TELEFONICA: “Solid fundamentals, benchmark results”

SANTIAGO FERNANDEZ VALBUENA
TELEFÓNICA, S.A., CFO
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TELEFONICA S.A.

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The financial information contained in this document has been prepared under International Financial Reporting Standards (IFRS). This financial information is un-audited and, therefore, is subject to potential future modifications.

Continuing to deliver benchmark results in our industry

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

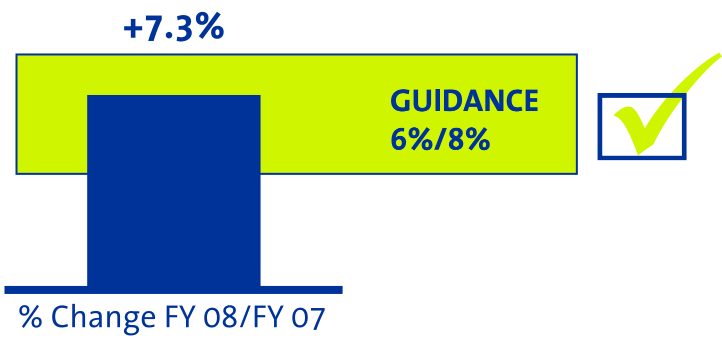
(1) Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-December 2007. Excluding the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007. In revenues, the impact in Telefónica España of the new model for the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

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

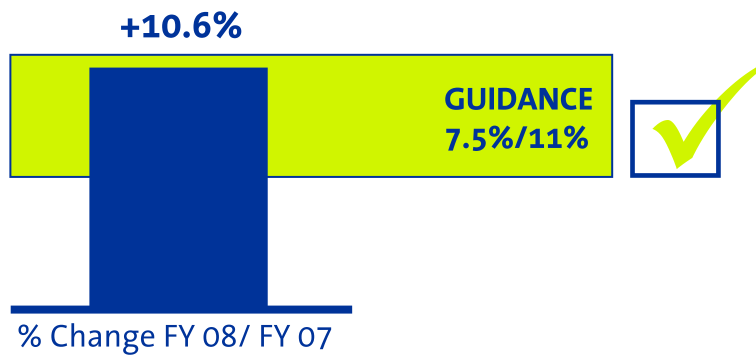
(3) OIBDA-CapEx

Meeting Group guidance 6 years in a row…

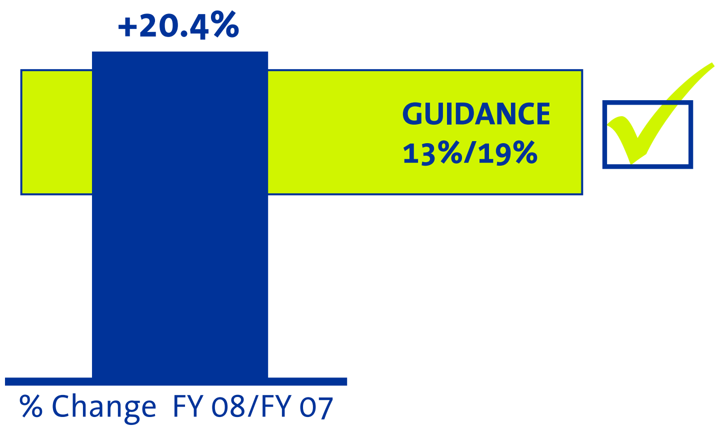
Revenue Growth[1]



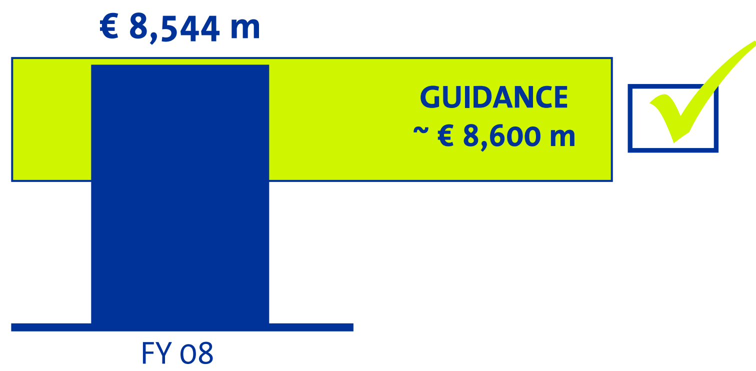
OIBDA Growth[1]



OI Growth[1]



