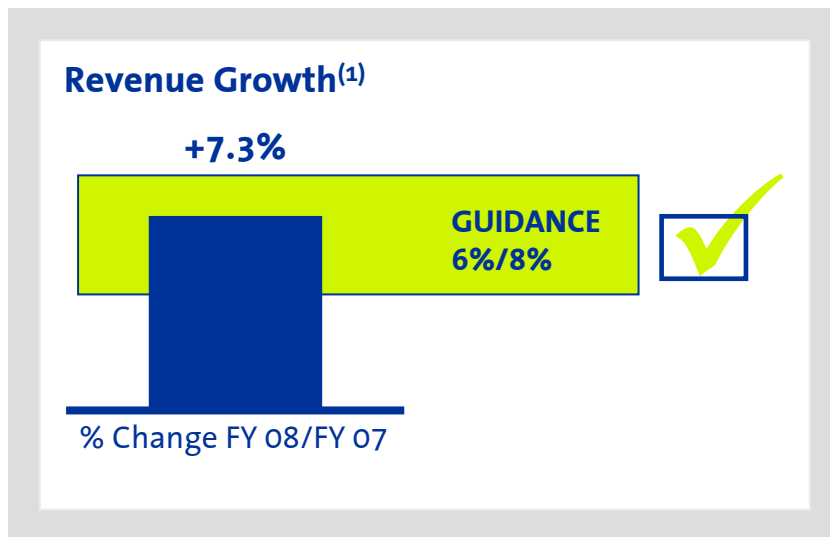
- Superior combination of growth and strong CF generation:
  - Diversified portfolio
  - Strong execution skills
  - Solid competitive position in most markets
  - Ability to manage OpEx and CapEx

(1) Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the public use telephone service (-147.4 million euros) is included. In OIBDA and OI, the impact of sales of assets (Airwave, Endemol and Sogetel) in both periods is excluded.

(2) Underlying growth: Excluding the impacts from assets disposal (Airwave, Endemol and Sogetel) in both periods and the impact of the impairment charge taken by Telco on its investment in TI.

(3) OIBDA-CapEx

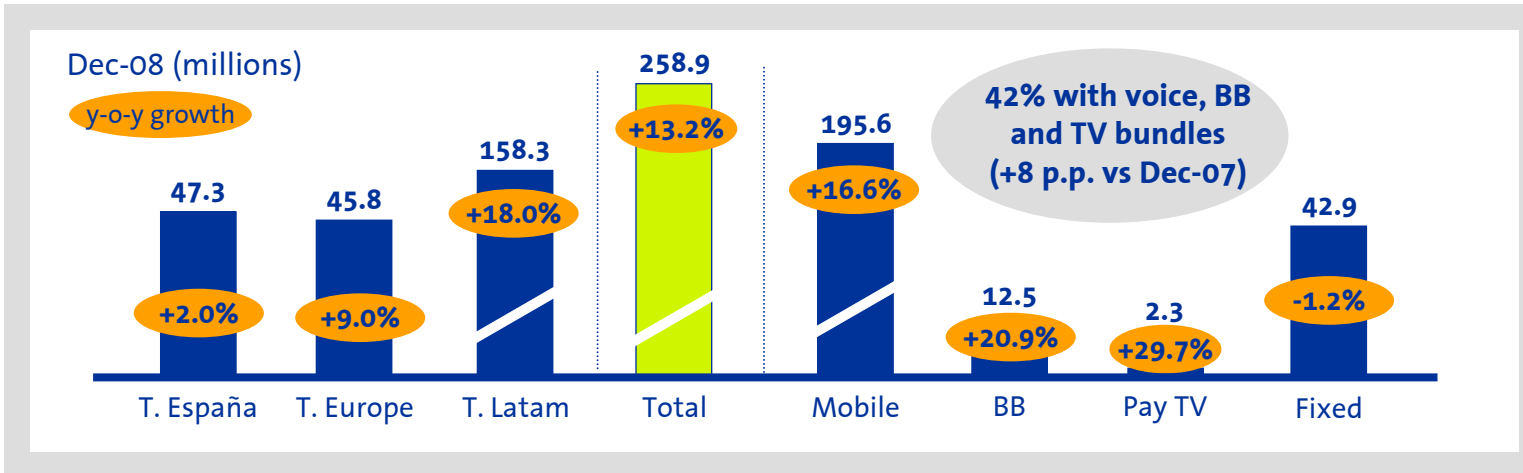
# Meeting Group guidance 6 years in a row...



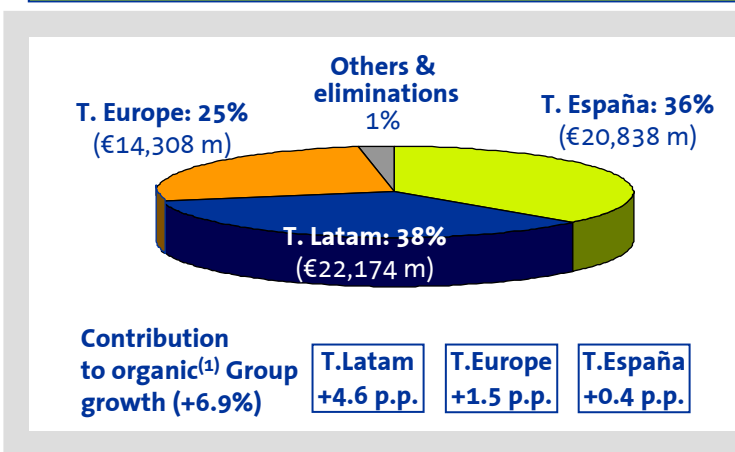
(1) Guidance criteria: 2007 adjusted figures exclude Airwave and Endemol, include 3 months of consolidation of TVA. 2007 T. España revenues are adjusted for new public voice telephone services business model. Group revenues are also adjusted accordingly. 2008 figures includes TVA, Deltax and Telemig (from April 2008). Telefónica's CapEx excludes Real Estate Efficiency Program. Guidance growths assume 2007 constant FX. In terms of guidance calculation OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007 and 2008.

