

# TELEFÓNICA: “Solid fundamentals, benchmark results”

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**TELEFONICA S.A.**  
**Investor Relations**

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## Key messages

1

Telefónica at a glance

2

Clear strategy to fully exploit growth potential in our markets while increasing OpCF

3

Fully on track to meet 2009 guidance & 2010 guidance reiteration

4

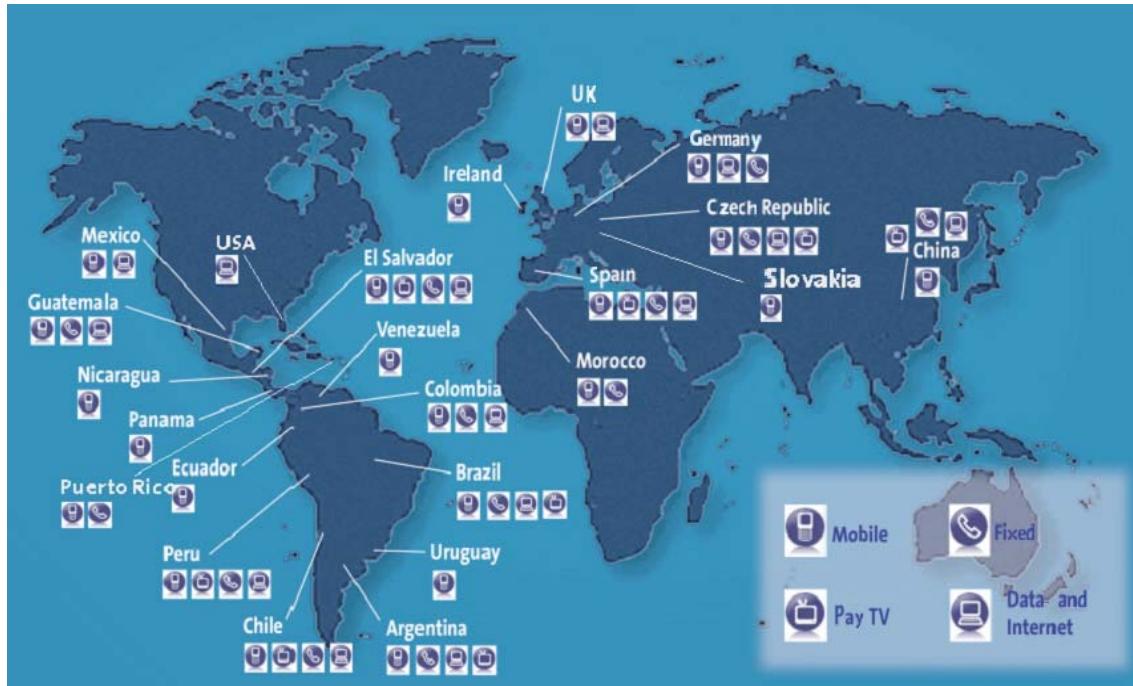
Disciplined use of FCF with a clear priority: shareholder returns

5

A management team with a long expertise, strong track record in the telco sector and highly committed to share price performance

# 01 Telefónica is an integrated telco with presence in 25 countries

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



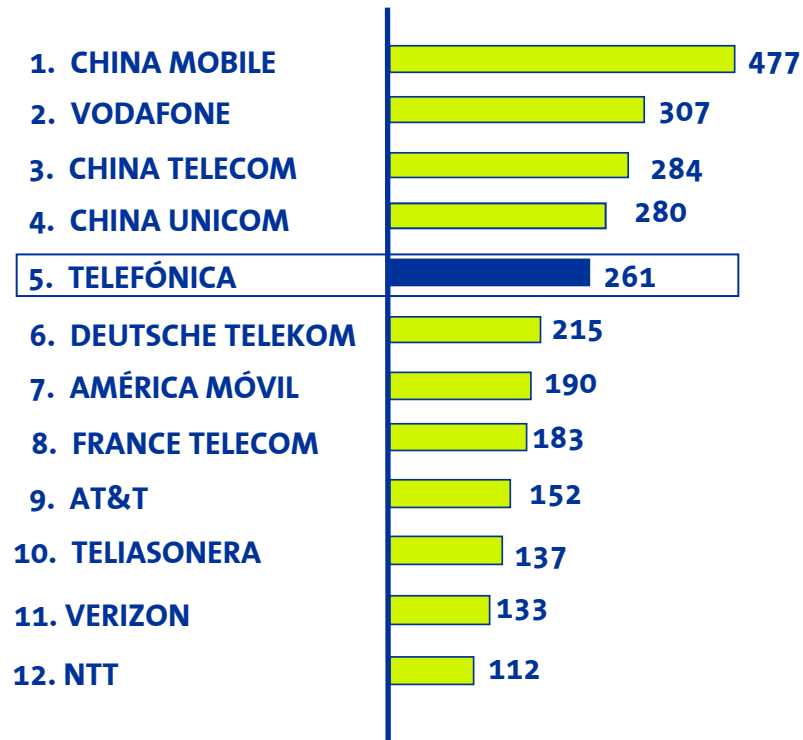
Market revenue share position (Mar-09)

	WIRELINE	WIRELESS
<b>Europe</b>		
Spain	1	1
UK		1
Germany		4
<b>Latin America <sup>(1)</sup></b>		
Brazil	1	1
Argentina	1	1
Venezuela		1
Mexico		2
Chile	1	1
Peru	1	1
Colombia	1	2

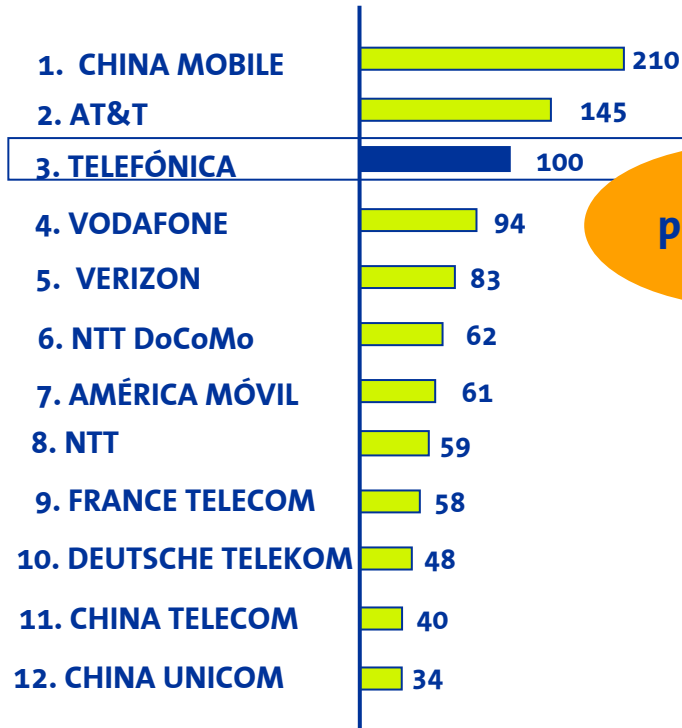
93% of revenues generated in markets where holding #1 or #2 market share position

