Telefónica: Delivering sustainable growth

TELEFÓNICA, S.A.
London, March 15th-16th, 2010

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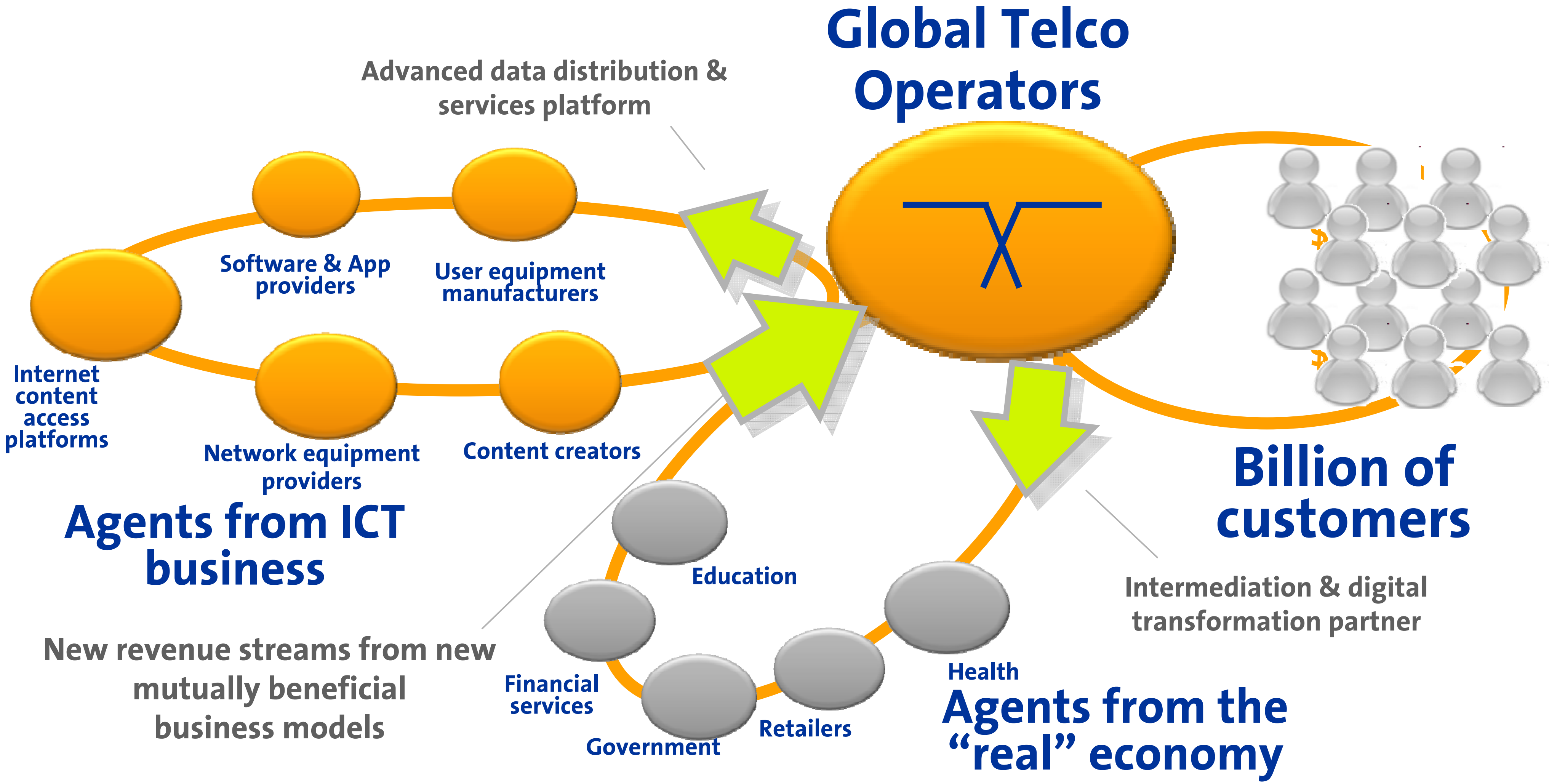
Index

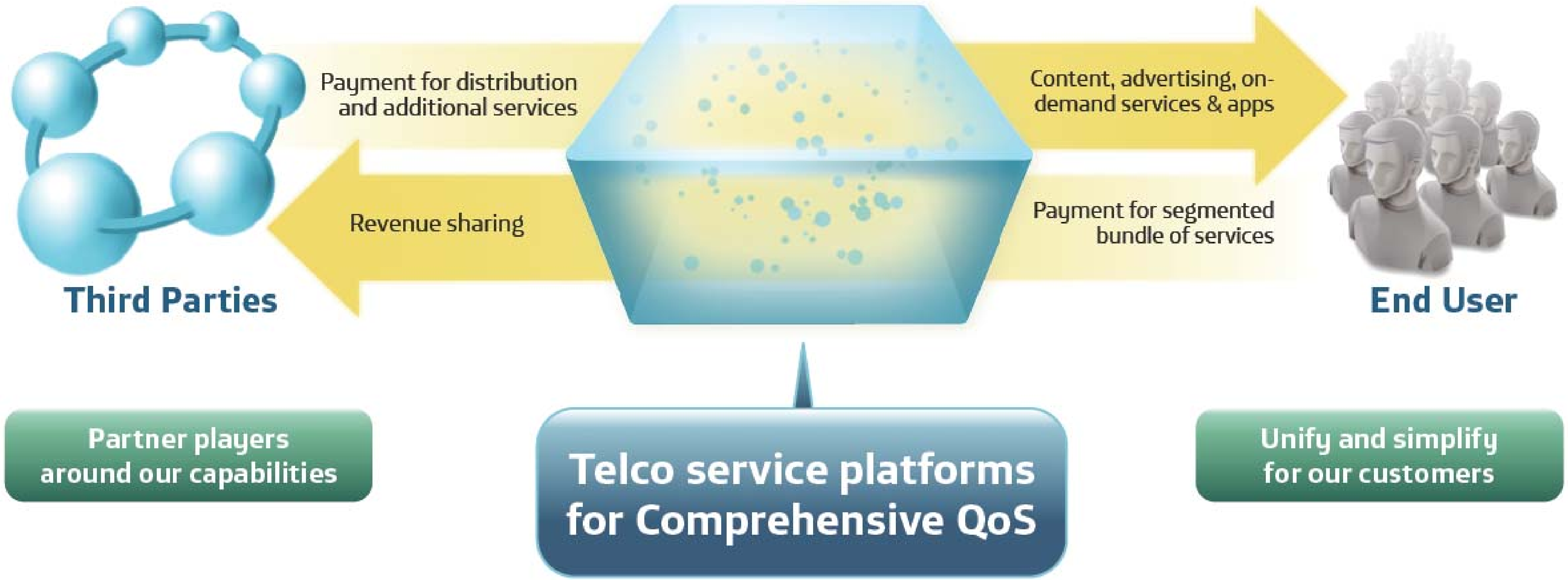
01 In the new digital world, advanced global operators are key to build new value proposals