# ...by leveraging a highly diversified portfolio...

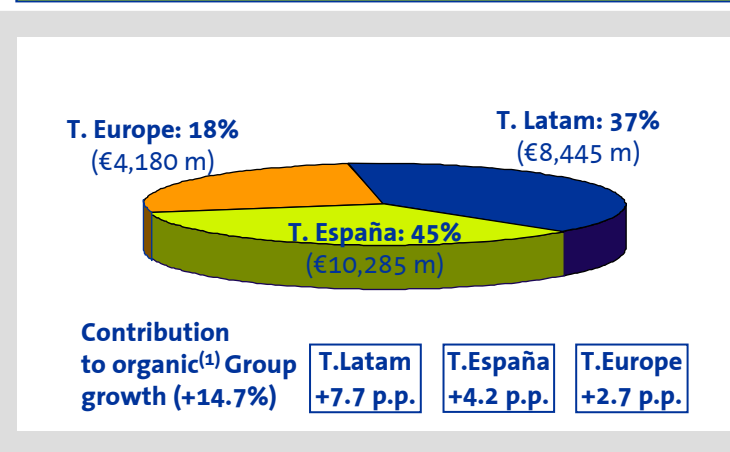
## Accesses



## FY 08 Revenue



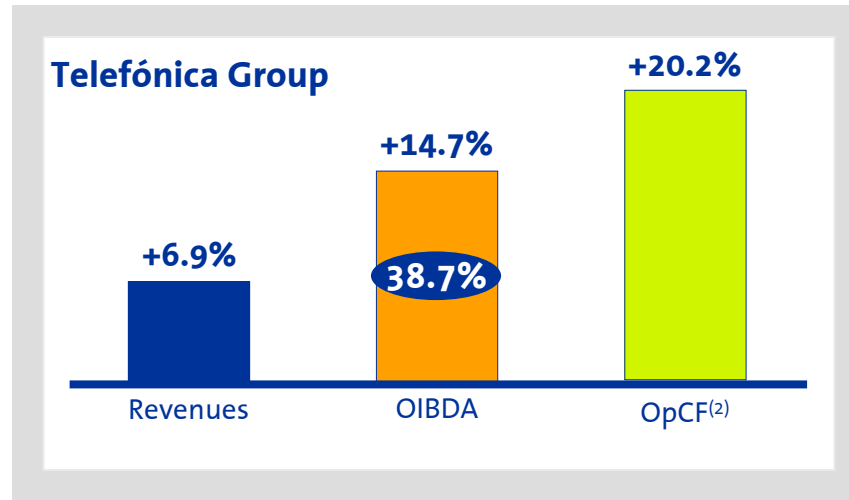
## FY 08 OIBDA



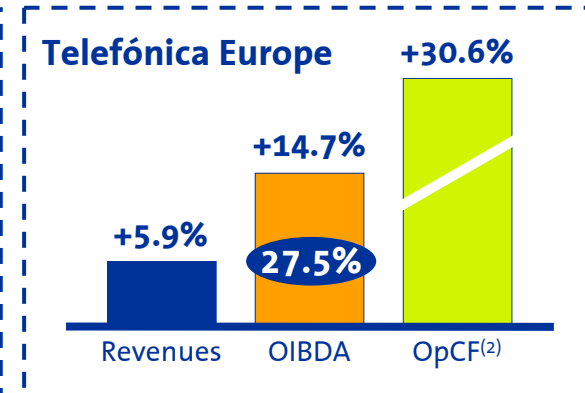
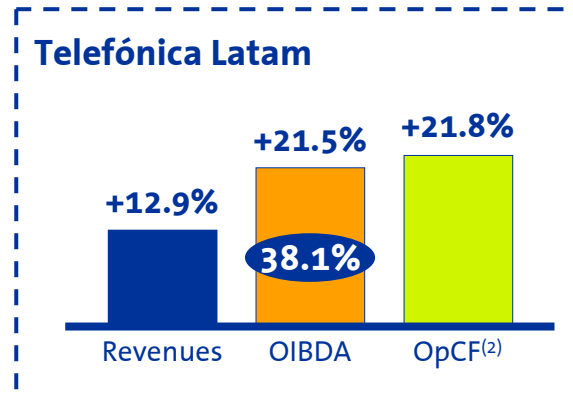
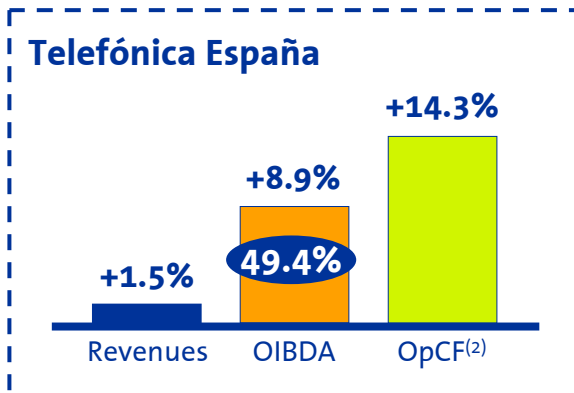
# ...with a high conversion rate of top line growth into cash-flow