# 01 A leading player in the industry

**Customer ranking**  
(30/03/09) (millions)



**World telco ranking by market cap**  
(8/06/09) (US\$ bn)



**#11  
position in  
2000**

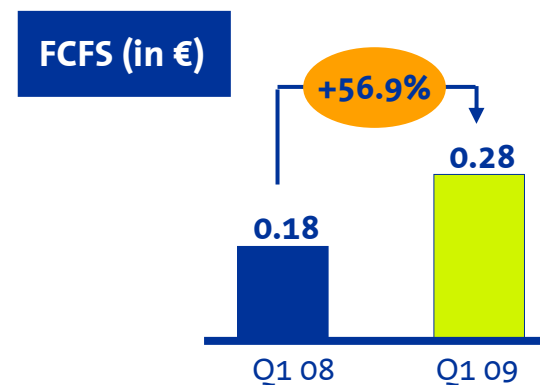
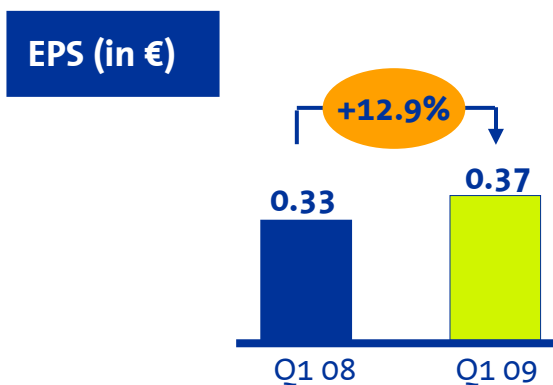
**#37 in world companies ranking by  
market cap (8/06/09)**

# 01 A global company with strong presence and expertise in emerging markets

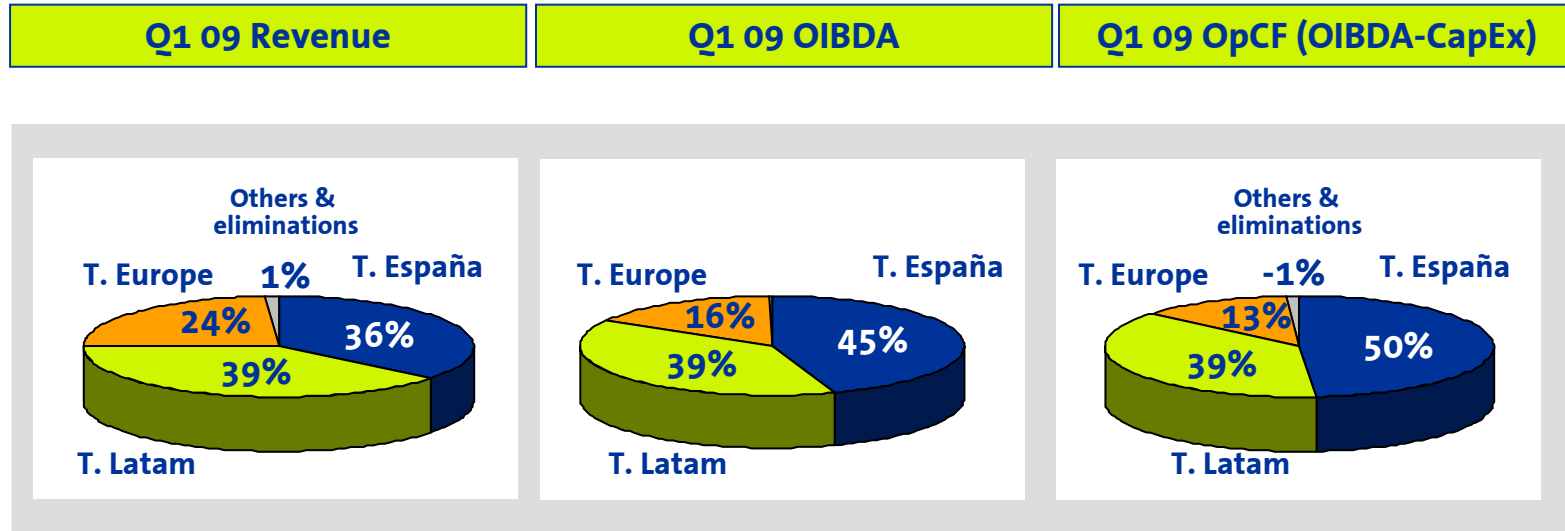


# 01 Solid Group performance

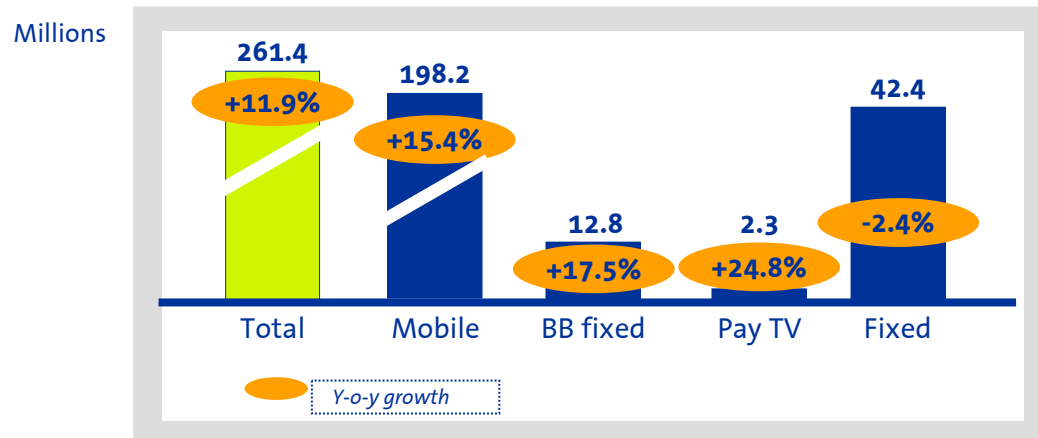
€ in millions	Jan-Mar 2009	Change Q1 09/Q1 08	Change organic <sup>(1)</sup> Q1 09/Q1 08
Revenues	13,703	-1.4%	+2.8%
Operating Income before D&A (OIBDA)	5,354	-0.4%	+2.5%
OIBDA Margin	39.1%	+0.4 p.p.	-0.1 p.p.
Operating Income (OI)	3,190	+2.9%	+3.9%
Net income	1,690	+9.8%	
OpCF (OIBDA-CapEx)	4,154	+2.4%	+4.5%