01 Service platforms enable a new wave of revenues

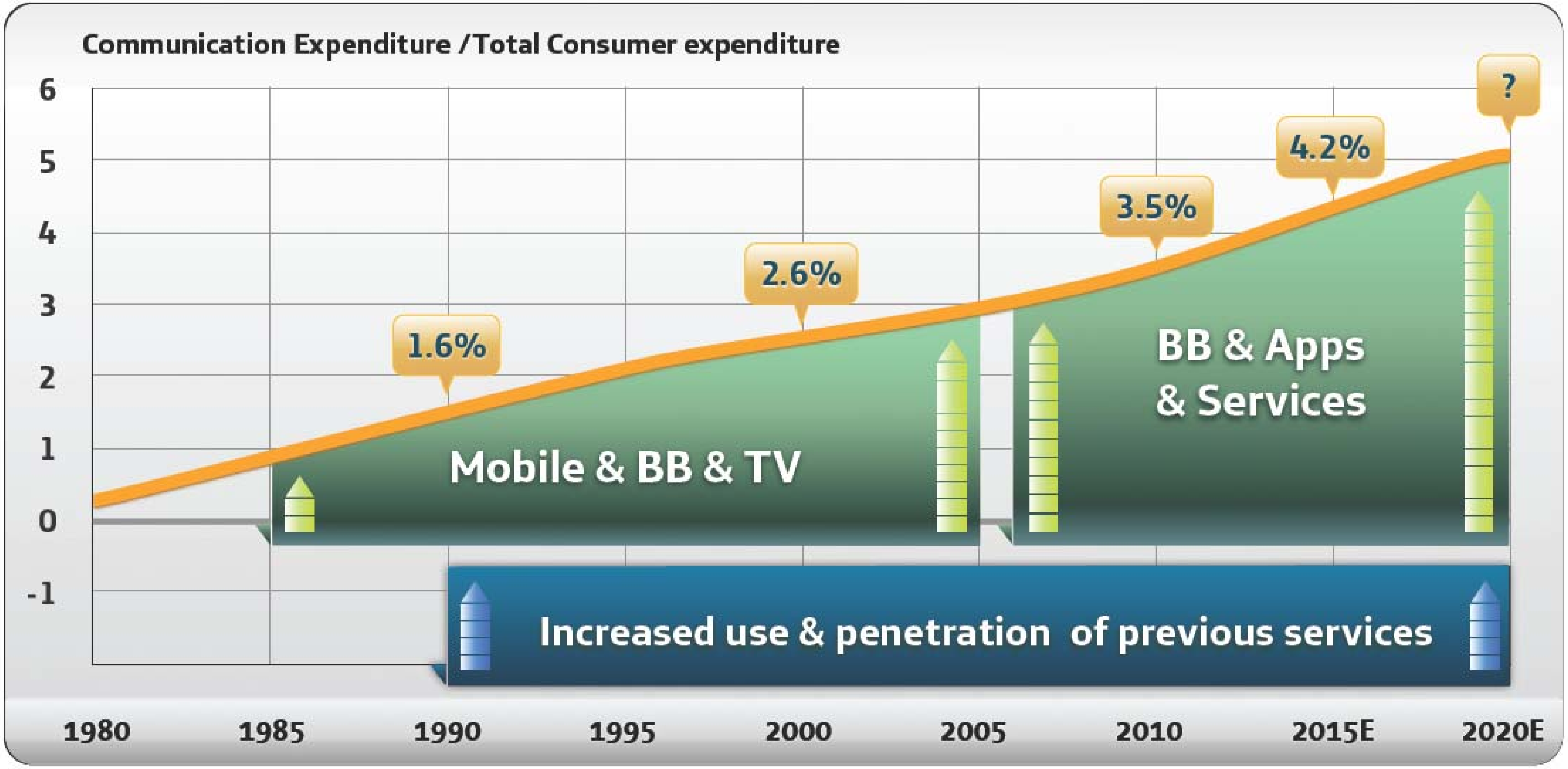
Beyond applications: Advanced platforms for quality service delivery

Adding comprehensive
connectivity & service management



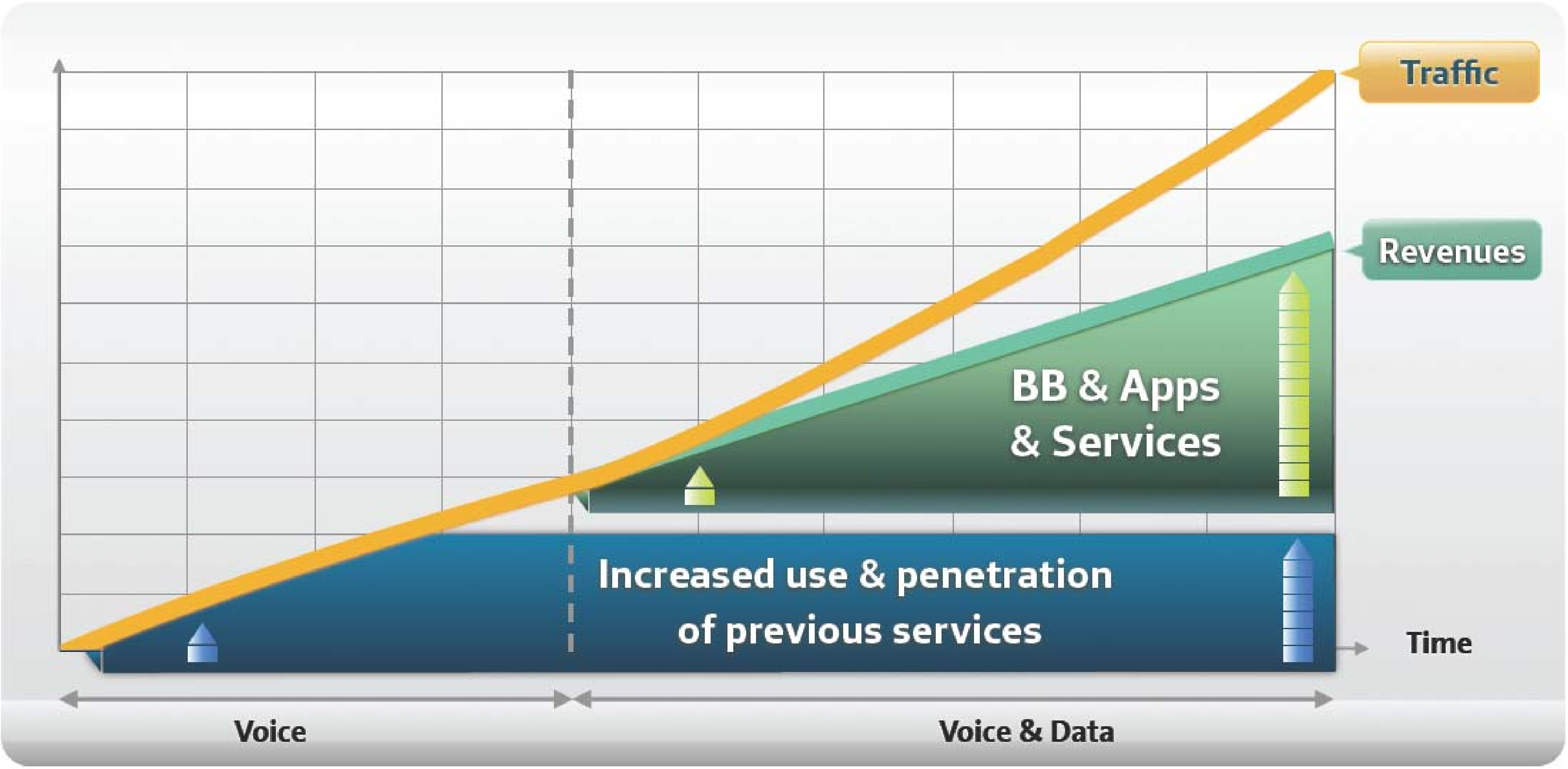
01 Our scale and value chain positioning places us as the partner choice in the new digital ecosystem to build high potential intersectorial alliances with every sector

01 **New digital applications and services will accelerate this trend, increasing ICT share in consumer's wallet**