FY 08 Organic<sup>(1)</sup> growth (y-o-y)

● Organic OIBDA Margin



*Leveraging efficiency measures and scale economies*



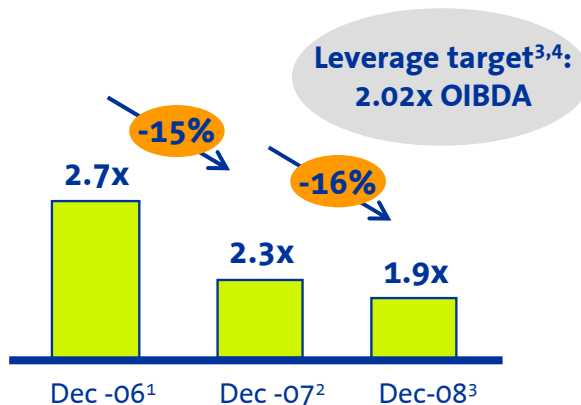
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(2) OpCF: OIBDA-CapEx.

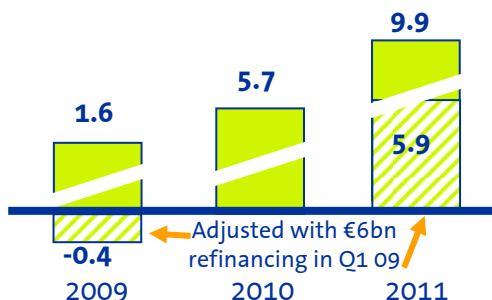


# Healthy financial profile being acknowledged by credit rating agencies

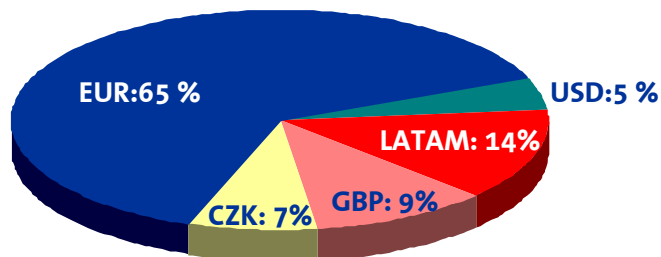
## Net Financial Debt/OIBDA



## Dec-08 Net Financial Debt Maturity (€ in billions)



## Dec-08 debt distribution by currency (€ in billions)

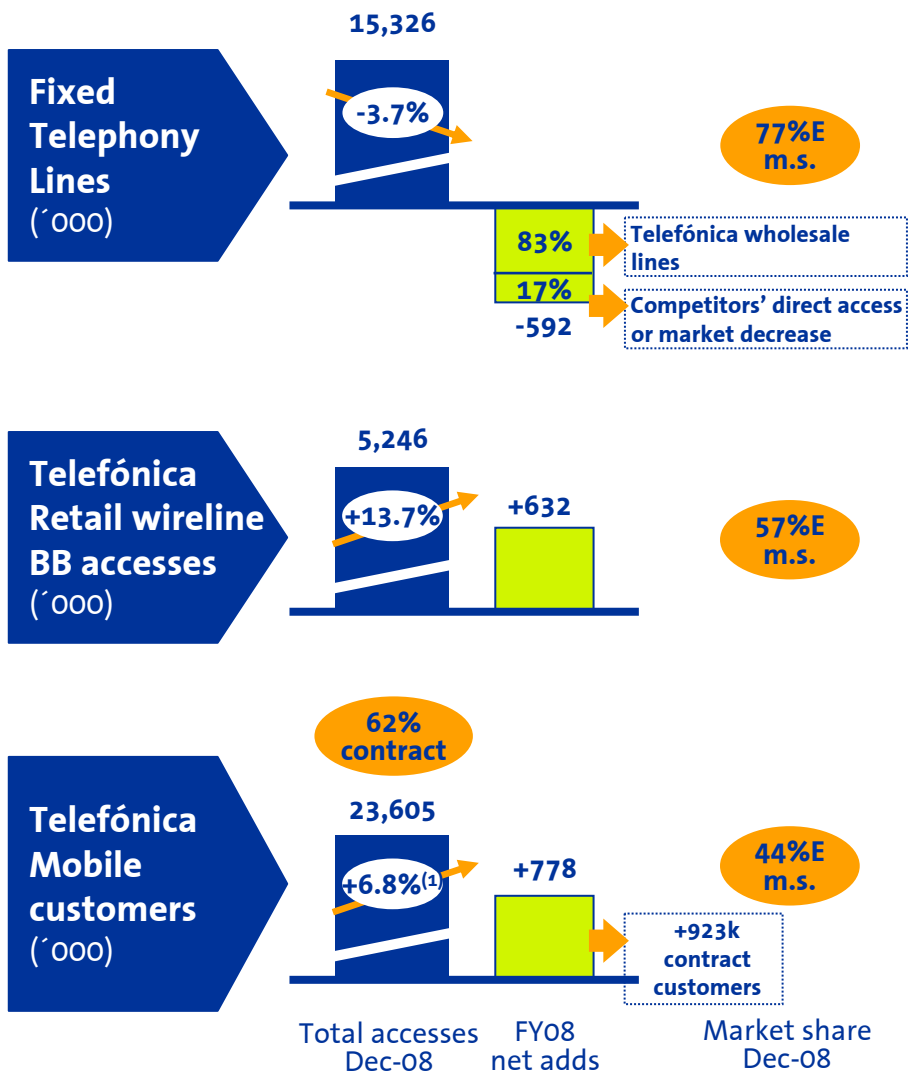


### Continuing leverage improvement:

- €42.7 bn of net fin. debt in Dec-08
- **5.95% effective interest rate in 2008**
- **Average debt life exceeds 6 years, longer than time needed for full repayment**
- **Next 12 months payment obligations already covered:**