# 01 Highly diversified portfolio by businesses and geographies

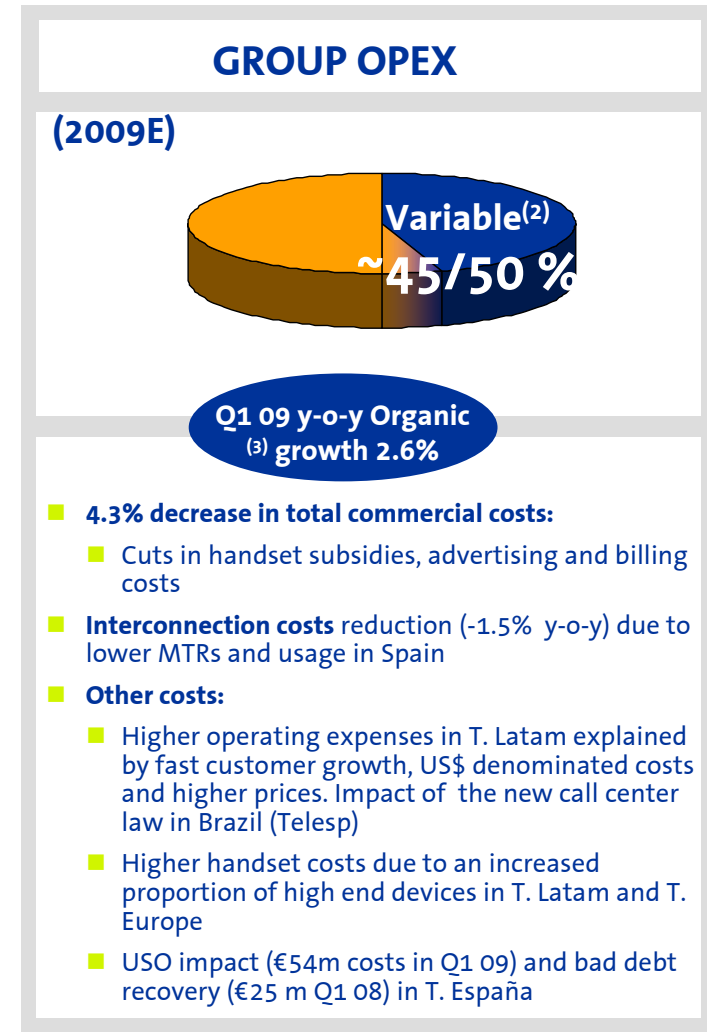
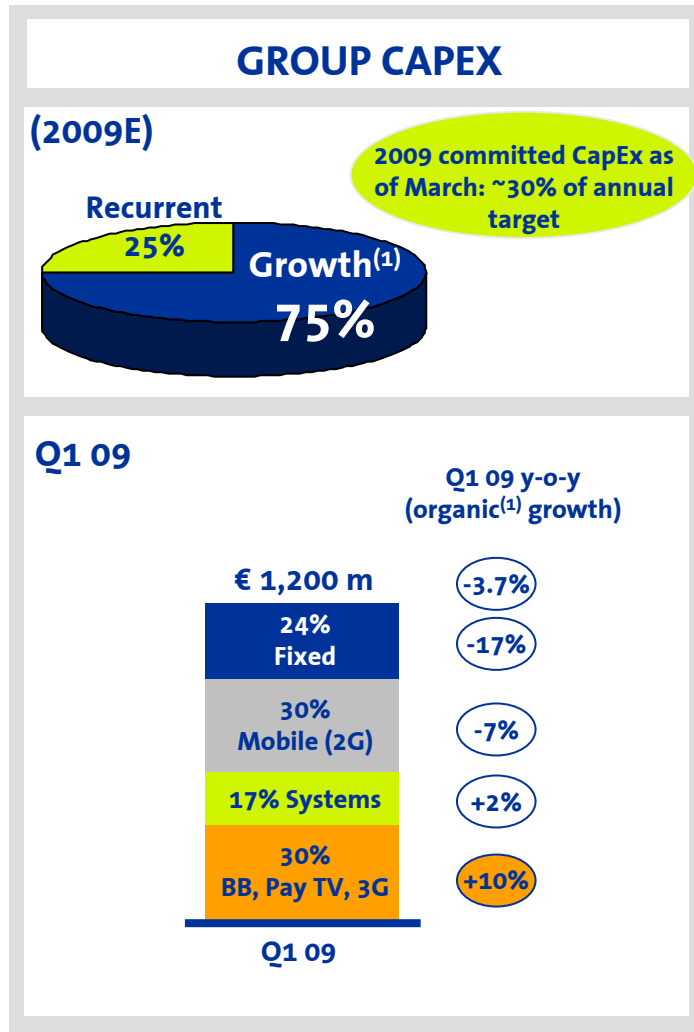


## Telefónica Group Accesses





# 01 OpEx & CapEx discipline & flexibility to ensure OpCF generation



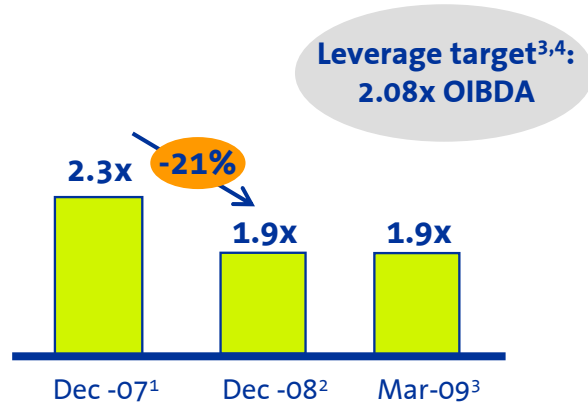
**Global OpEx and CapEx initiatives already launched in Q1 to leverage our scale: >€100 m savings expected for 2009**

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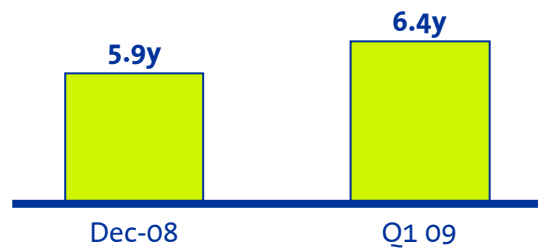
(1) Transformation and growth projects.  
 (2) Interconnection and commercial costs (subsidies, commissions and advertising).  
 (3) Organic growth: Assumes constant exchange rates and includes the consolidation of Telemig in January-March 2008.  
 (4) Other costs: Non commercial personal expenses, network costs, systems and rentals, customer equipment purchases, among others.  
 (5) Commercial costs: Handsets subsidies, advertising, billing, commissions, personnel expenses and customer services.

# 01 Steady financial profile

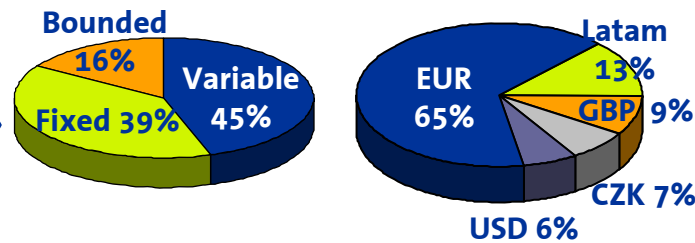
## Net Financial Debt/OIBDA



## Increasing average debt maturity



## Debt distribution Mar-09



- **Debt ratio stands below 2x:**
  - Net financial debt at € 42.3 Bn
- **5.95% effective interest rate in Q1 09**
- **Further improvement of our financial profile:**
  - € 7.4 Bn financing in Q1 09 and over € 1 Bn in Q2 09
  - Cash balance exceeds gross maturities for 2009
- **Active hedge policy to manage FX fluctuations risk**
- **Outlook upgrade from stable to positive by Moody's last Feb-09, following the upgrades performed by Fitch, S&P and JCR to A or A- at the end of 2008**

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## 02 2009 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