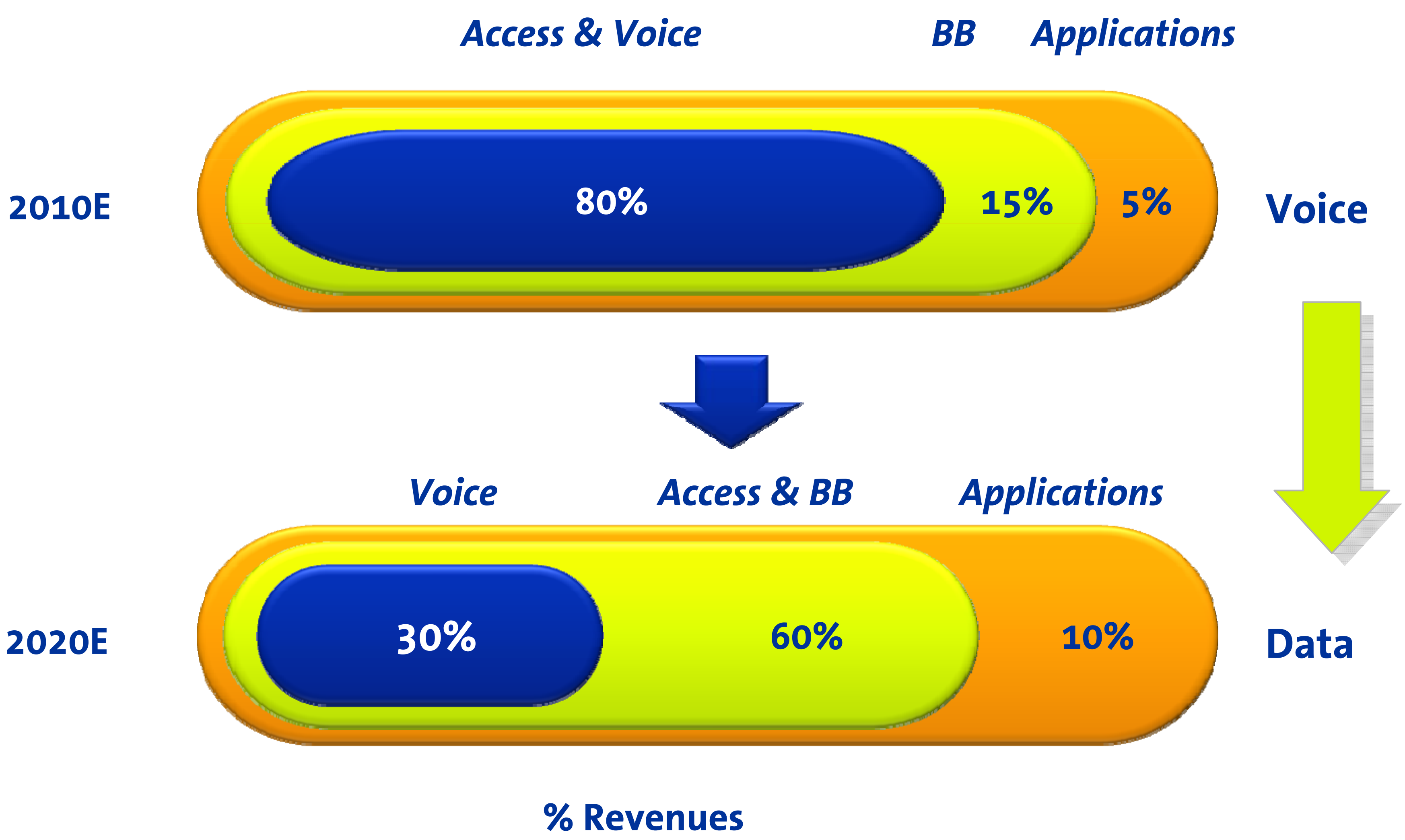


Source: Worlwide. Euromonitor international. Bain Analysis

01 Turning into a sustainable revenue growth



01 We see the a larger business size with a change of mix in the sector



Source: OVUM report (Telecoms in 2020 published on 24/12/09)& Telefónica Analysis.

Index

02 We will fully capture revenue growth potential in our markets

1 Customer focus & consistency
- Outperforming the industry in market share
- Improved churn (-0.3p.p. var 08-12E)

2 Development of applications & new business
- Apps.&New business revenue: +12%/+15% CAGR 08-12E

3 Massive MBB development:
- MBB accesses +65% CAGR 08-12E to ~67 million
- MBB connectivity revenue: +40%/+45% CAGR 08-12E

4 DSL upgrade & selective FO deployment
- FBB retail accesses +11% CAGR 08-12E to >19 million
- FBB connectivity revenue: +5%/+8% CAGR 08-12E

5 Defense & growth of traditional business
- Retail accesses: ~ 3.5% CAGR 08-12E to ~265 million
- Access & voice revenues: -2%/+1% CAGR 08-12E

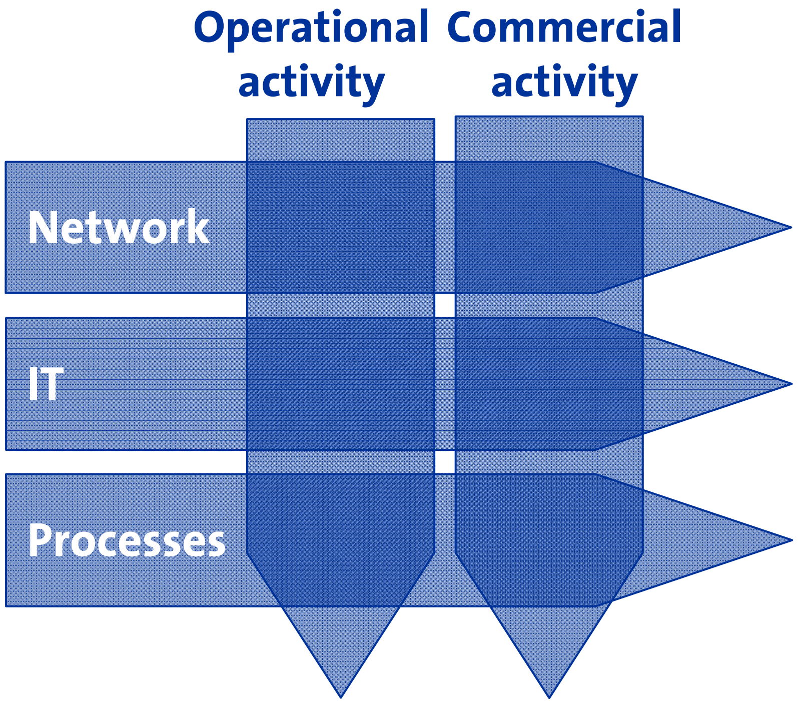
Revenue Mix(1)

	Accesses & Voice(2)	BB connectivity(3)	Applications & new business(4)
FY 2008	81%	13%	4%
FY 2012E	72%	21%	6%

(1) 1% of revenues from subsidiaries and other companies not shown in the graph.
(2) Access & Voice: fixed and mobile access & voice (SMS included), fixed and mobile equipment, narrowband internet and M2M revenue.
(3) BB connectivity (MBB & FBB). FBB connectivity: (DSL, FO, cable modem ...), fixed data services, retail and whole sale equipment. MBB connectivity: big and small screen, mobile email, and WAP browsing revenue.
(4) Apps. & New business revenue: TV, ICT solutions, on line advertising (e-Commerce, Terra), MBB VAS (mobile content/ application downloaded), other FBB VAS, new growth sources and other digital content service revenue.

02 Transformation will reinforce profitable and sustainable growth

A new operating model



Reinforced by our scale and strategic alliances

- Efficiency ratio ~-4p.p. var. 08-12E
- OpEx[1] per access -6%/-3% CAGR 08-12E

1. One Multiaccess network to enable growth and efficiency
2. IT strategy as a key transformation enabler
3. Evolve towards a complete online company
4. Operational excellence will release resources for growth
5. Commercial efficiency tailored to local market conditions

(1) OpEx considered for this calculation is Revenue-OIBDA.

02 Medium term guidance will lead to a sustainable growth and an even lower risk profile

	2008 Adjusted[2]	CAGR 08-12E[2]
Accesses[1] (millions)	252	>320
Revenues € in millions	57,946	+1%/+4%
OIBDA € in millions	22,602	+2%/+4%
OI € in millions	13,556	+4%/+7%
OpCF € in millions	14,201	+5%/+7.5% Cumulative 09-12E ~€64 Bn
CapEx € in millions		~ € 30 Bn Cumulative 09-12E

> € 40 Bn Cumulative FCF[3] FY 2009-2012E

(1) Morocco Accesses excluded in 2008 for comparison reasons.

(2) 2008 adjusted figures for guidance exclude Sogecable gain (€143 m) and the application of provisions made in T.Europe in respect of potential contingences deriving from the past disposal of shareholding, one these risks has dissipated or had not materialized (€174m), includes 9 months of consolidation of Telemig in T.Latam. Figures for guidance assume 2008 constant FX (average FX in 2008) and exclude changes in consolidation. In terms of guidance calculation OIBDA exclude capital gains and losses from sale of companies and write-offs.