- Negative net debt maturities for remaining 2009
- Issuance of bond and syndicated loan extension reduces by 30% the maturities of the next 3 years
- Dec-08 debt distribution: 40% variable; 44% fixed and 16% bounded
- **Active hedge policy to manage FX fluctuations risk**
- **3 rating upgrades in Q4 08** (Fitch+S&P, A-/stable, JCR A/stable) **plus 1 outlook upgrade in Q1 09** (Moody's Baa1/positive)

# T.España: Focus on cash-flow maximization

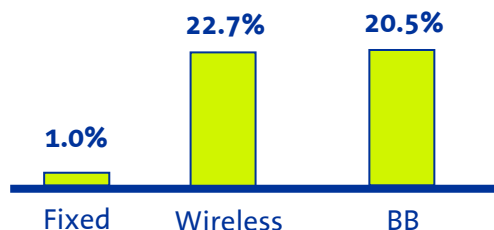


- **In wireline, segmented approach to satisfy customer needs:**
  - Wide price range of BB bundles (2P): from 19.90€ to 56.90€
  - Integrated offers: 2P users to make on-net mobile calls for 1€c
  - Over 85% of retail BB accesses with 2P&3P
  - Sustained BB ARPU performance: -3.9% vs. 2007 to 43.5 €
  - Focus on customer value: Total wireline ARPU: +3.4% y-o-y to 69.5€ in FY 08
- **In wireless:**
  - MoU trend stabilization along the year
  - Better performance in q-o-q ARPU growth rates across the year
  - Very attractive on-net prices (3€c) and new quasi-flat rate adapted to customer needs
  - Strong data ARPU: +9.3% in FY 08 to 17.2% of total ARPU driven by strong connectivity revenues (+65.2%)
  - Solid results in mobile data: 6.2 m 3G devices in 2008 (1.8x vs. Dec-07) and ~850k flat rates (2.8x vs. Dec-07)

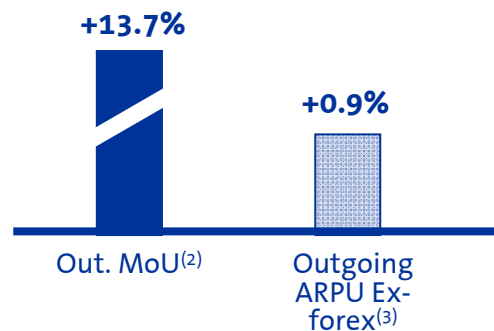


# T.Latam: Robust set of results

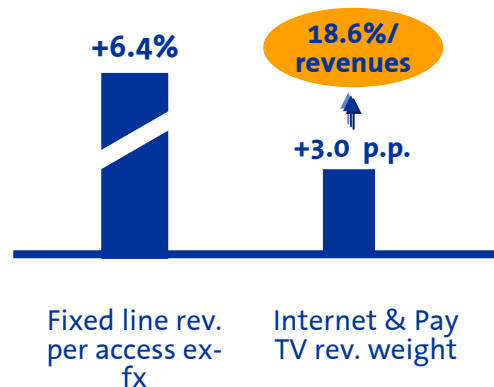
## Accesses (y-o-y growth)



## Wireless Business (2008 y-o-y growth)



## Wireline Business (y-o-y growth)



### ■ Successfully managing growth, transformation and profitability:

- Steady customer growth drives strong y-o-y organic<sup>(1)</sup> revenue growth (+12.9%) in 2008
- Solid OIBDA (+ 21.5% y-o-y organic<sup>(1)</sup> growth) on the back of the OIBDA margin ramp up
- Very robust organic<sup>(1)</sup> growth in OpCF (+21.8%) despite strong investments