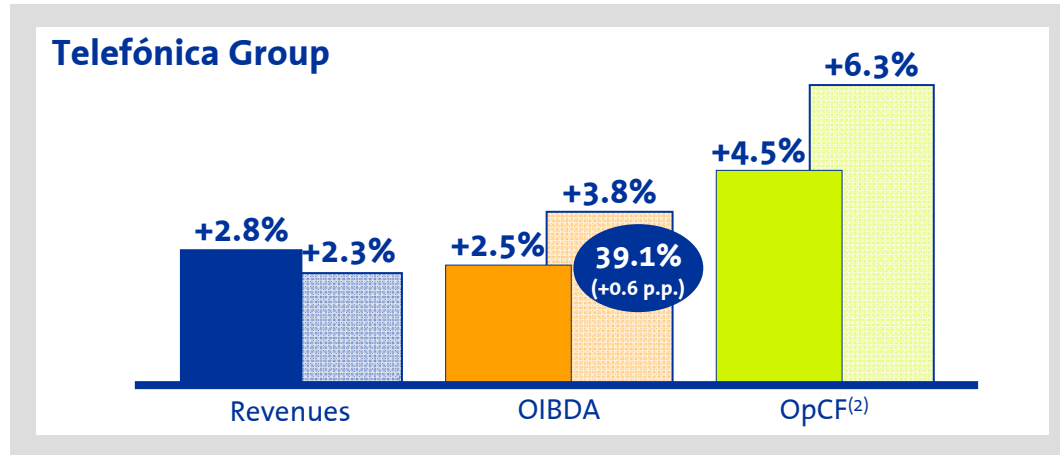
### LATIN AMERICA

- 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**

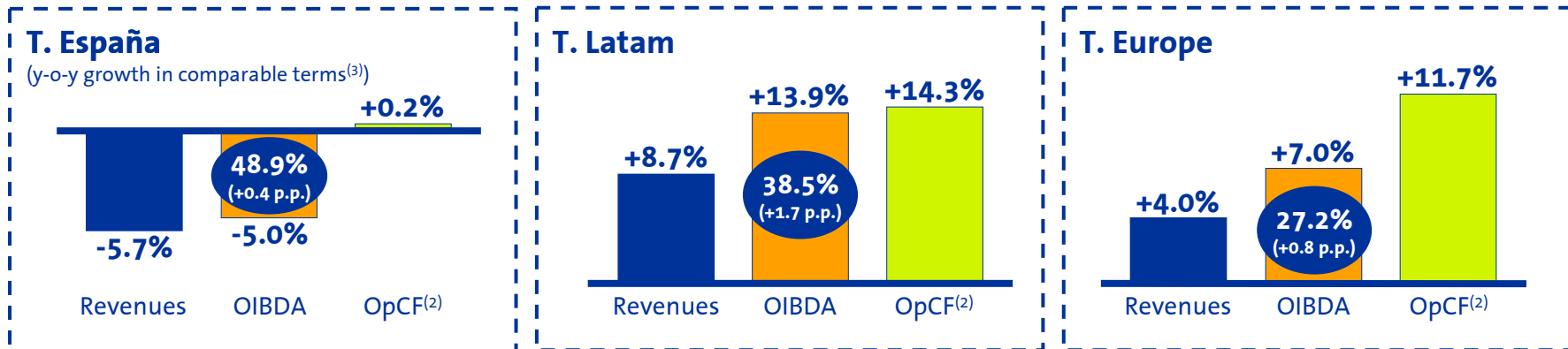
# 02 Delivering our priorities

## Q1 09 Organic growth<sup>(1)</sup> (y-o-y growth)



Capturing growth opportunities & increasing OpCF in an economic downturn

Considering comparable terms <sup>(3)</sup> in T. España



● OIBDA margin reported (y-o-y organic growth and in comparable terms)

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(1) Organic growth: Assumes constant exchange rates and includes the consolidation of Telemig in January-March 2008.  
 (2) OpCF: OIBDA-CapEx.  
 (3) 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).

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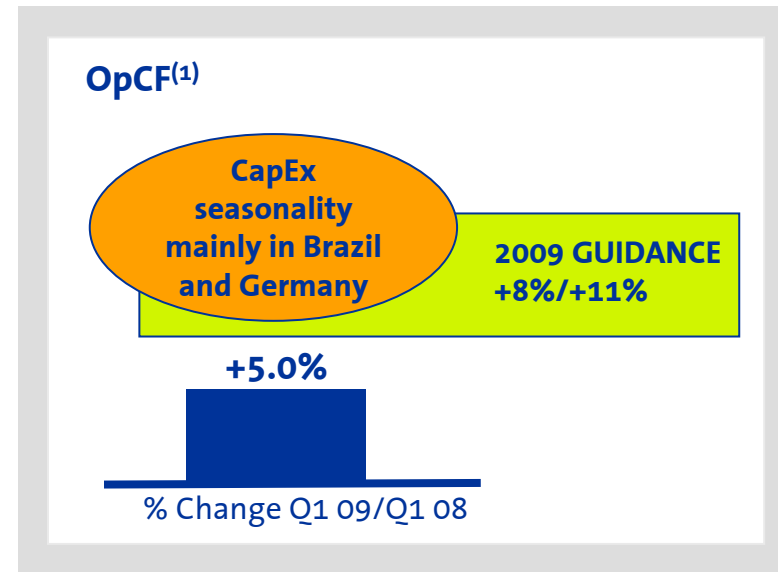
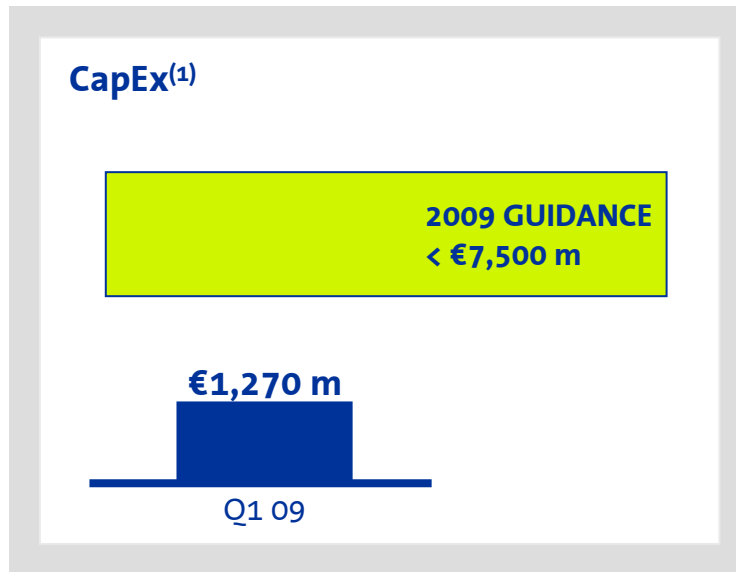
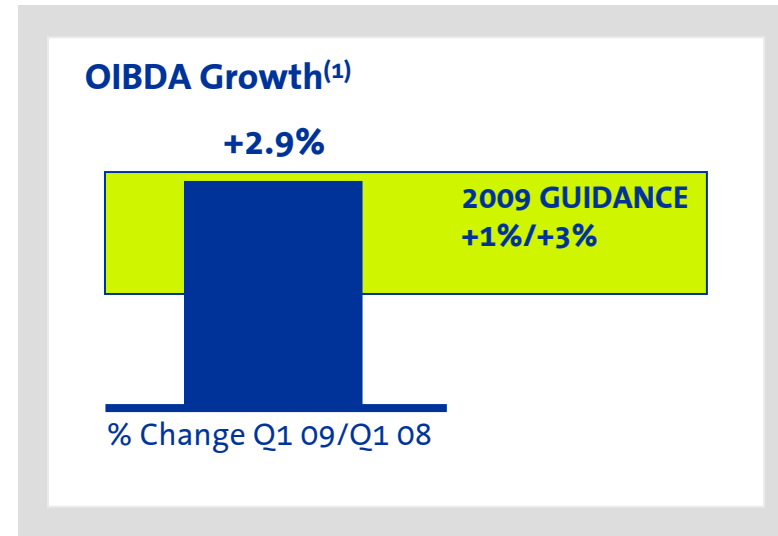
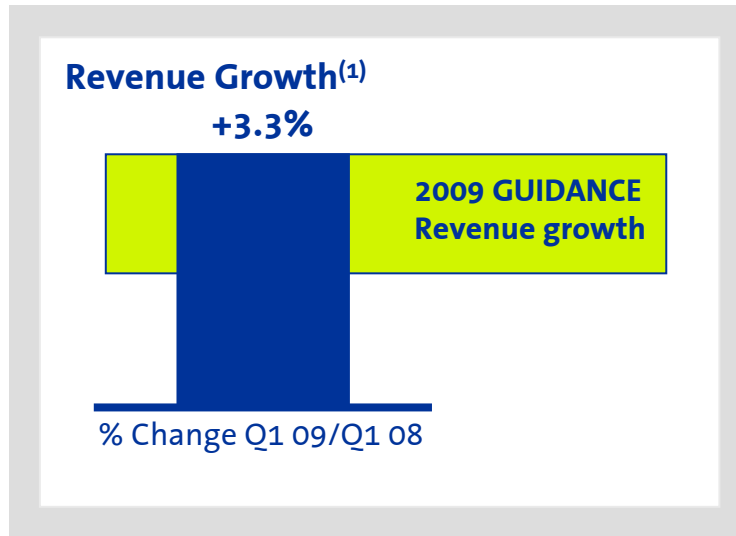
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A management team with a long expertise, strong track record in the telco sector and highly committed to share price performance