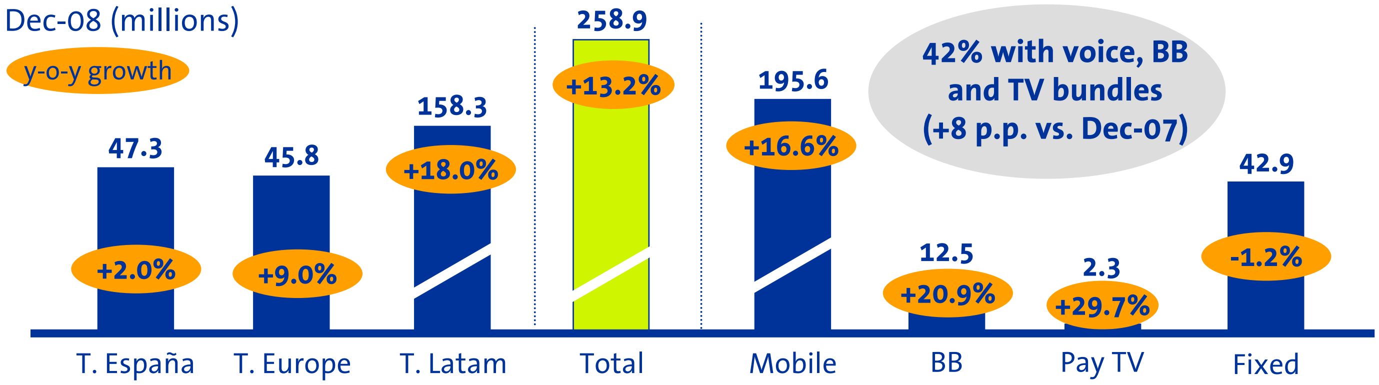
CapEx[1]



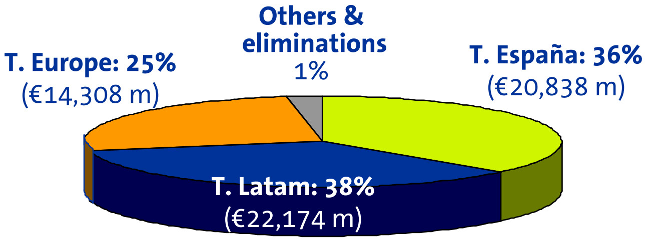
(1) Guidance criteria: 2007 adjusted figures exclude Airwave and Endemol, include 3 months of consolidation of TVA. 2007 T. España revenues are adjusted for new public voice telephone services business model. Group revenues are also adjusted accordingly. 2008 figures includes TVA, Deltax and Telemig (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



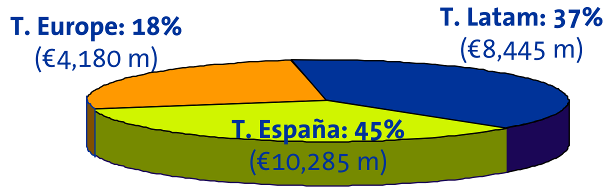
FY 08 Revenue



Contribution to organic[1] Group growth (+6.9%)

T.Latam	T.Europe	T.España
+4.6 p.p.	+1.5 p.p.	+0.4 p.p.

FY 08 OIBDA



Contribution to organic[1] Group growth (+14.7%)

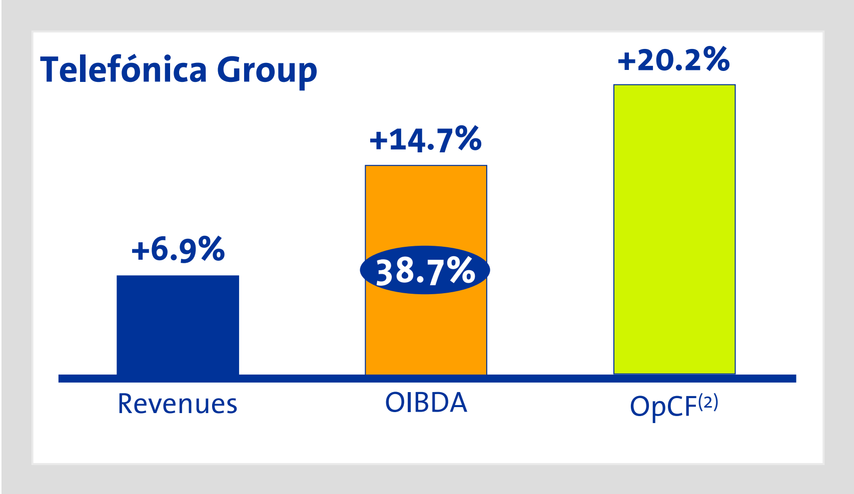
T.Latam	T.España	T.Europe
+7.7 p.p.	+4.2 p.p.	+2.7 p.p.