(3) Free Cash Flow available to remunerate Telefónica´s shareholders, to protect solvency levels (financial debt & commitments), and to accommodate strategic flexibility. Figures assuming 2008 constant exchange rates (average exchange rates in 2008) and excluding changes in consolidation.

02 We have clear priorities for 2010

#1 Capturing top line growth prospects

- **Reinvesting efficiency gains to foster revenue expansion**
- **Higher CapEx to support growth in customers & volumes**

	2009 Adjusted(1)	2010 Guidance(1)
Revenue	56,407	**+1%/+4%**
OIBDA	22,344	**+1%/+3%**
CapEx (€ in millions)	7,262	**7,450/7,650**

€2.10 EPS target confirmed

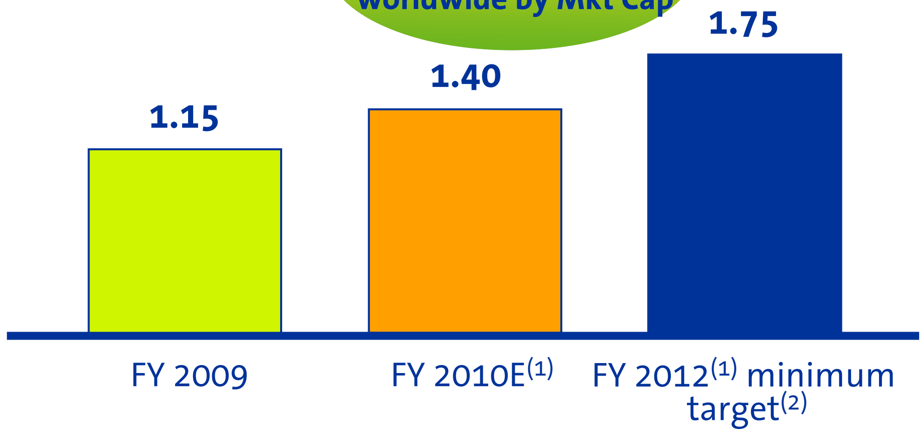
- On the back of the operating guidance provided, further efficiencies in taxes and financial costs and potential assets sales:
  - Interest expenses for 2010 are expected to be around 5.5%-5.75% (<6% guided in October 2009)
  - 2010 accrued tax rate is estimated at 25%-27% (vs. previous guidance of 27%-28%)
  - Continue to analyze value creation opportunities maintaining an active management of our non core asset portfolio

(1) 2009 adjusted figures for guidance exclude Telyco Morocco results in T. España, Medi Telecom capital gain and write-offs. 2010 guidance assumes constant exchange rates as of 2009 (average FX in 2009) and excludes hyperinflationary accounting in Venezuela in both years. It also includes 10 months of consolidation of Hansenet and Jajah in T. Europe. In terms of guidance calculation, OIBDA exclude capital gains and losses from sale of companies and write-offs. Group CapEx also excludes Real Estate Efficiency Program of T. España and spectrum licenses.

We offer sector leading cash returns

#1 on Dividend Yield among top 50 companies worldwide by Mkt Cap

DPS (€)



- **DPS targets reiterated**
- **Dividend is well covered**
- **No dependence on cash repatriation from any particular country in Latin America**

Tactical share buybacks to be considered for FCF excesses

- **0.6% of capital held in treasury**
- **Derivatives on 150 m shares as of 31/12/09**

(1) It is Company´s intention to maintain its current practice so that dividends will be payable in two tranches.
(2) Targeted under current guidance hypothesis.

02 We maintain our selective M&A approach

M&A Priorities

- **Spectrum auctions in current markets to foster growth:**
  - Germany & Mexico in H1 2010
  - Potential awarding process in Spain along 2010
- **In-market consolidation:**
  - Hansenet acquisition closed on February 16th
- **Increase shareholding in China Unicom to 10%**

Index

03 Robust set of financials in 2009

€ in millions	Jan-Dec[1] 2009	Change[1] FY 09/FY 08	Change organic[2] FY 09/FY 08
Revenues	56,731	-2.1%	+0.2%
Operating Income before D&A (OIBDA)	22,603	-1.4%	+0.9%
OIBDA Margin	39.8%	+0.3p.p.	+0.3p.p.
Net income	7,776	+2.4%	
EPS	1,71	+4.5%	
OpCF (OIBDA-CapEx)	15,346	+5.7%	+8.0%

Contribution by regions (FY 09)

% Group	Revenues	OIBDA
T. España	35%	43%
T. Latam	41%	40%
T. Europe	24%	17%

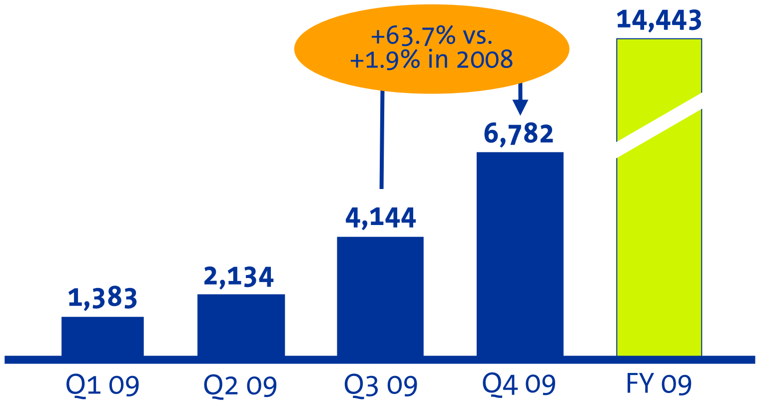
86% of OpCF stemming from Investment Grade countries

Delivering our year-end targets for a 7 years in a row

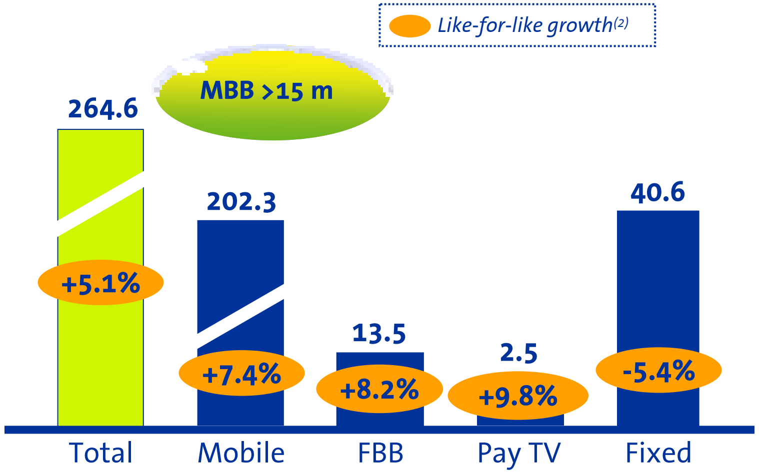
(1) Includes hyperinflationary accounting in Venezuela in 2009.
(2) Organic growth: Assumes constant exchange rates as of 2008 (average fx) and includes the consolidation of Telemig in January-March 2008. Excludes hyperinflationary accounting in Venezuela in 2009. OIBDA and OI figures do not include the impact of capital gains derived from Airwave and Sogecable disposals registered in Q2 08 and Medi Telecom in Q4 09.