### 03 A reliable Company: consistently delivering or outperforming on guidance

		<b>GUIDANCE</b>	<b>RESULTS <sup>1</sup></b>	
<b>2004</b>	Revenues	7% / 10%	<b>8.6%</b>	
	EBITDA	5% / 7%	<b>6.0%</b>	
	EBIT	15% / 18 %	<b>15.5%</b>	
<b>2005</b>	Revenues	12% / 15%	<b>17.2%</b>	
	OIBDA	10% / 13%	<b>12.3%</b>	
	OI	12% / 18 %	<b>16.1%</b>	
<b>2006</b>	Revenues	34% / 37%	<b>38.8%</b>	
	OIBDA	26% / 29%	<b>28.9%</b>	
	OI	26% / 30%	<b>29.2%</b>	
<b>2007</b>	Revenues	8% / 10%	<b>9.8%</b>	
	OIBDA	10% / 13%	<b>12.8%</b>	
	OI	19% / 23%	<b>27.6%</b>	
<b>2008</b>	Revenues	6% / 8%	<b>7.3%</b>	
	OIBDA	7.5% / 11%	<b>10.6%</b>	
	OI	13% / 19%	<b>20.4%</b>	

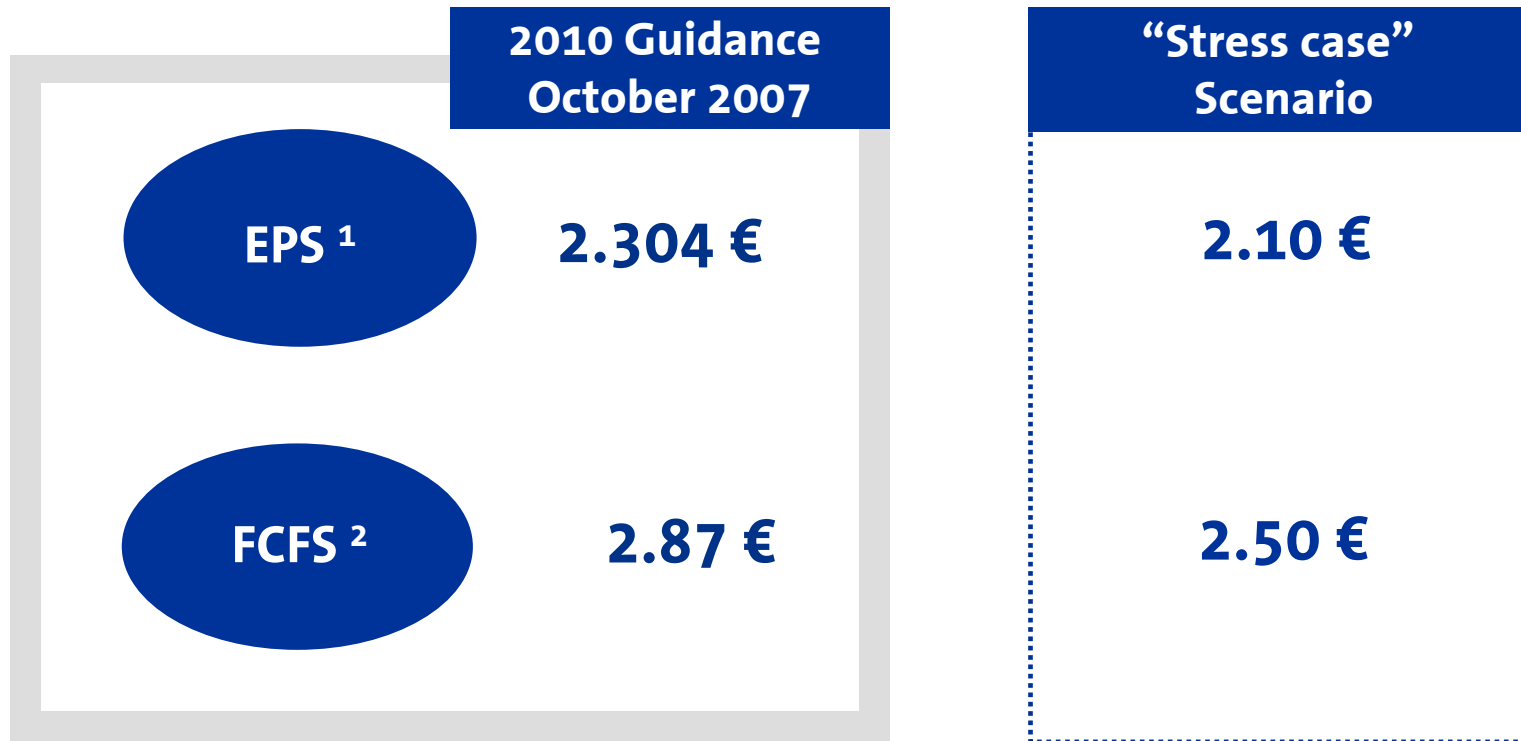
# 03 Fully on track to meet 2009 guidance



(1) Full year 2008 adjusted figures for guidance exclude Sogecable capital gain (€ 143 m), the application of provisions made in T. Europe in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks had dissipated or had not materialized (€ 174 m) and 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.