(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 the impact of sale of assets (Airwave, Endemol and Sogecable) in both periods is excluded.

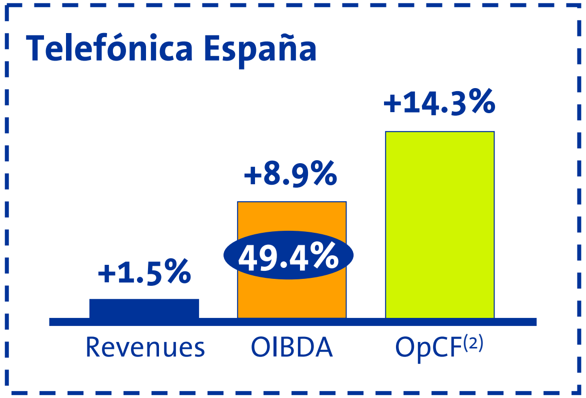
...with a high conversion rate of top line growth into cash-flow

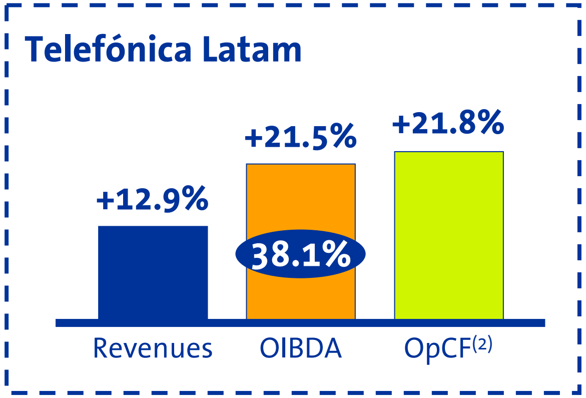
FY 08 Organic[1] growth (y-o-y)

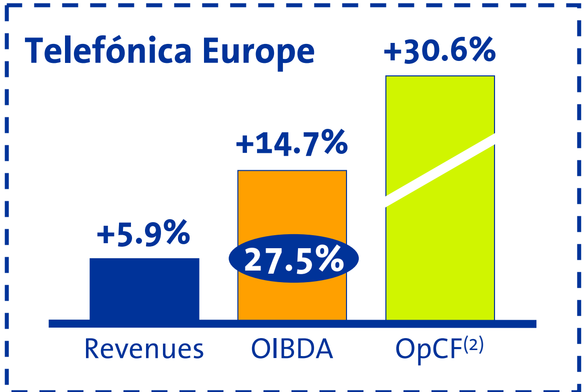
Organic OIBDA Margin



Leveraging efficiency measures and scale economies







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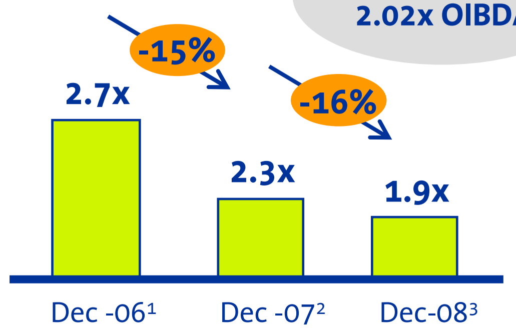
(2) OpCF: OIBDA-CapEx.

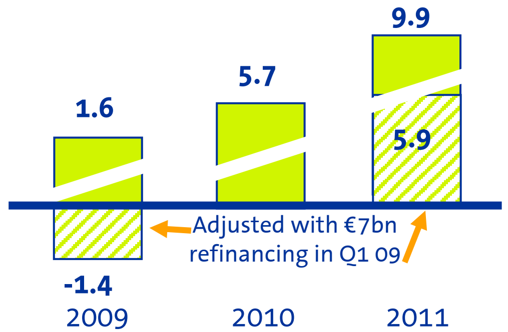
Healthy financial profile being acknowledged by credit rating agencies