03 Strong commercial momentum, setting the base for future growth

Group Total Net adds (1) (´000)



Telefónica Group Accesses (2)
(in millions)

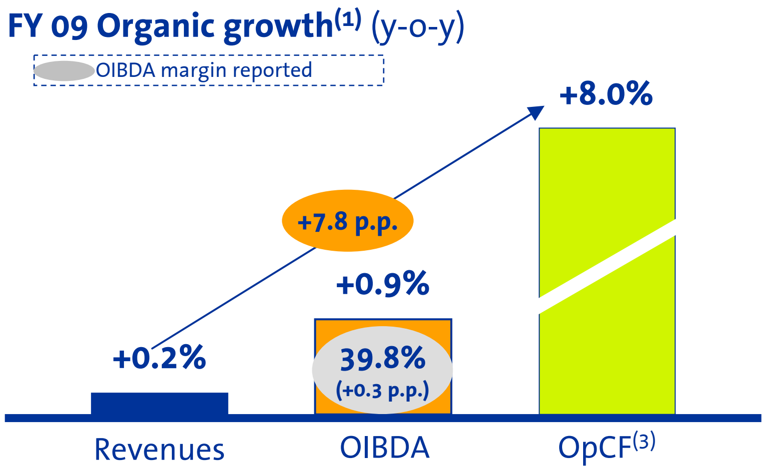


- **Net adds sequential improvement along the year** driven by higher gross adds and churn containment
- **H2 09 net adds more than tripled H1 09's figure**, on the back of mobile net adds
- **MBB accesses gaining traction**: +70.3% y-o-y

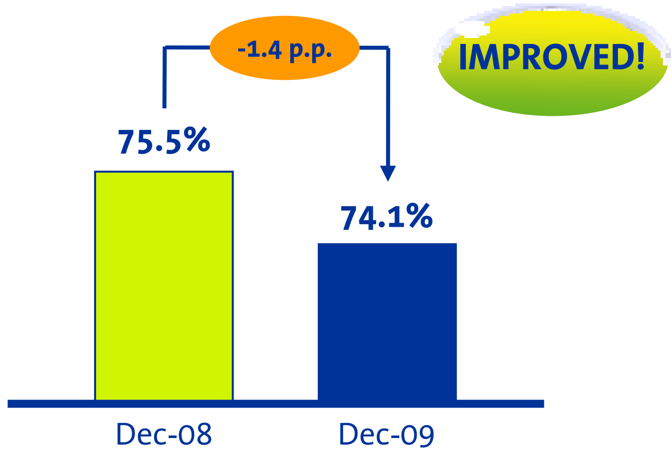
(1) Excludes Medi Telecom customers in 2008 & 2009 and the disconnection of inactive customers.
(2) Excludes Medi Telecom customers in 2008 & 2009.

03 Solid cash generation led by improved profitability

Telefónica Group



Efficiency ratio[2]



Focused CapEx

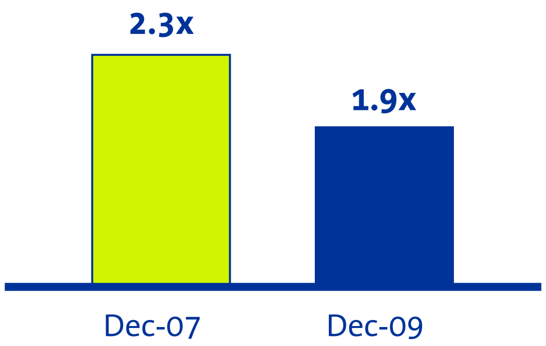
- 78% of total CapEx for growth & transformation
- Continued growth in BB (fixed & mobile) across regions 3G CapEx: +66.0% y-o-y ex-fx
  - 3G coverage: +15 p.p. y-o-y
  - Local loops >25 Mbps; +6 p.p. y-o-y
  - IP network capacity: x2 vs. FY 08

(1) Organic growth: Assumes constant exchange rates as of 2008 (average fx) and includes the consolidation of Telemig in January-March 2008. Excludes hyperinflationary accounting in Venezuela in 2009. OIBDA and OI figures do not include the impact of capital gains derived from Airwave and Sogecable disposals registered in Q2 08 and Medi Telecom in Q4 09.
(2) Defined as last twelve months (OpEx+CapEx- Internal exp. Capitalized in fixed assets)/Revenues. CapEx excludes the acquisition of spectrum and Efficiency Program at T. España.
(3) OpCF: OIBDA-CapEx

03 Strong balance sheet

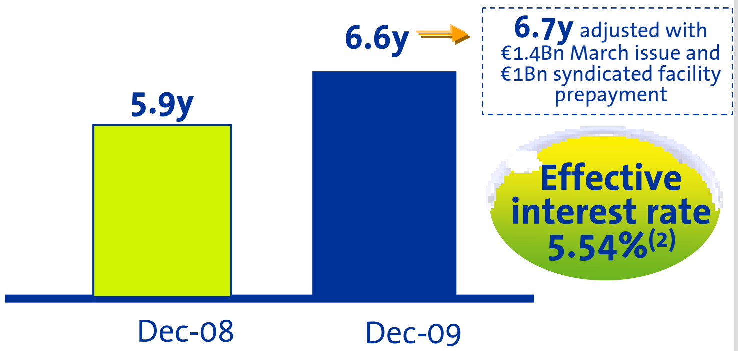
Steady financial profile

Net financial debt/OIBDA

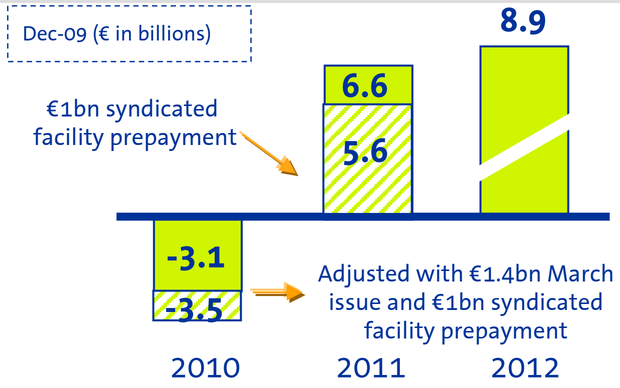


Leverage target, including commitments, kept in the low part of our range (2.1x OIBDA)

