Telefónica: Delivering sustainable growth

TELEFÓNICA, S.A.
November 18th-19th, 2009

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01 A growth industry still ahead

Broadband everywhere

FBB[1]

+10%

MBB[2]

+70%

Accesses to support BB

Fixed

+0%

Mobile

+4%

Traffic explosion

Overall IP traffic

Exabytes

+46%

TOTAL CAGR 08-12E
In Telefónica markets[3]

Telco Revenues[3] in
Telefónica´s markets CAGR 08-12E
CAGR 08-12E[4]:
+1%/+3%

(1) FBB: fixed Broadband.
(2) MBB: Mobile Broadband. Growth considers only Big Screen.
(3) Telefónica Mature Markets: Spanish and European markets from Telefónica footprint. CAGR 08-12E number of accesses and traffic.
(4) Telefónica´s market revenue: estimated market evolution in Telefónica footprint (countries&services), including fixed, mobile, MBB, FBB and Pay TV.

01 We will fully capture revenue growth potential

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

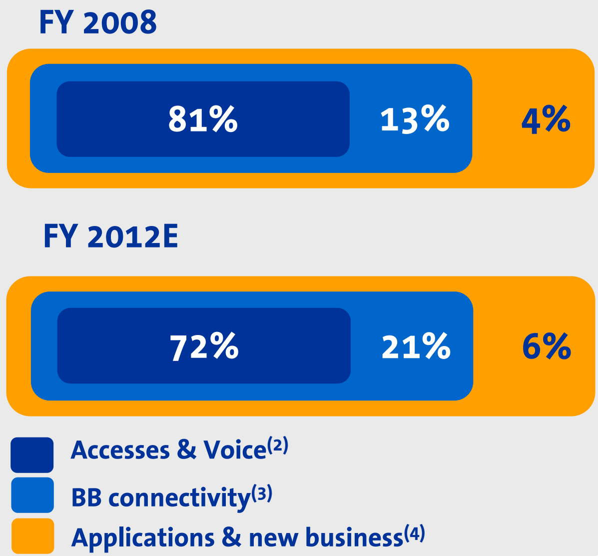
2 Development of applications & new business
- Apps.&New business revenue: +12%/+15% CAGR 08-12E

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

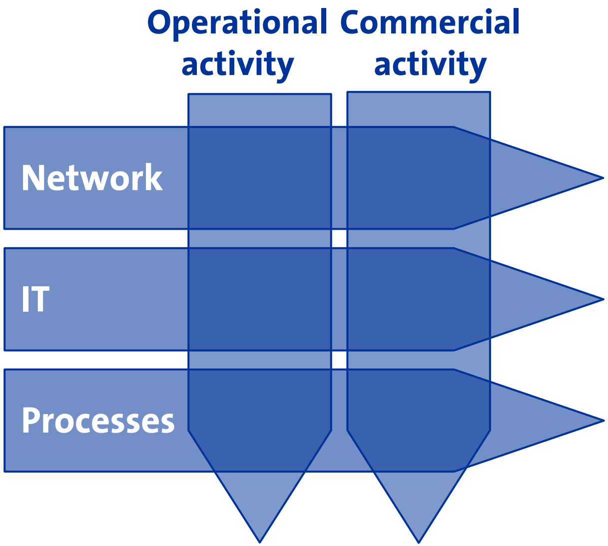
Revenue Mix[1]



(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.

01 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.

01 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

(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.

01 We will continue offering outstanding shareholders' returns

> € 40 Bn Cumulative FCF[1] FY 2009-2012E

Disciplined use of FCF

Growing dividends
- €1.40[2] in FY 2010E (+21.7% y-o-y)
- €1.75[2][3] DPS minimum target for FY 2012E

Stable leverage
- Net debt + Cash commitments/OIBDA in the 2.0-2.5x range

Selective M&A
- Spectrum auctions in current markets to foster growth
- In-market consolidation
- Increase shareholding in China Unicom to 10%

+

Tactical share buybacks to be considered for FCF excesses

Recently announced stake increase in China Unicom already paid with treasury stock

(1) 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.

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

(3) Targeted under current guidance hypothesis.

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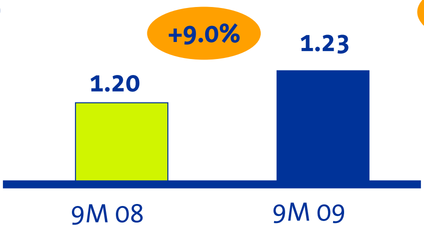
02 A solid set of results in 9M 09

€ in millions	Jan-Sep 2009	Change 9M 09/9M 08	Change organic[1] 9M 09/9M 08
Revenues	41,721	-3.3%	+0.1%
Operating Income before D&A (OIBDA)	16,647	-2.2%	+1.8%
OIBDA Margin	39.9%	+0.4p.p.	+0.7p.p.
Operating Income (OI)	10,024	-2.0%	+2.1%
Net income	5,610	+0.3%	+6.4%
OpCF (OIBDA-CapEx)	12,270	+5.6%	+10.1%

Underlying[2] y-o-y growth

EPS (€)