Leverage target[3,4]: 2.02x OIBDA

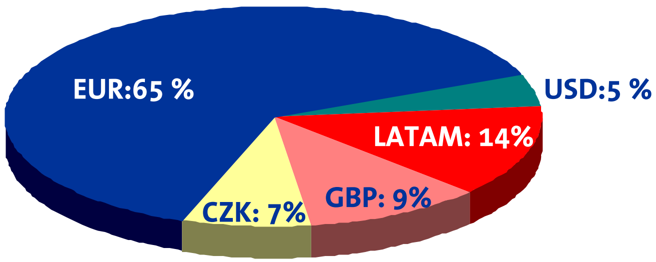
Net Financial Debt/OIBDA



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



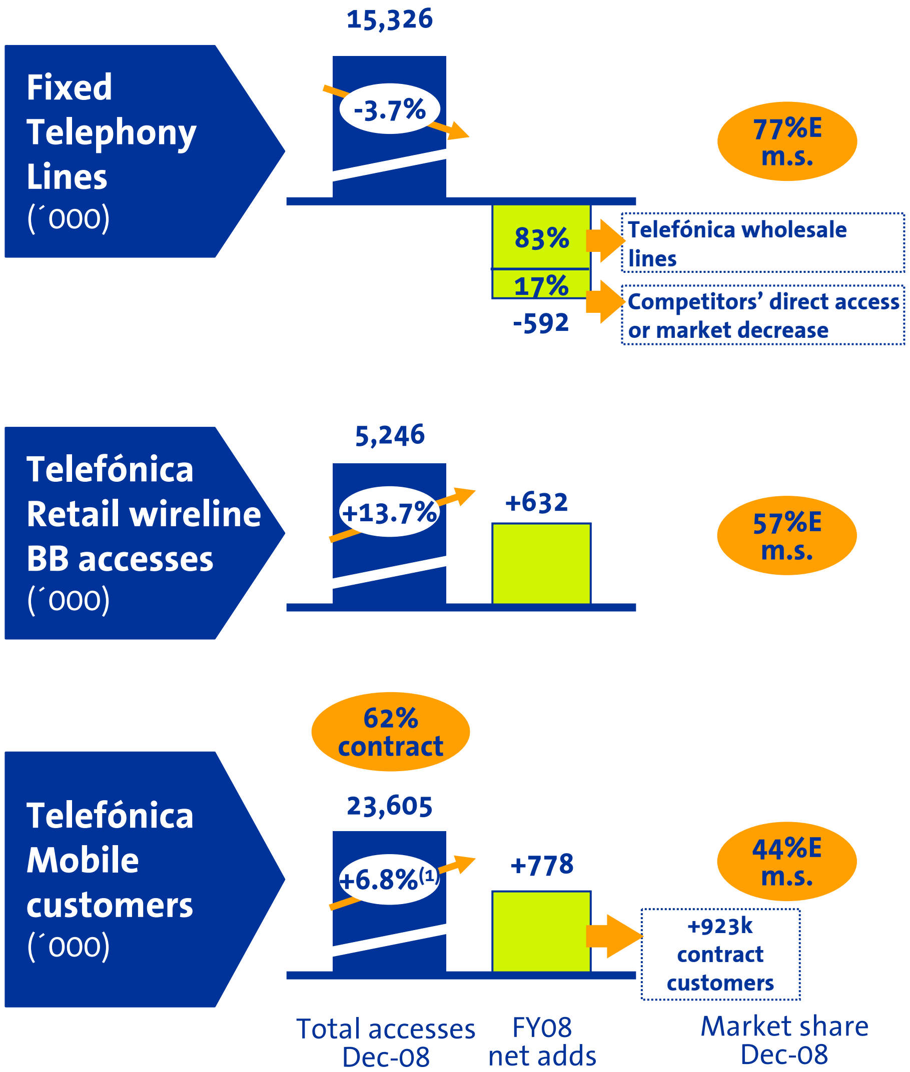
Dec-08 debt distribution by currency
(€ in billions)



- **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
- 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)

(1) Calculated based on 2006 OIBDA including T. O2 CR, O2, T. Telecom and Iberbanda.
(2) Calculated based on 2007 OIBDA excluding results on the sale of fixed assets.
(3) Calculated based on 2008 OIBDA figure excluding results on the sale of fixed assets.
(4) Total Debt + Commitments/OIBDA

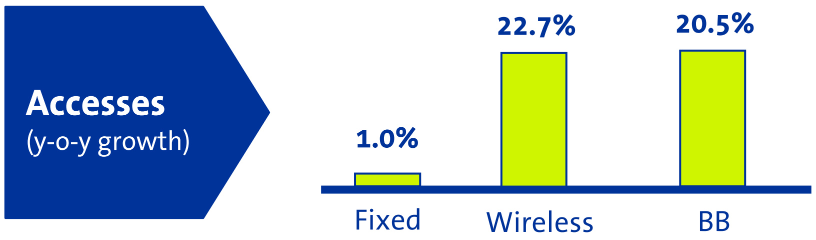
T.España: Focus on cash-flow maximization