### 03 2010 guidance reiterated



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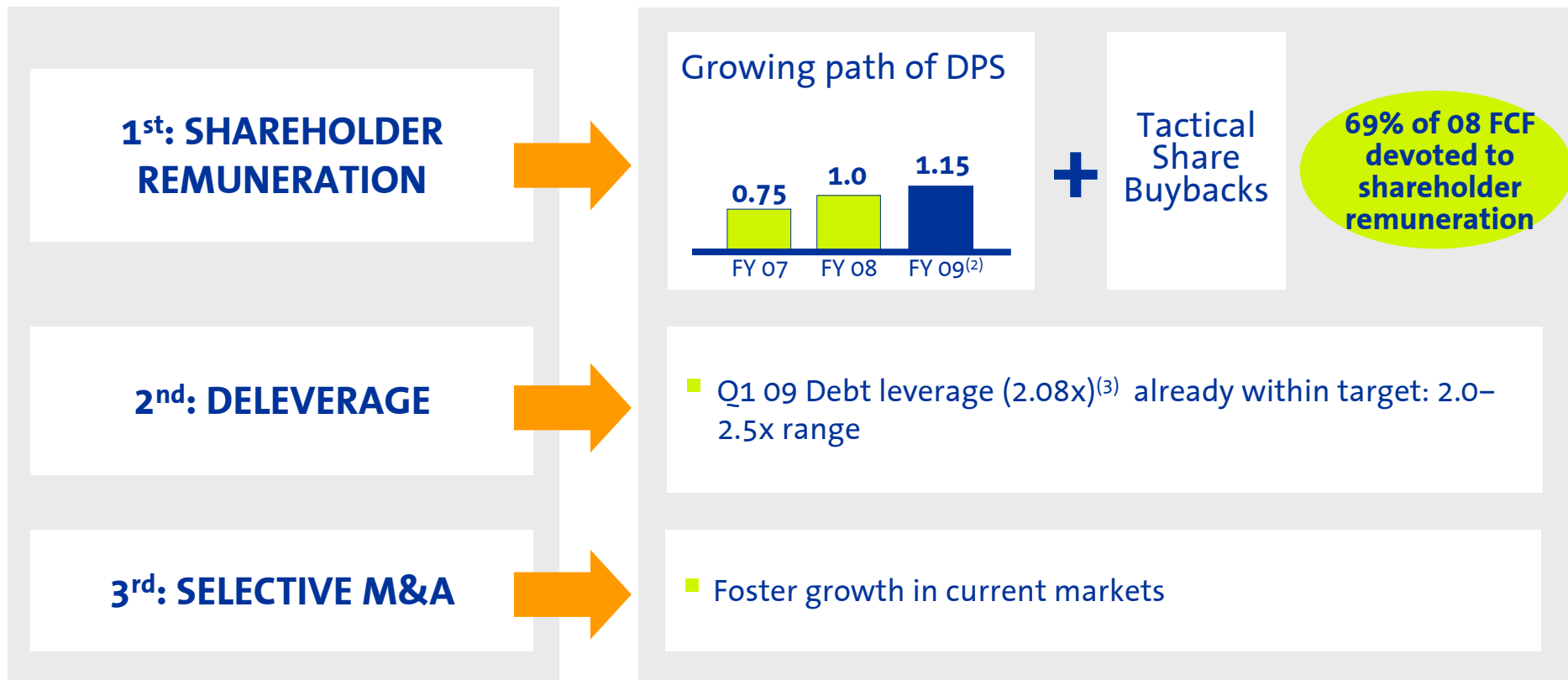
**Disciplined use of FCF with a clear priority: shareholder returns**

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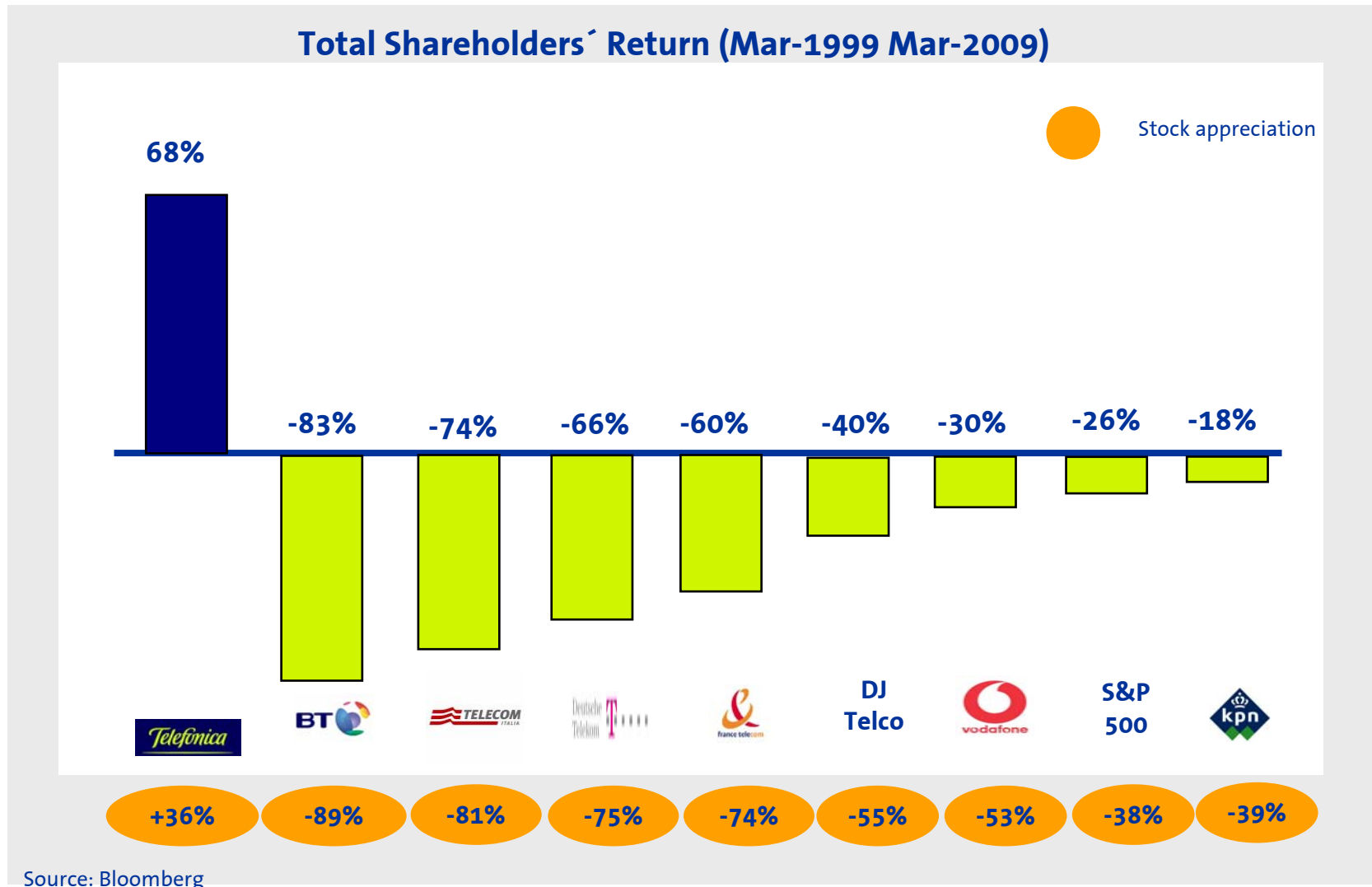
A management team with a long expertise, strong track record in the telco sector and highly committed to share price performance