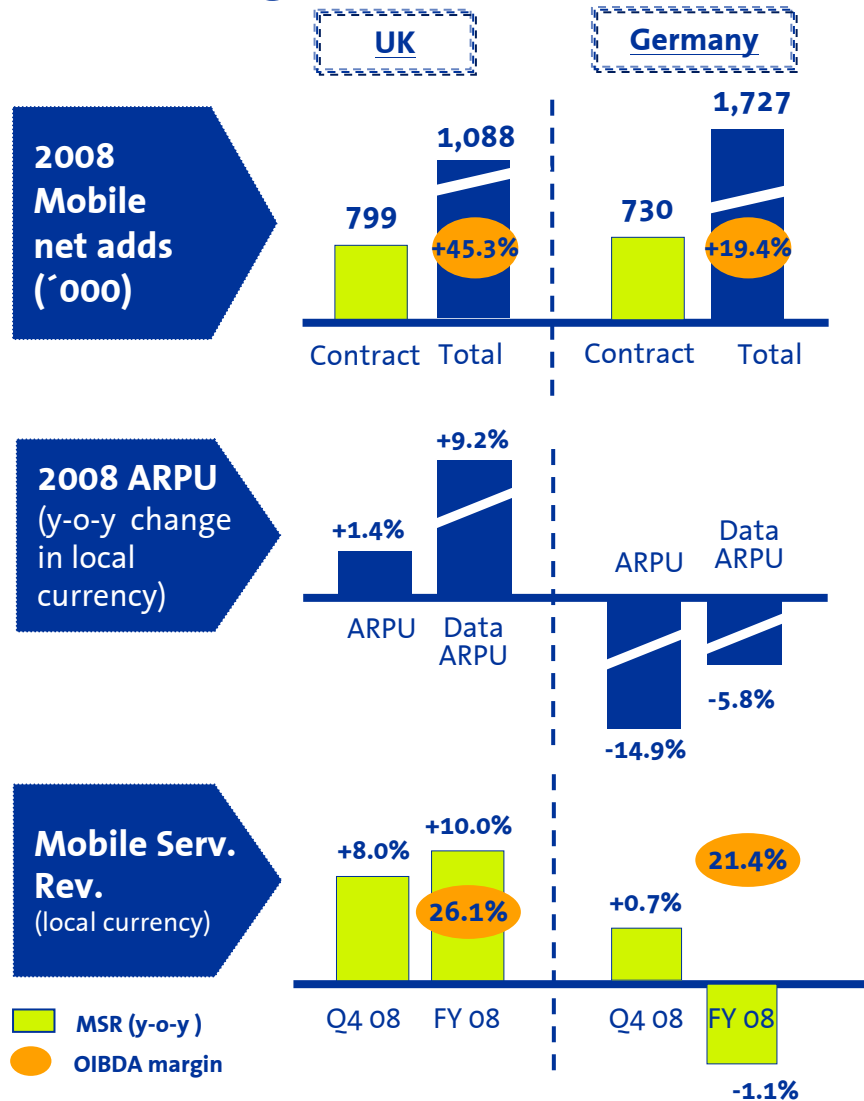
### ■ Wireless business: Solid growth enhancing our profitability

- Double digit customer growth in most markets
- ARPU performance driven by strong customer growth & lower MTRs
- Solid OIBDA margin<sup>(3)</sup> expansion in 2008: + 4.1 p.p. to 34.3%

### ■ Wireline business: Accelerating the transformation

- Strong top line in 2008 driven by robust Internet & TV revenue growth
- OIBDA margin<sup>(3)</sup> stabilization across the year: -0.6 p.p. to 39.5%

# T. Europe: sustained market outperformance in UK, while finishing foundations & new commercial approach in Germany



## UK:

■ Commercial approach focused on long term customer value, anticipating customer needs:

- Simplicity, iPhone and leading contract churn
- Contract: 39.1% of mobile base (+2.0 p.p. vs. Dec-07)
- Customers optimizing bundle usage (flat y-o-y contract MoU in Q4)

## Germany:

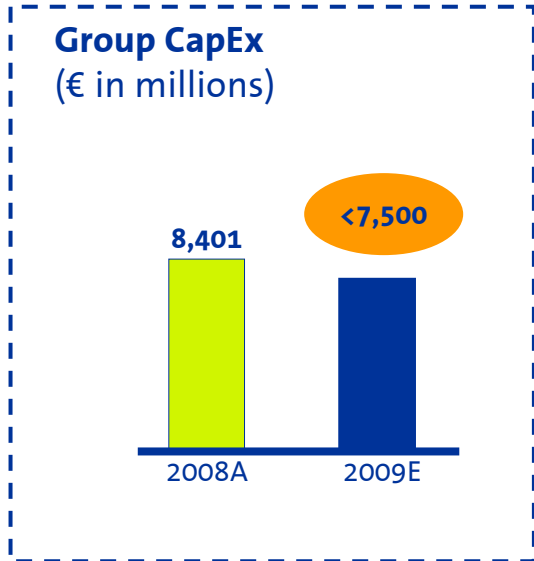
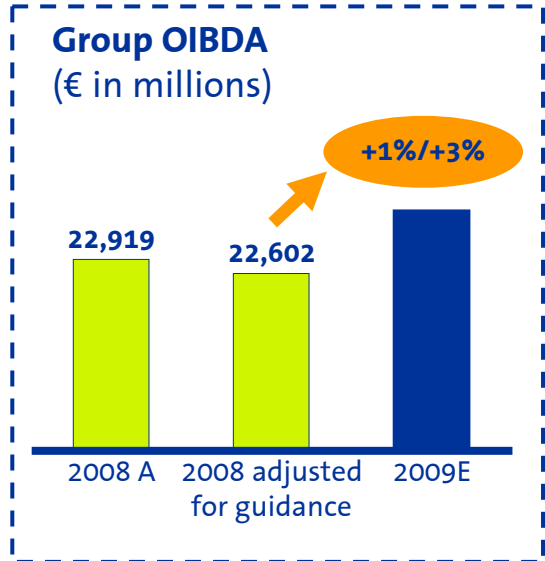
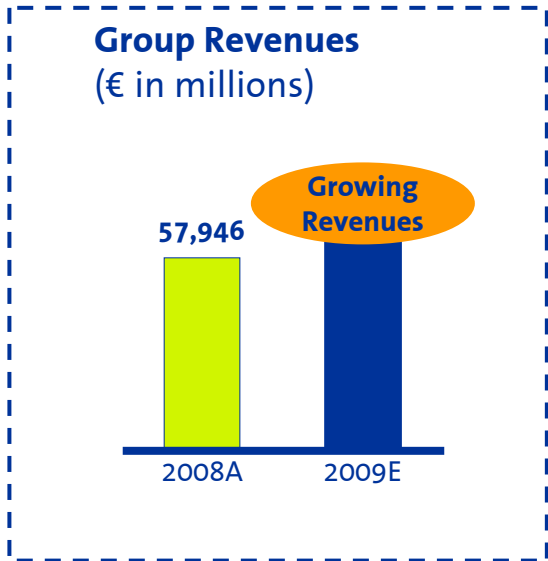
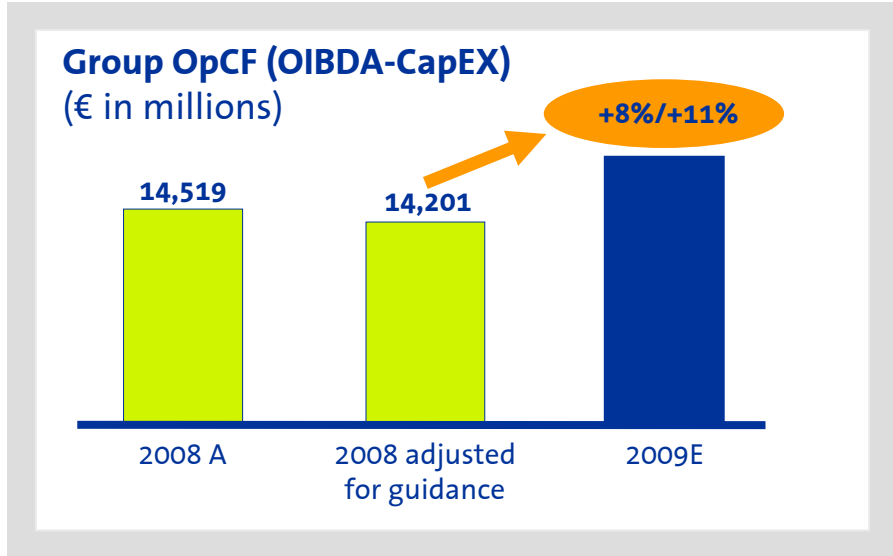
■ Mobile service revenues turnaround achieved in Q4 08:

- ARPU declines stabilizing with larger portion of customer base on value tariffs

■ New commercial approach introduced in Q4, finishing foundations of the business:

- Aggressive SIM-only offer (reduced SAC)
- Migration from legacy to new tariffs completed
- Distribution network enlargement
- Own network deployment: focus on mobile data

# Group guidance for 2009



**TELEFONICA S.A.** Investor Relations 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. 2009 figures for guidance assume 2008 constant FX (average FX in 2008). 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 T. España and spectrum licenses.

# 2009 regional priorities

## SPAIN

- Sustain leading competitive position across businesses, emphasizing customer loyalty & rational value creation commercial initiatives
- Strong focus on OpCF

## EUROPE

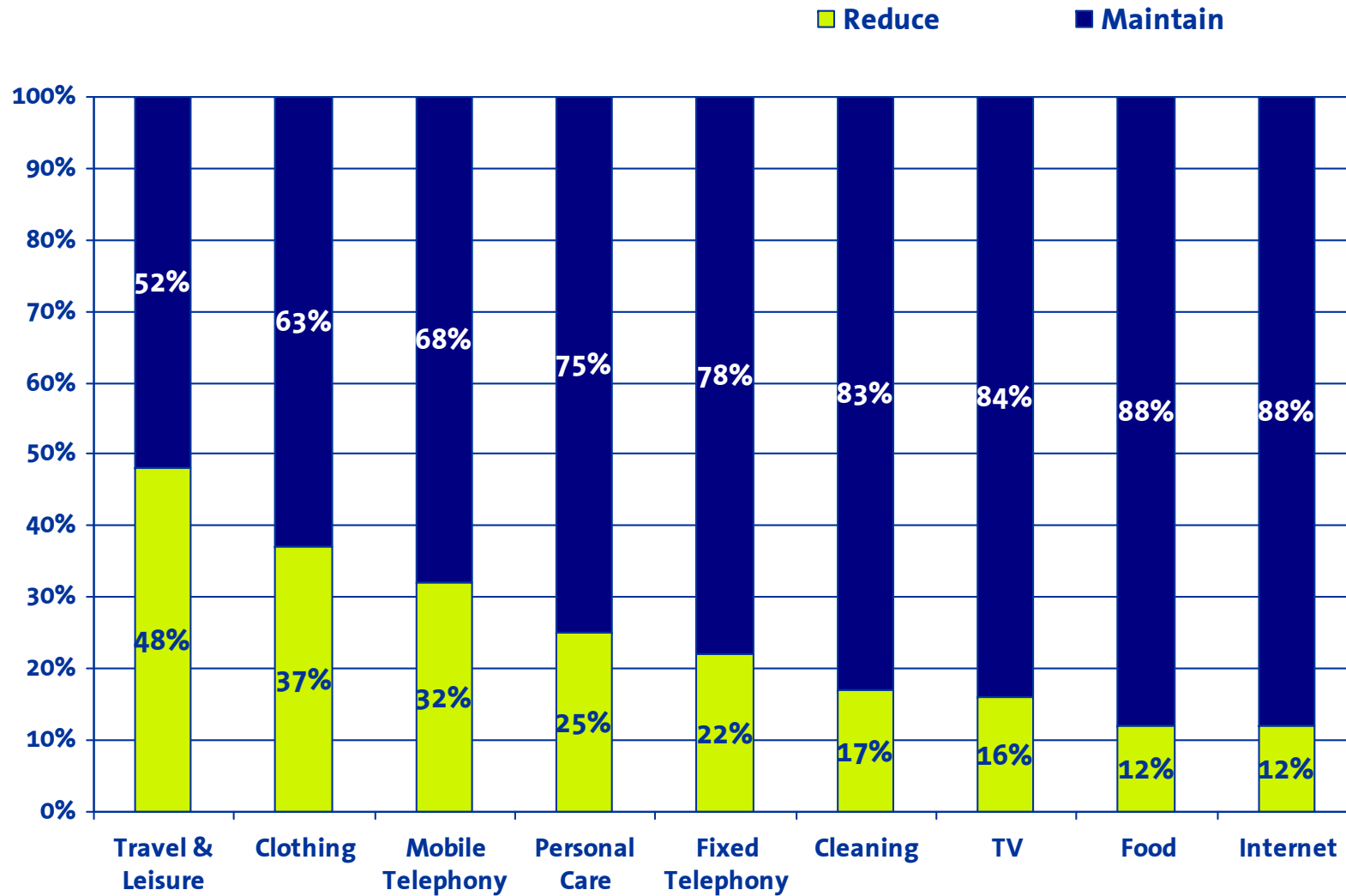
- Continue to outperform the market in the UK
- Capitalize strengthened business foundations in Germany to drive growth
- Enhance profitability across markets to deliver increased OpCF