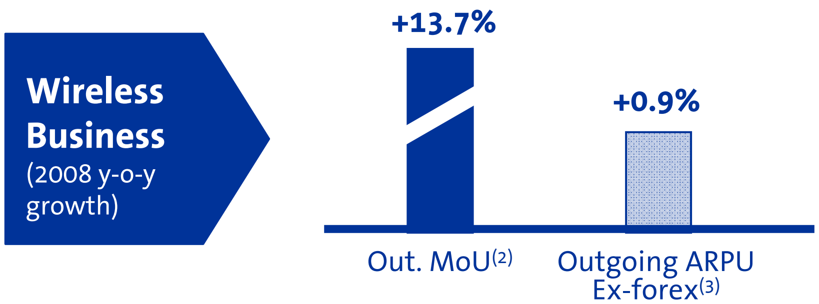


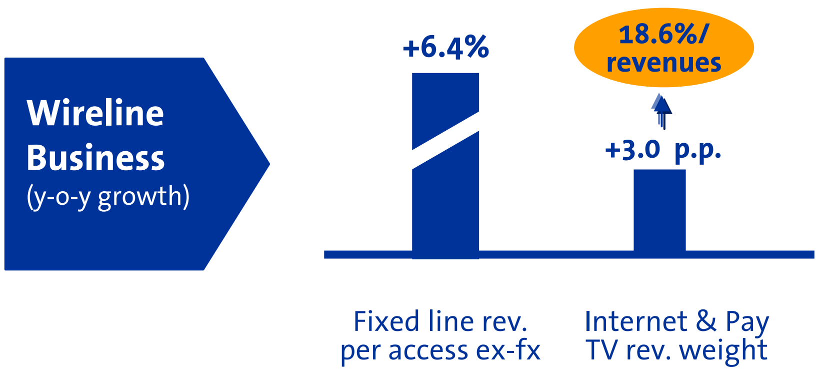
- **Segmented approach to satisfy customer needs:**
  - Wide price range of wireline BB bundles (2P): from 19.90€ to 56.90€
  - Integrated offers: 2P users to make on-net mobile calls for 1€c
  - Very attractive on-net mobile prices (3€c) and new quasi-flat rates
  - New commercial offers adapted to current trading conditions: discounts for unemployed customers and new SMEs, "free line"...
- **In wireline:**
  - 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
  - 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)

(1) Contract customers (y-o-y growth)