Increasing average debt life

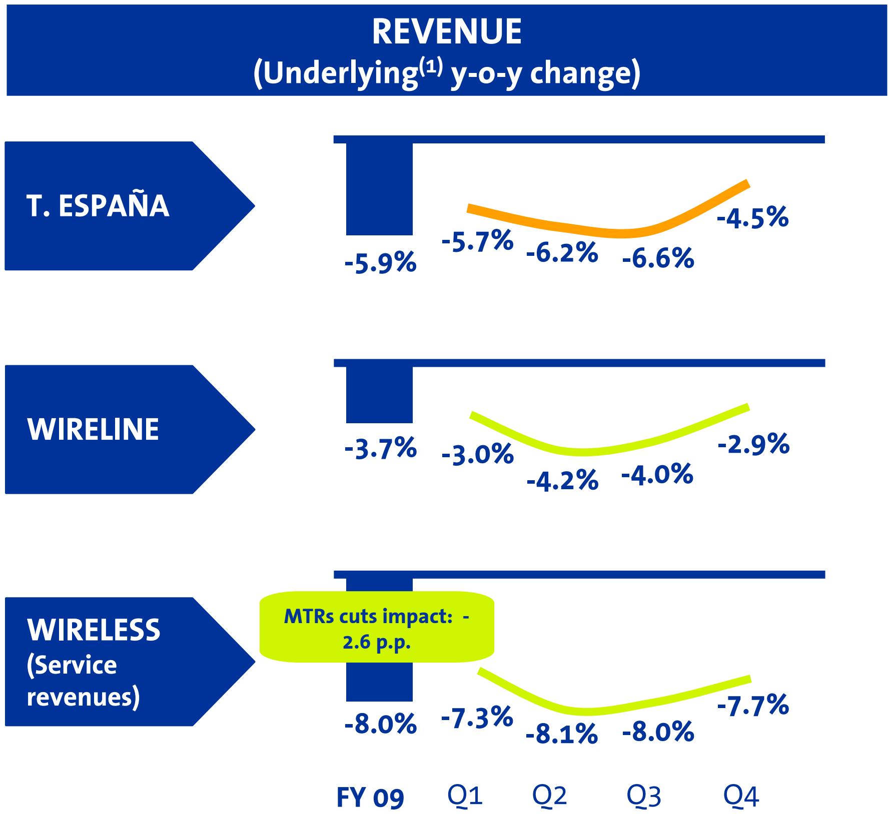


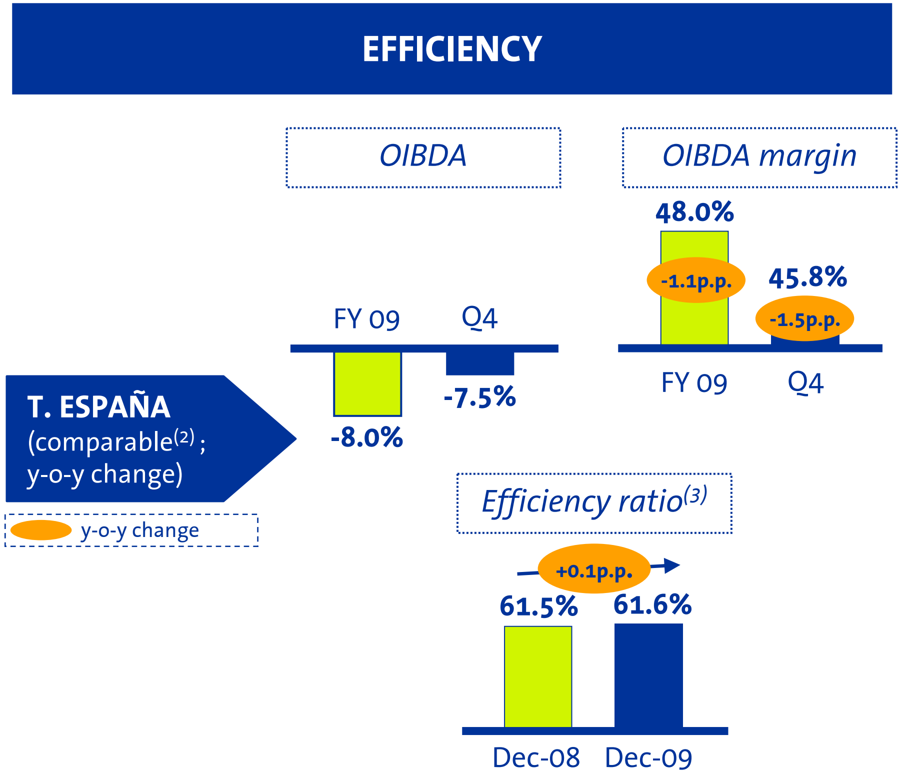
Net financial debt maturity



(1) Calculated based on FY 07 and FY 09 OIBDA figure excluding results on the sale of fixed assets.
(2) Excluding FX effect and the impact of hyperinflation in Venezuela in 2009.
Note: Extension options on €4bn syndicated facility maturing in 2011 have been considered. €2bn moved to 2012 and €2bn to 2013.

03 T. España: Sustained top-line improvement and strong OpCF



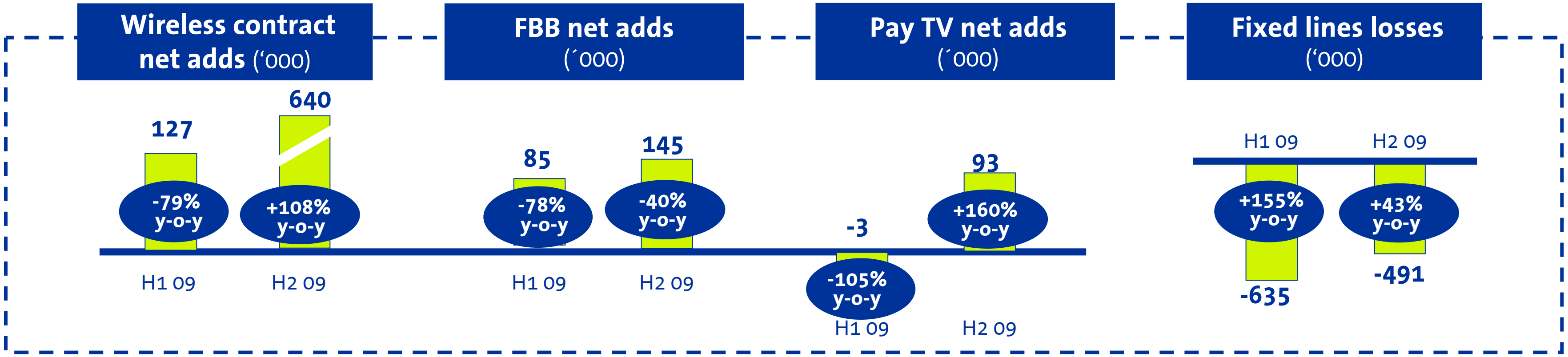


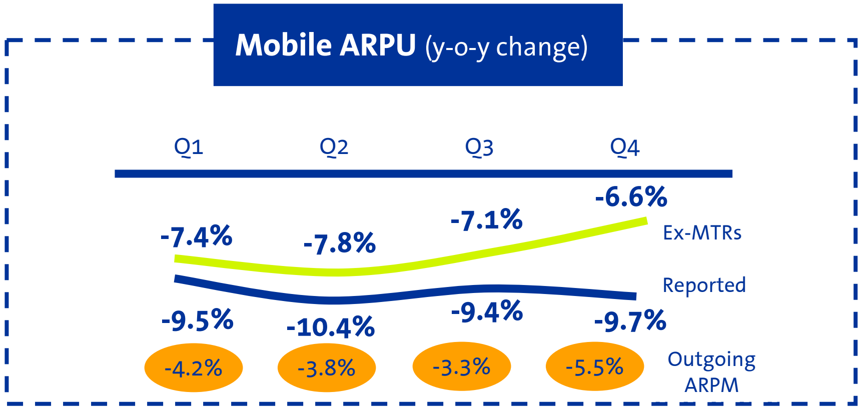
- Revenue trends improving for the second consecutive quarter across businesses
- Maintaining benchmark efficiency ratios
- Delivering a strong OpCF generation

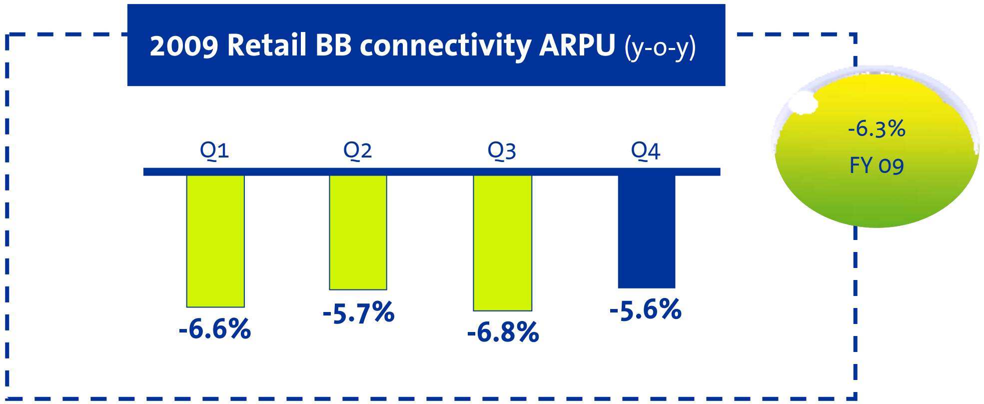
T. España OpCF: € 7,893 m

(1) Excluding USO (Q4 09, Q1 09 and Q3 08), seasonality in Q2 09 and Application Sale in Q3 09.
(2) Excludes impact of USO in Q4 09 on revenues (Wireline: € 148 m) and OIBDA (Wireline: € 91m; and Wireless: € -44 m), in Q1 09 on revenues (Wireline: € 75 m) and OIBDA (Wireline: € 46 m; Wireless: € -24 m) and Q3 08 on revenues (Wireline: € 183 m) and OIBDA (Wireline: € 110 m ;Wireless € -59 m), bad debt recovery in Q1 08 (Wireline: € 17 m; Wireless: € 8 m), Real Estate capital gains (Wireline: € 6 m in FY 09 and € 74 m in FY 08), revision of the estimates for the adjustment to workforce adaptations plans provided for in prior periods, which resulted in lower expenses in Q2 09 (Wireline: € 58 m; Wireless: € 32 m); the sale of applications rights (Wireless: € 48 m on revenues and OIBDA); and capital gains from the disposal of Medi Telecom (Wireless: € 220 m).
(3) Defined as last twelve months (OpEx+CapEx- Internal exp. Capitalized in fixed assets)/Revenues. CapEx excludes the acquisition of spectrum and Efficiency Program.