## LATIN AMERICA

- Capture structural growth in the region (wireless and BB)
- Further OIBDA margin expansion
- Enriched OpCF profile, leveraging strong CapEx efforts in 2008

**Focused  
strategy &  
high  
execution  
skills**

# Telecom spend is relatively sheltered under current trading conditions



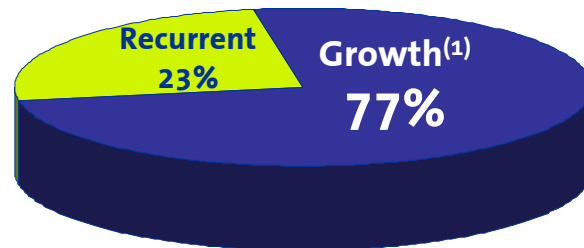
# We have the levers to preserve CF generation in a more difficult economic environment

Top line

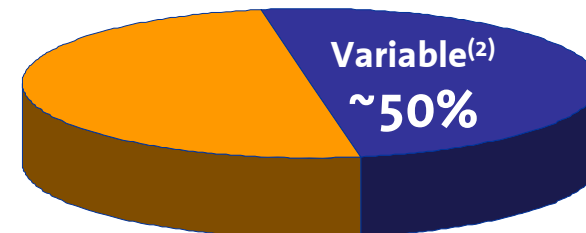
- Strong competitive position across most markets
- Integrated businesses model
- More segmented offer to anticipate customer needs
  - Lower entry prices (BB, SIM only ...)
  - Higher speeds and more advanced services (BB, i-phone...)
- Liberalised prices in most services (BB, pay TV & mobile) & more rational competition

OpEx & CapEx

Group CapEx (FY 08)



Group OpEx (FY 08)



+

- Global Innovation & Global Transformation Units to make the most of our scale and diversity

# Accelerating transformation to adapt to new environment

<b>TECHNOLOGY</b>	<ul style="list-style-type: none"><li>■ <b>Network transformation:</b><ul style="list-style-type: none"><li>■ Site build cost reduction</li><li>■ Transport optimization</li><li>■ Greater coordination in transport networks between Fixed-Mobile businesses</li><li>■ Outsourcing initiatives</li><li>■ Global partner for network support contracts in IP, GSM, 3G and microwave networks across the Group</li><li>■ New Operating Model</li><li>■ Energy efficiency program</li></ul></li><li>■ <b>Operations:</b> service platform regionalization, European centres for some technologies, Regional labs &amp; testing</li></ul>
<b>IT</b>	<ul style="list-style-type: none"><li>■ <b>IT Infrastructure optimization:</b> Mainframes optimization; Data centres consolidation; Common workplace and single corporate network for all TEF Group</li><li>■ <b>Application Development and Maintenance:</b> achieve savings, unify practices &amp; improve quality</li><li>■ <b>Corporate IT map for the Group</b></li></ul>
<b>PROCUREMENT</b>	<ul style="list-style-type: none"><li>■ Deployment of a new purchasing platform for all Telefónica Group</li><li>■ Increase of electronic management of purchases, including negotiation and auction</li><li>■ Optimise global purchasing strategy for customer devices, networks &amp; IT</li><li>■ Contracts renegotiation</li></ul>
<b>COMMERCIAL</b>	<ul style="list-style-type: none"><li>■ Channel mix optimization (strengthening on-line channel)</li><li>■ Streamline P&amp;S portfolio and reduce time to market</li><li>■ Global P&amp;S development</li><li>■ Enhanced efficiency of SACs</li><li>■ Logistics model simplification</li></ul>