T.Latam: Robust set of results



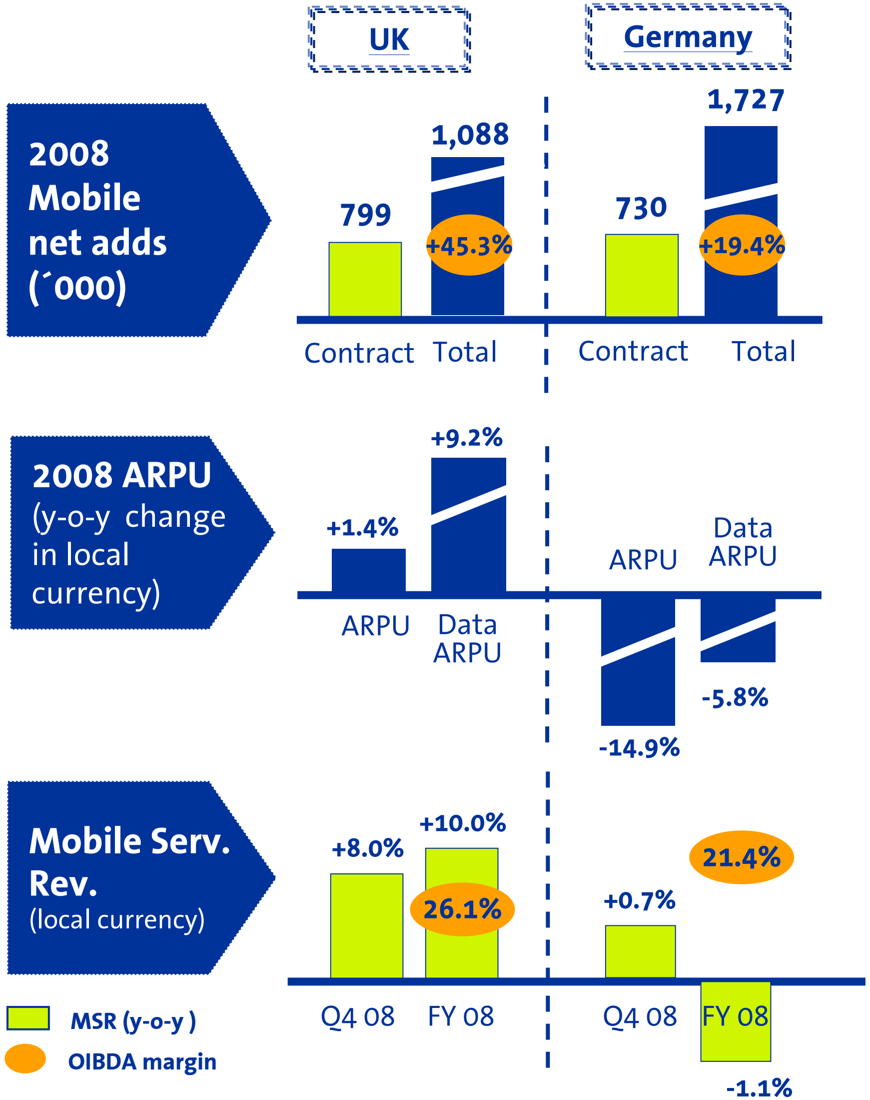




- **Successfully managing growth, transformation and profitability:**
  - Steady customer growth drives strong y-o-y organic[1] revenue growth (+12.9%) in 2008
  - Solid OIBDA (+ 21.5% y-o-y organic[1] growth) on the back of the OIBDA margin ramp up
  - Very robust organic[1] growth in OpCF (+21.8%) 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[3] 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[3] stabilization across the year: -0.6 p.p. to 39.5%

(1) Assuming constant exchange rates and including the consolidation of TVA in Jan-Sep 2007 and Telemig in April-Dec. 2007.
(2) Includes Telemig in April-Dec 2007.
(3) Aggregated margin.

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



UK:

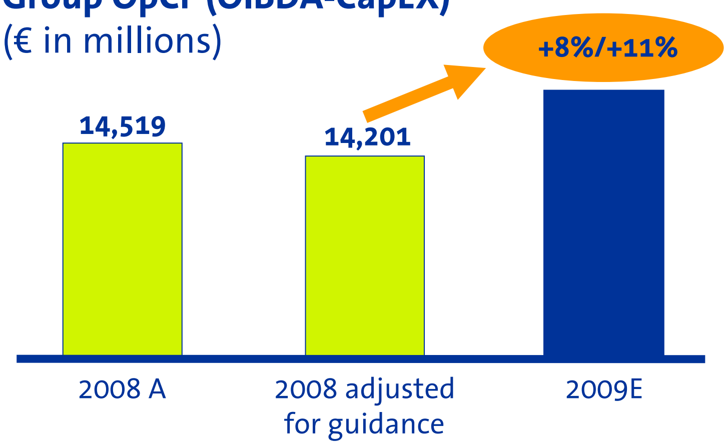
- **Commercial approach focused on long term customer value, anticipating customer needs:**
  - Simplicity, iPhone and leading contract churn
  - Contract: 39.1% of mobile base (+2.0 p.p. vs. Dec-07)
  - Customers optimizing bundle usage (flat y-o-y contract MoU in Q4)

Germany:

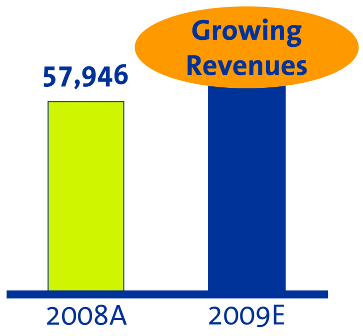
- **Mobile service revenues turnaround achieved in Q4 08:**
  - ARPU declines stabilizing with larger portion of customer base on value tariffs
- **New commercial approach introduced in Q4, finishing foundations of the business:**
  - Aggressive SIM-only offer (reduced SAC)
  - Migration from legacy to new tariffs completed
  - Distribution network enlargement
  - Own network deployment: focus on mobile data

Group guidance for 2009

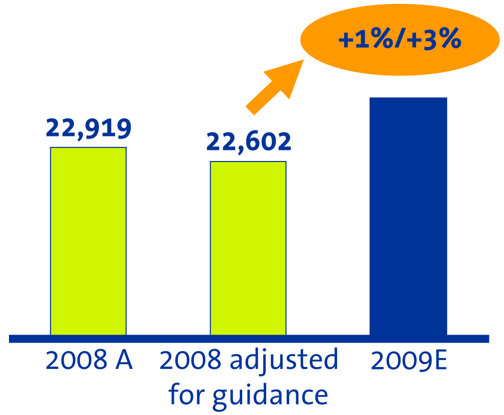
Group OpCF (OIBDA-CapEX)
(€ in millions)