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

**>40 Bn € FCF (Cumulative 07E-10E) <sup>(1)</sup>**



# 04 Superior value creation for our shareholders



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# 05 A management team with a long expertise, strong track record in the telco sector and highly committed to share price performance

	WORKING FOR TELEFÓNICA	EXPOSURE TO TELEFÓNICA SHARE
César Alierta - EXECUTIVE CHAIRMAN	since July 2000	3.915 m shares + 10.2 m call options
Julio Linares – COO	since 1970 c.p. since Dec-07	0.188 m shares
Santiago Fernández Valbuena – CFO	since Jan-97 c.p. since July-02	0.261 m shares
José María Álvarez-Pallete – T LATINOAMÉRICA GM	since Feb-99 c.p. since Jul-02	0.136 m shares
Guillermo Ansaldo – T ESPAÑA GM	since April-00 c.p. since Dec-07	0.072 m shares
Matthew Key – T EUROPE GM	since Feb-02 c.p. since Dec-07	0.072 m shares
Board of Directors (*)		>1.700 shares

TELEFONICA S.A. (1) Note: GM = General Manager ; c.p. = current position.  
Investor Relations (\*) Excluding Executive Committee.

## Conclusions

- **Leveraging our strengths to continue delivering a superior performance**
- **Clear strategy to fully exploit growth potential in our markets while increasing OpCF**
- **Fully on track to meet 2009 guidance & 2010 guidance reiteration**
- **Disciplined use of FCF with a clear priority: shareholder returns**
- **A management team with a long expertise, strong track record in the telco sector and highly committed to share price performance**

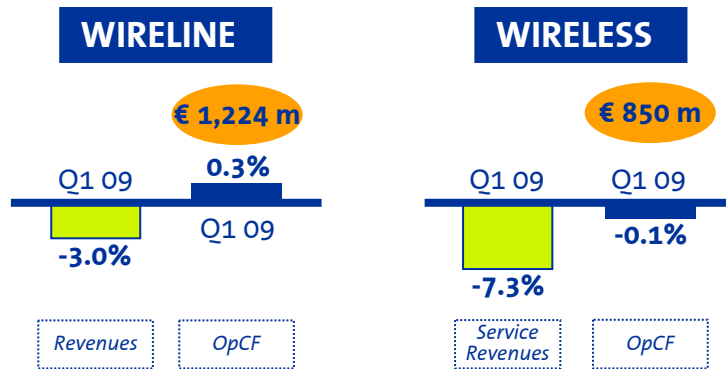
## Back-up information: Q1 09 Results



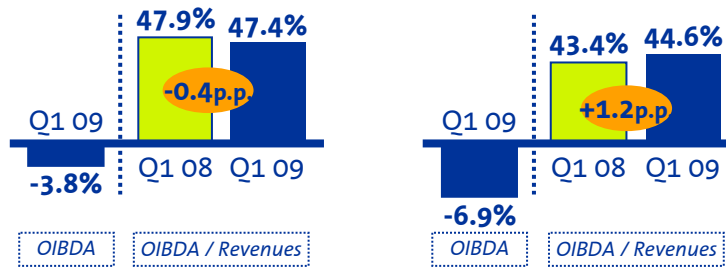
# T.España: Successfully managing OpEx and CapEx to maximize OpCF

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

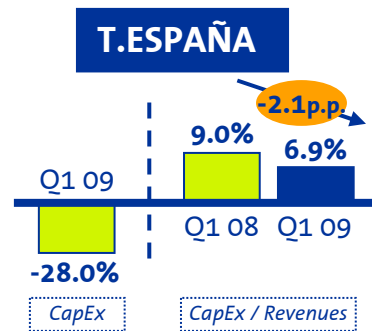
Reported OpCF



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



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



- 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

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

TELEFONICA S.A. Investor Relations (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).

## Revenue performance impacted by worse trading conditions

POSITIVES	NEGATIVES
<ul style="list-style-type: none"> <li>■ Strong IT revenue growth (+24.5% y-o-y) on sound evolution of wireline data revenues (+3.6% y-o-y)</li> <li>■ Sustained healthy wireless connectivity revenues (+50.4% y-o-y), driving total mobile data revenues up 7.0%</li> <li>■ 2006 USO revenues (€75.3 m in wireline)</li> </ul>	<ul style="list-style-type: none"> <li>■ Regulatory actions: 17.4% cut in MTRs; 20% reduction in full ULL prices and flat PSTN monthly fee</li> <li>■ Wireless handset sales (-22.8% y-o-y) due to different phasing of handset shipments to the channel</li> <li>■ Lower usage patterns both in wireline and wireless</li> <li>■ Decrease in wireless roaming in revenues (-32.3% y-o-y) driven by price cuts and lower visitors traffic</li> </ul>

**Focus on  
revenue  
share <sup>(1)</sup>  
leadership**

- Maintaining leadership in outgoing service revenues market share in wireless: **+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**

# OpEx & CapEx discipline to preserve OpCF generation

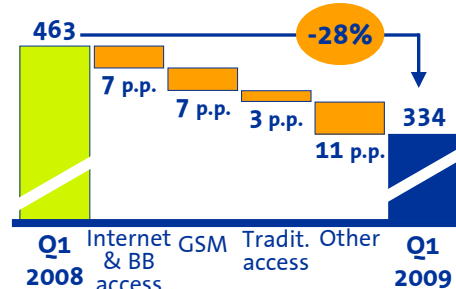
## Q1 09 Further opportunities

- Focus on growth businesses: mobile data
- Enhanced CapEx efficiency: Significant vendors per unit cost reductions
  - Benefiting from Group purchasing power
  - Vendors adapting to economic downturn
- Lower investment in GSM and traditional access
- Fiber rollout adapted to current environment

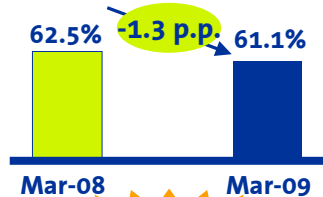
2009 committed CapEx as of March: <€ 600 m

- IT systems rationalization
- Network integration

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



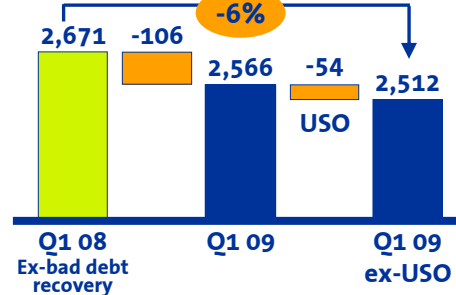
**Efficiency ratio**  
(OpEx+CapEx) / Revenues<sup>(1)</sup>  
12 month rolling