# Disciplined use of FCF with a clear priority: shareholder returns

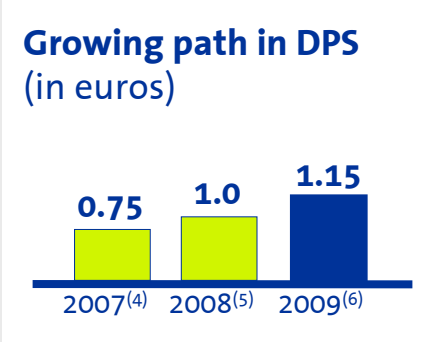
**> € 40 bn**  
Cumulative FCF 07E-10E<sup>(4)</sup>

**9%<sup>(2)</sup> of the current market cap devoted to shareholder returns in 2008**

**69% of FCF devoted to shareholder remuneration**



## SHAREHOLDER REMUNERATION



**Tactical Share Buybacks**

- 126.7 million shares bought in 2008
- Pending tranche of 2008 program to be completed in Q1 09



## DELEVERAGE

**Net Debt + Cash Commitments over OIBDA in the 2.0 – 2.5x range**



## SELECTIVE M&A

**To foster growth in current markets**

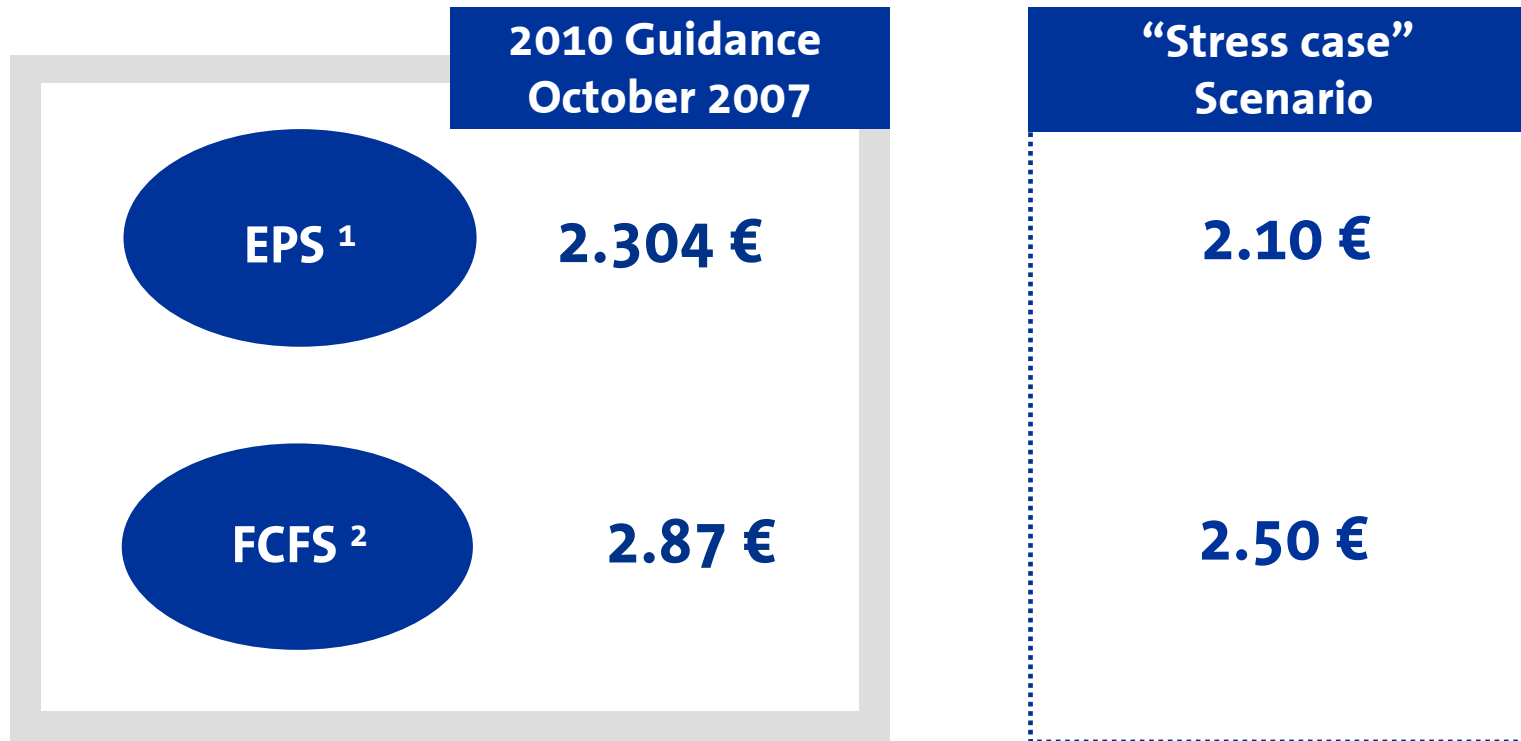
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(1) Free Cash-flow is the cash-flow available to remunerate Telefónica's shareholders, to protect solvency levels (financial debt and commitments), and to accommodate strategic flexibility.  
 (2) Based on Telefónica market capitalization as of March, 16<sup>th</sup>, 2009.  
 (3) March, 16<sup>th</sup>, 2009  
 (4) Paid in H2 07 (0.35€) and 0.4€ paid in H1 08.  
 (5) Fiscal year 2008, paid in H2 08 (0.5€) and to be paid in H1 09 (0.5€).  
 (6) BoD approved the proposal to increase the dividend corresponding to 2009 fiscal year. It is Company's intention to maintain its current practice so that his dividend will be payable in two tranches.





# 2010 “stress case” vs. guidance



# In summary

**A reliable company with solid fundamentals**



*Telefonica*

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