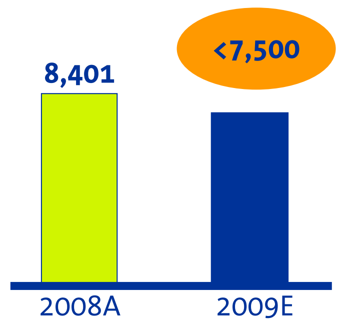
Group Revenues
(€ in millions)



Group OIBDA
(€ in millions)



Group CapEx
(€ in millions)



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

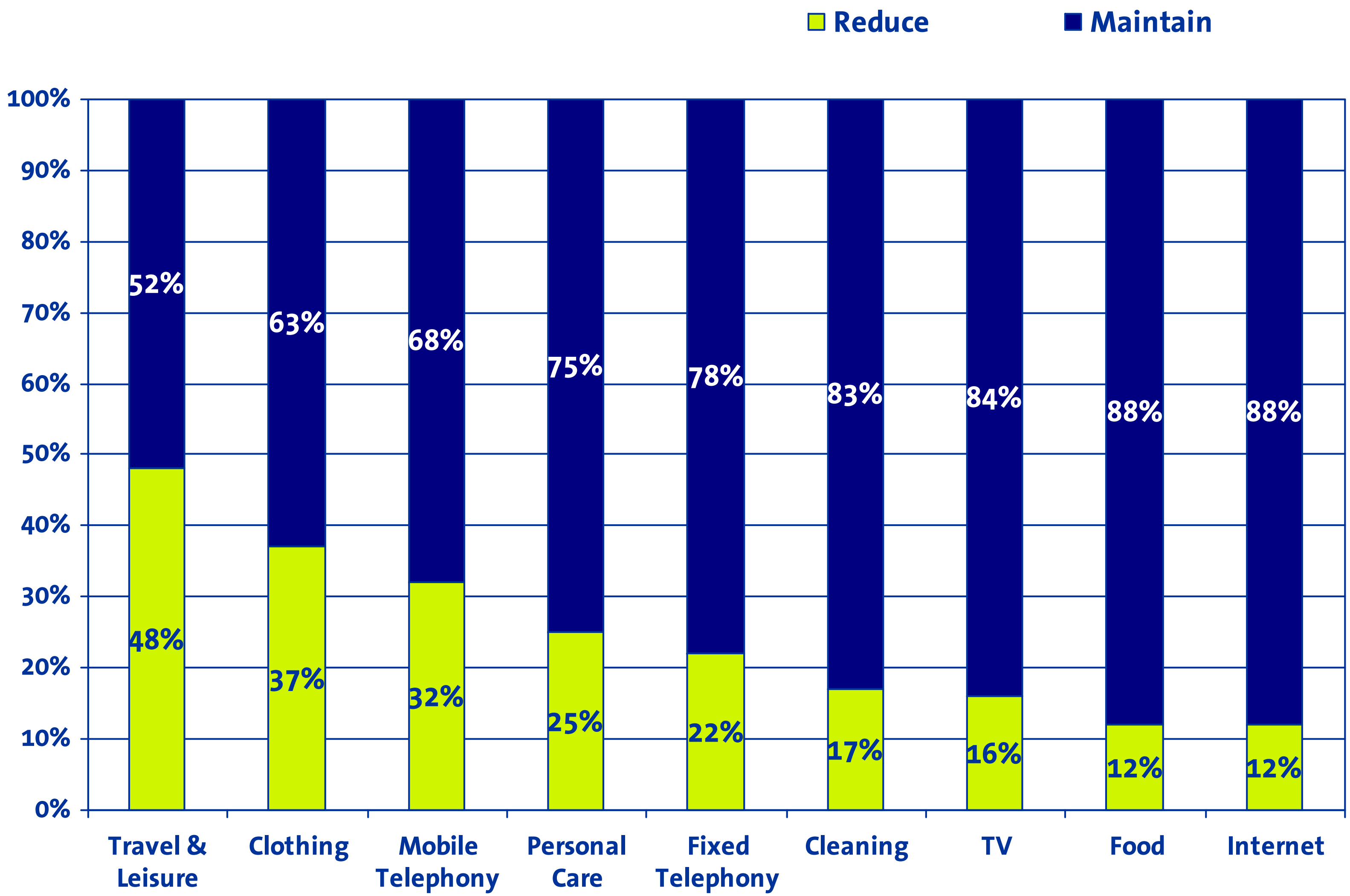
- Continue to outperform the market in the UK
- Capitalize strengthened business foundations in Germany to drive growth
- Enhance profitability across markets to deliver increased OpCF

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



Source: GFK.