03 T. España: Intensifying commercial activity, with rational pricing







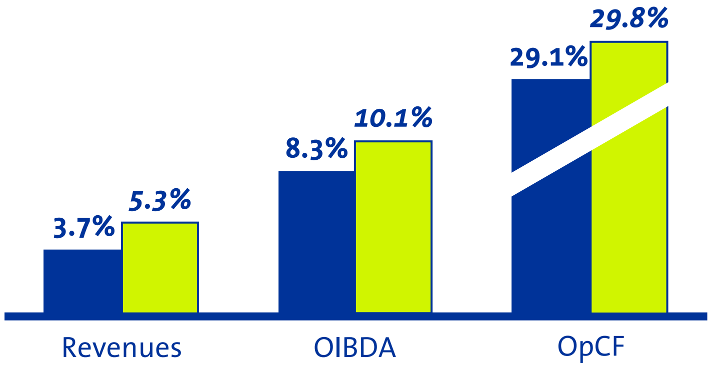
Strong leadership (access & revenues share)

- Increasing the quality of the customer base: 65% on contract
- Improving traffic trends, reflected in better ARPU(1) performance
- Exploiting the MBB opportunity (+52.2% increase in connectivity rev. in FY 09):
  - Market leader in 3G devices: 8.9m 3G devices (+42% y-o-y)
  - 1.9m Wireless data flat rates(2) (>2x vs. Dec-08)

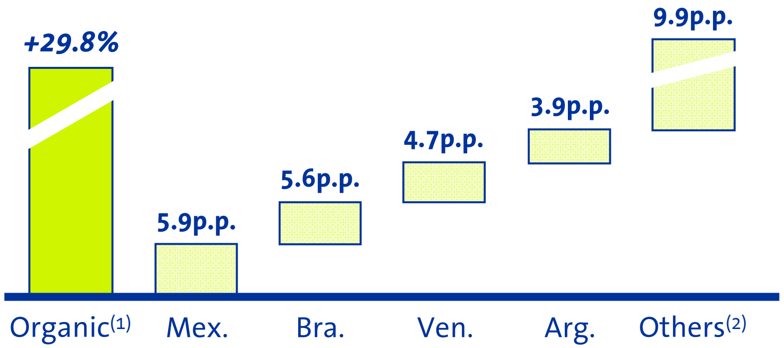
(1) ARPU excluding MTRs.
(2) Monthly flat rates.

03 T.Latam: A story of profitable growth

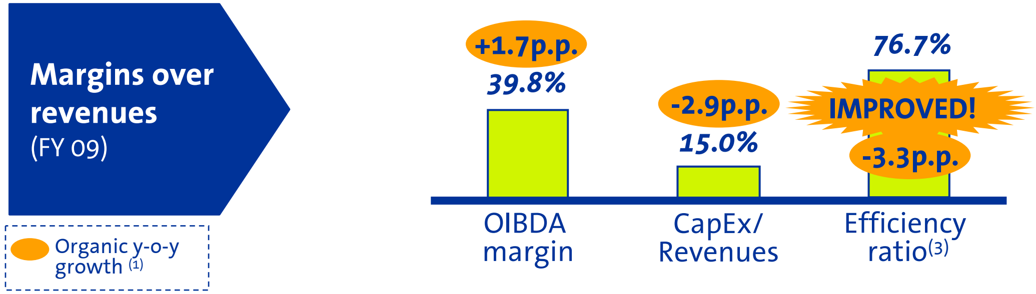
Financial performance (FY 09 y-o-y change)



Diversified OpCF (FY 09 y-o-y change)



Margins over revenues (FY 09)



- **Healthy organic top line growth:**
  - Double digit growth in mobile service on strong customer growth (+9.2% y-o-y) and Internet & Pay TV revenue
- **Enhanced profitability on OpEx and CapEx efficiency and scale economies:**
  - OIBDA margin expansion y-o-y despite intense commercial activity
  - Improvement in efficiency ratio y-o-y, boosting cash flow generation
- **Well diversified portfolio:**
  - Key to face challenges in Brazil (wireline) and Colombia
  - Remarkable growing contribution from our Mexican operations

Δ in 2009:

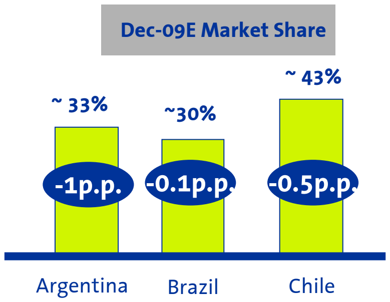
- **10.9m customers(4)**
- **€1.3bn in OpCF**

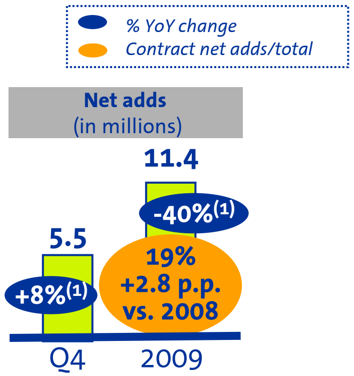
(1) Assuming constant exchange rates, including the consolidation of Telemig in Jan-Mar 2008 and excluding hyperinflation adjustments in Venezuela.
(2) Includes Central America, Colombia, Ecuador, Chile, Peru, Uruguay and Others.
(3) Defined as last twelve months (OpEx+CapEx- Internal exp. Capitalized in fixed assets)/Revenues. CapEx excludes the acquisition of spectrum.
(4) December 2009 includes the disconnection of inactive customers in Colombia, Peru and Guatemala.

T. LatAm: Improving trends in Q4 09 in wireless, while stabilizing revenue in wireline

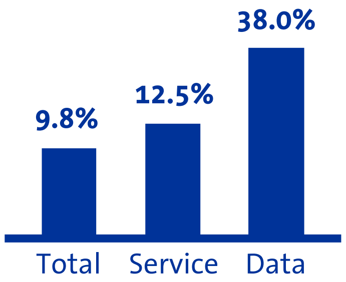
Wireless business

- **Strong commercial momentum and sound leadership:**





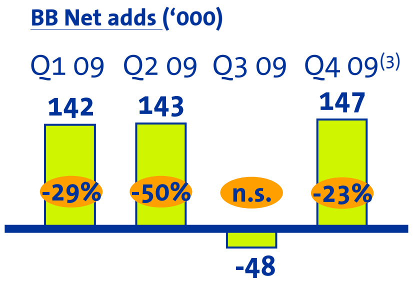
- **Stabilizing ARPU trends (-2.1% in FY 09 vs. -4.3% in Q1 09):**
  - Good usage stimulation: traffic up 13.8% y-o-y in FY 09; +25.1% in Q4 09)
- **2009 Mobile organic[2] revenue growth:**



Robust data revenues on good MBB momentum

Wireline business

- **Recovering BB growth:**



  - BB/fixed lines: +2.5 p.p. y-o-y
- **Significant reduction of line losses:**

- **First signs of traffic stabilization**
- **Progressing in transformation:**
  - 2P&3P/BB: +8.0 p.p. y-o-y
  - Internet & PayTV revenues/total revenues of 21% (+2.4 p.p.)

(1) For comparison purposes, net adds in December 2009 exclude the disconnection 116,000 inactive mobile accesses in Central America. For 2008, it includes Telemig net adds in Q1 08 and excludes the close to 4 million incorporation of Telemig in April 2008.
(2) Assuming constant exchange rates and includes Telemig in Jan-Mar 2008.
(3) For comparison purposes, Q4 09 net adds and growth rates exclude the disconnection of 24,646 inactive broadband accesses in Colombia.
(4) For comparison purposes, Q4 09 net adds and growth rates exclude the disconnection of 375,572 inactive fixed telephony accesses in Colombia.