**IMPROVED!**

## Track record of capability to manage OpEx/CapEx

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

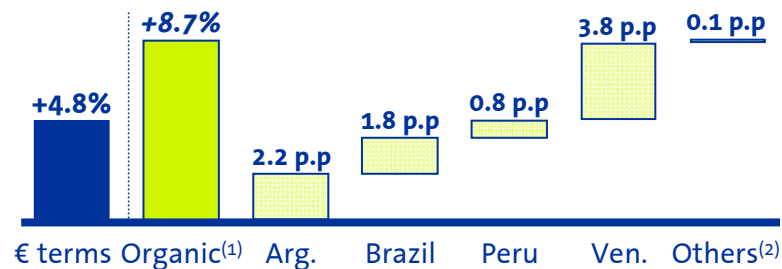


- Lowering pressure on **personnel costs** **+0.3%**
  - CPI reduction vs. 2008
  - 2008 Workforce adaptation program bearing fruit in 2009
- **Energy** rationalization & efficiency program
- **Logistics and third party relations** model simplification
- Mobile network sharing agreement
- **Lower commercial costs**<sup>(2)</sup> (as commercial activity and unit cost go down) **-11%**
- Lower mobile **handset costs** **-24%**
- **Interconnection costs** down on lower usage and prices **-12%**

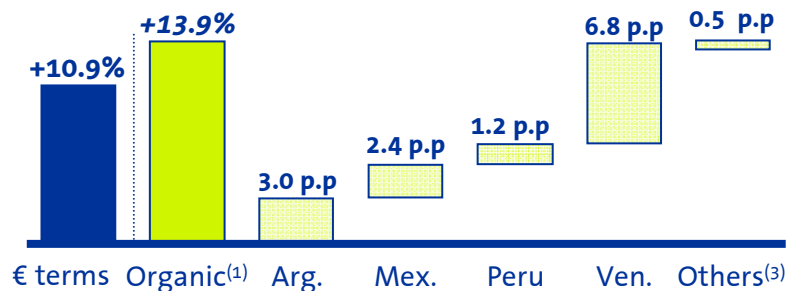
(1) Defined as last 12 months (OpEx (ex Internal exp. Capitalized in fixed assets an non recurring items)+CapEx)/Revenues. CapEx figure excludes spectrum acquisition.  
(2) Handset subsidies, commissions to dealers and advertising.

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

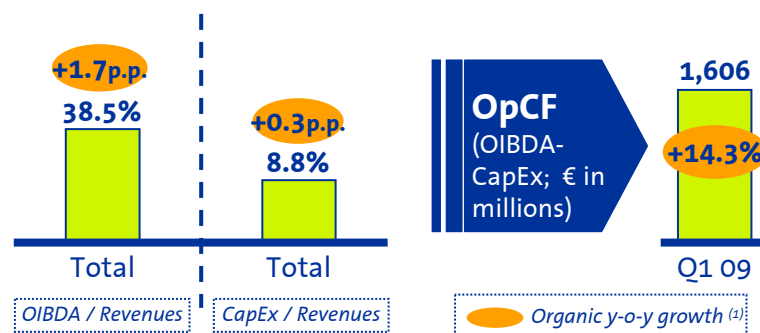
## Revenue growth (Q1 09 y-o-y change)



## OIBDA growth (Q1 09 y-o-y change)



## Margins over Revenues (Q1 09)



- **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
- **Outstanding 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

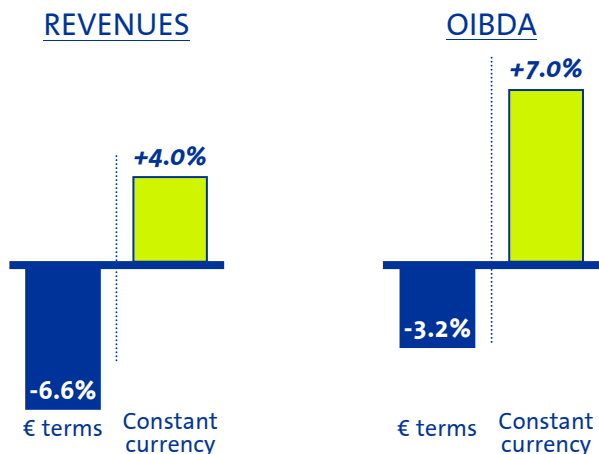
## Solid performance across major operations

Q1 09 y-o-y growth (in local currency)	Total revenue	Mobile service revenue	Total Wireline revenue	BB & TV revenue	Total OIBDA	Mobile OIBDA	Wireline OIBDA
Brazil <sup>(1)</sup>	+7.8%	+10.0% <sup>(2)</sup>	+2.2%	+26.0%	+4.4%	+11.7% <sup>(2)</sup>	-1.8%
Argentina	+20.6%	+23.9%	+17.4%	+50.4%	+30.8%	+45.7%	+14.3%
Chile	+1.9%	+2.2%	-1.0%	+14.3%	+4.1%	+10.3%	-3.1%
Peru <sup>(3)</sup>	+10.9%	+5.9%	+3.7%	+9.2%	+17.6%	+57.2%	+1.0%
Colombia	-6.2%	-6.2%	+0.5%	+37.9%	+7.0%	+27.8%	-5.1%
Venezuela	+34.5%	+33.3%			+47.3%		
Mexico	+6.5%	+16.7%			+61.4%		

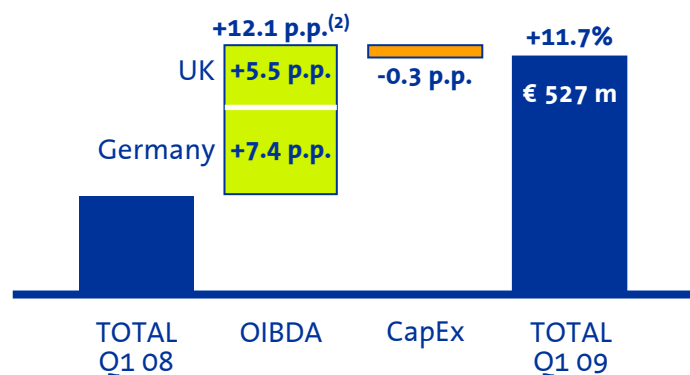
- **Sound performance in Mexico:** continue to increase customer & revenue share while expanding margins (28.8% in Q1 09) with very robust OpCF growth (+41.3% in local currency vs. Q1 08)
- **Strong growth at Vivo coupled with higher OIBDA margin** (30.0% in Q1 09; +0.4 p.p.<sup>(2)</sup> y-o-y) in a highly competitive environment, maintaining its leadership
- **Telesp** continues advancing in its transformation strategy
- **Outstanding revenue and OIBDA growth rates in Argentina** driven by a strong push in on-net traffic in mobile while increasing bundled services in wireline
- **Venezuela:** very solid commercial and financial performance

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

## Revenues & OIBDA (Q1 09 vs. Q1 08)



## Contribution to OpCF Growth (Q1 09 vs. Q1 08 in constant currency)



### ■ 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 prepay and roaming activity

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

- OIBDA margin up 0.8 p.p.<sup>(1)</sup> year-on year to reported 27.2%
- More streamlined commercial approach, mainly through direct channels
- Lower non Commercial costs (-2.1% y-o-y<sup>(1)</sup>) despite increased activity levels
- Improved profitability of fixed BB on increased scale
- Keeping flexibility on CapEx commitments

*Telefonica*

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