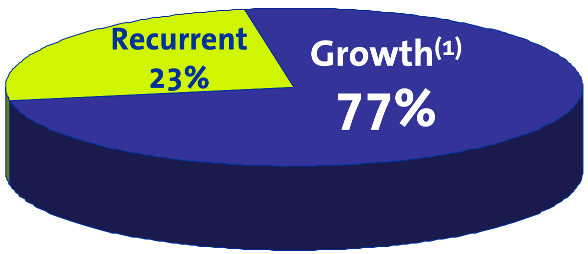
We have the levers to preserve CF generation in a more difficult economic environment

Top line

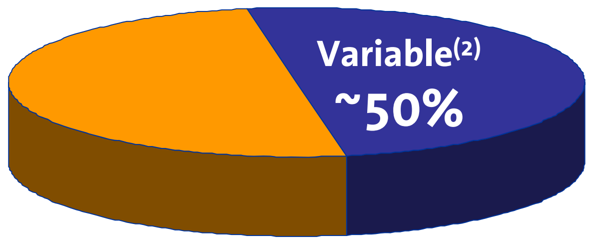
- **Strong competitive position across most markets**
- **Integrated businesses model**
- **More segmented offer to anticipate customer needs**
  - Lower entry prices (BB, SIM only ...)
  - Higher speeds and more advanced services (BB, i-phone...)
- **Liberalised prices in most services (BB, pay TV &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

OpEx & CapEx

Group CapEx (FY 08)



Group OpEx (FY 08)



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

(1) Transformation and growth projects.
(2) Interconnection and commercial costs (subsidies, commissions and advertising).

Accelerating transformation to adapt to new environment

TECHNOLOGY	▪ **Network sharing**
	▪ **Network transformation:**
	    ▪ Site build cost reduction
	    ▪ Transport optimization
	    ▪ Greater coordination in transport networks between Fixed-Mobile businesses
	    ▪ Outsourcing initiatives
	    ▪ Global partner for network support contracts in IP, GSM, 3G and microwave networks across the Group
	    ▪ New Operating Model
	    ▪ Energy efficiency program
	▪ **Operations:** service platform regionalization, European centres for some technologies, Regional labs & testing

IT	▪ **IT Infrastructure optimization:** Mainframes optimization; Data centres consolidation; Common workplace and single corporate network for all TEF Group ▪ **Application Development and Maintenance**: achieve savings, unify practices & improve quality ▪ **Corporate IT map for the Group**
PROCUREMENT	▪ Deployment of a new purchasing platform for all Telefónica Group ▪ Increase of electronic management of purchases, including negotiation and auction ▪ Optimise global purchasing strategy for customer devices, networks & IT ▪ Contracts renegotiation
COMMERCIAL	▪ Channel mix optimization (strengthening on-line channel) ▪ Streamline P&S portfolio and reduce time to market ▪ Global P&S development ▪ Enhanced efficiency of SACs ▪ Logistics model simplification

Disciplined use of FCF with a clear priority: shareholder returns

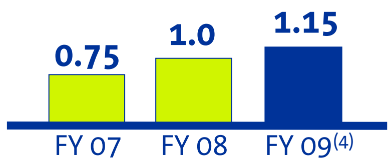
> € 40 bn
Cumulative FCF 07E-10E(1)

9%(2) of current market cap devoted to shareholder returns in 2008

69% of 2008 FCF devoted to shareholder remuneration

1st SHAREHOLDER REMUNERATION

Growing path in DPS
(in euros)



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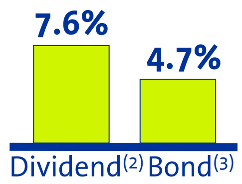
Tactical Share Buybacks

- 150 million shares bought in Jan-08 to Mar-09

Telefónica Yields



2nd DELEVERAGE

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

3rd SELECTIVE M&A

To foster growth in current markets

(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 April, 9th, 2009.
(3) Yield as of April, 9th, 2009 for 5 year bond maturing February 3rd, 2014 and fixed annual coupon of 5.431%
(4) BoD approved the proposal to increase the dividend corresponding to 2009 fiscal year.

2010 "stress case" vs. guidance

	2010 Guidance October 2007	"Stress case" Scenario
EPS [1]	2.304 €	2.10 €
FCFS [2]	2.87 €	2.50 €

(1) Reported EPS.
(2) FCF available to remunerate Telefonica S.A. shareholders, to protect solvency levels and to accommodate strategic flexibility.

In summary

A reliable company with solid fundamentals

Very strong performance in 2008	**Delivering our Group commitments** +	**Unmatched organic growth ahead of peers**

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Very attractive investment case	**High FCF yield**
	Solid financial position
	Fully committed to return value to our shareholders