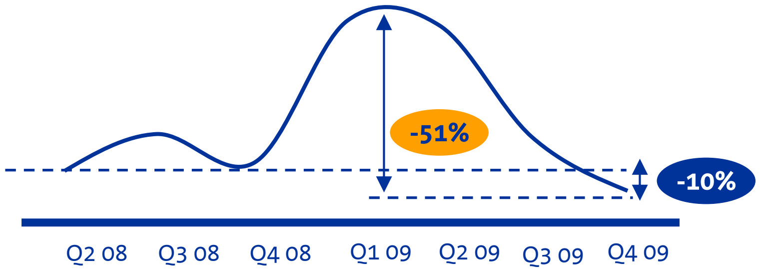
03 Quality improvements in Telesp starting to pay off

	Q1 09	Q2 09	Q3 09	Q4 09
OIBDA margin (%)	*37.6%*	*40.7%*	*37.0%*	*38.0%*

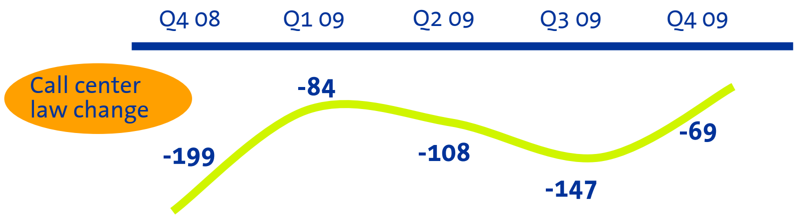
Stabilization

Quality
Anatel claims
(y-o-y evolution)

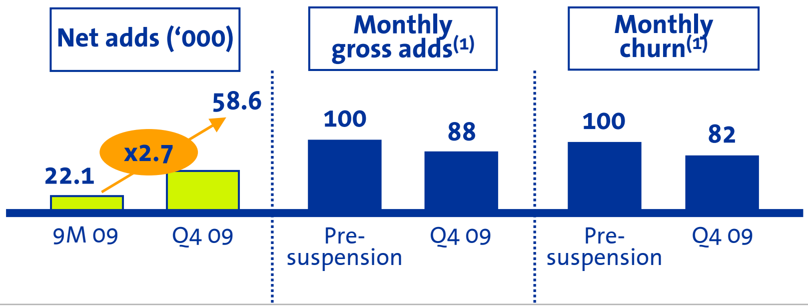
Q4 09 – Q1 09
Q4 09 – Q2 08



Line Losses
(Dec-09; 000)



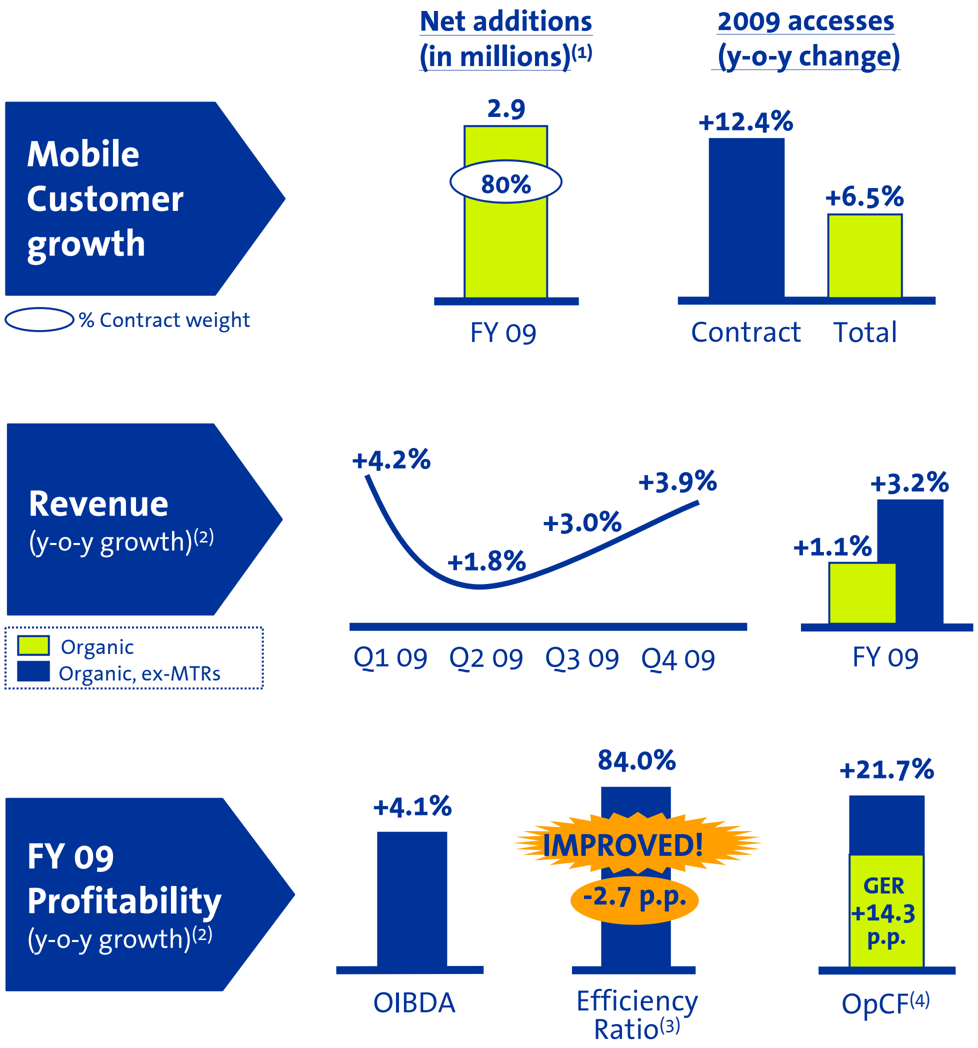
FBB



- **Stabilizing OIBDA margins sequentially:**
  - Despite transformation initiatives & more resources on quality
- **Improving quality standards:**
  - Enhanced processes & customer care
  - Already bearing fruits on the commercial side
- **Better commercial performance:**
  - Q4 09, the best quarter in fixed line losses
  - Better quality adds & higher CSI leads to lower churn
  - Progressive resume of Speedy sales across distribution channels from September
  - Recovery in BB net adds despite limited advertising

(1) Index (%).

03 T. Europe: improving revenue trends and increasing profitability



- **Underlying revenue growth acceleration driven by customer growth and stabilization in ARPU trends:**
  - Gaining market share overall
  - Contract churn: -0.1 p.p. y-o-y in FY 09
  - Focus on value; mobile contract net adds in Q4 09 up 42.8% y-o-y
  - Strong non-P2P SMS revs. in FY 09 (+37.1% y-o-y(2)) on higher smartphone base
- **Improved profitability on increased market momentum:**
  - FY 09 OIBDA margin y-o-y improved 0.8 p.p.(2) to 28.9%
  - Lower retention costs and further reduction in non-commercial costs
  - Positive contribution to cash flow growth from all markets; Germany increasing its share

(1) Net adds are adjusted by inactive prepay customers disconnected from T. O2 Germany's base (Dec-09 450K; Dec-08 >240K).
(2) Organic growth: Assuming constant exchange rates. The impact derived from past assets disposals (€ 174 m in 2008 from Airwave) is also excluded from the calculation at OIBDA level.
(3) Defined as last twelve months (OpEx+CapEx- Internal exp. Capitalized in fixed assets)/Revenues. CapEx excludes the acquisition of spectrum.
(4) OpCF: OIBDA-CapEx.

03 T. Europe: solid foundations to keep outperformance in key markets

UK

- **Customer insight:**
  - Customer experience leadership
  - New revenue streams (O2 Money, O2 More…)
  - Market leading contract churn
  - The home of smartphones
- **Higher efficiencies driving additional growth**
- **Ongoing investments in the network:**
  - Ahead of the learning curve in mobile Internet vs. competition
  - 687 new sites completed as of Dec, 2009; 1,500 planned for 2010

GERMANY

- **High quality network** leading to solid #3 position in MBB
- **Improved distribution**: 215 new shops in 2009
- **New commercial approach and propositions**
- Higher efficiencies and scale, **generating positive cash flow in FY 09**
- **Enhanced integrated approach through the acquisition of Hansenet**
- **Spectrum auction starting in April**

Index

04 Conclusions

- One of the best positioned players to take advantage of the growth industry
- Top quality performance in 2009 in a very challenging environment
- Clear priorities and positive outlook for 2010
- Lower risk investment case supported by recent events in Venezuela (FX)
- Very attractive medium term guidance reiterated
- Sector leading cash return. DPS targets confirmed
- Selective M&A policy maintained

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