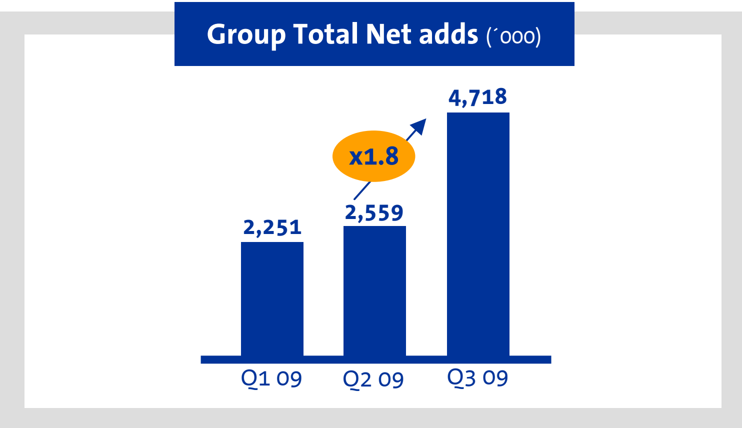
Contribution by regions

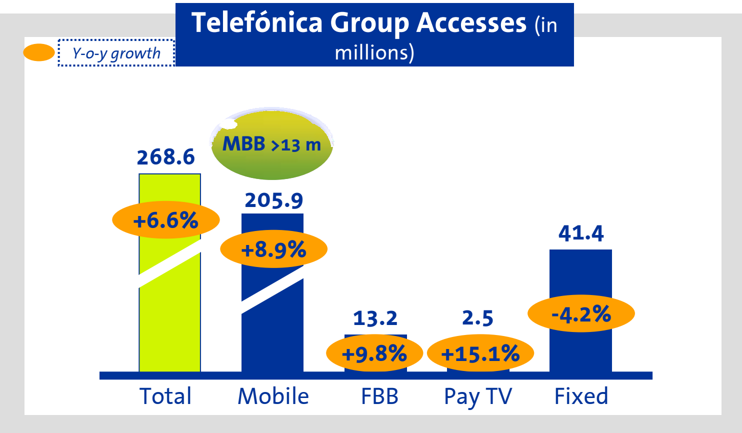
% Group	Revenues 9M 09	OIBDA 9M 09
T. España	35.1%	43.5%
T. Latam	39.8%	39.9%
T. Europe	24.1%	17.3%

- **Negative contribution of forex across the P&L:**
  - Revenues: -3.6p.p. in 9M 09
  - OIBDA: -2.6p.p. in 9M 09
  - OI: -1.6p.p. in 9M 09

(1) Organic growth: Assumes constant exchange rates and includes the consolidation of Telemig in January-March 2008. OIBDA and OI figures do not include the impact of capital gains derived from Airwave and Sogecable disposals registered in Q2 08.
(2) Excludes the impact derived from Airwave and Sogecable disposals registered in 2008.

02 Good commercial momentum, driven by mobile

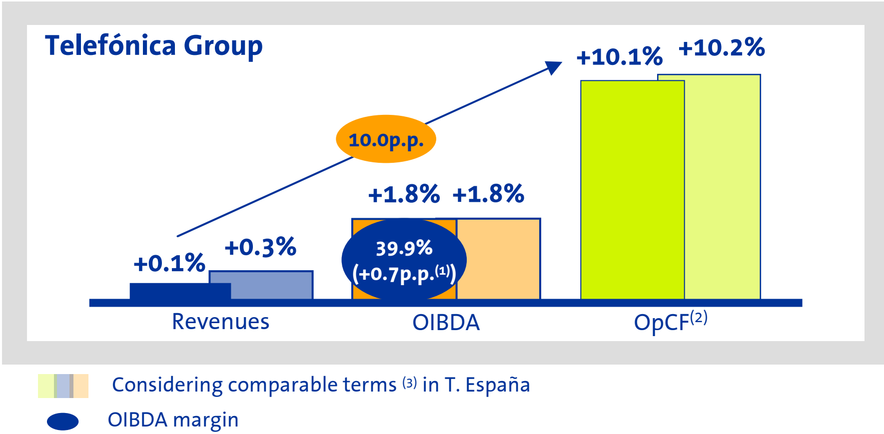




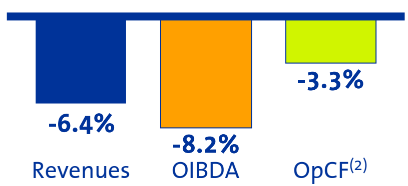
- Strong net adds on higher gross adds and churn contention
- Q3 mobile net adds in line with total customer gain in H1 09
- Robust acceleration in MBB net adds

02 Healthy OpCF across the board, with superior conversion rate of revenues into cash generation

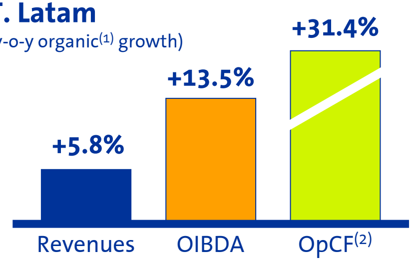
9M 09 Organic growth(1) (y-o-y)



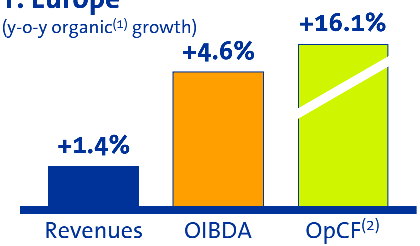
T. España
(y-o-y growth in comparable terms(3))



T. Latam
(y-o-y organic(1) growth)



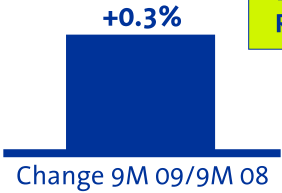
T. Europe
(y-o-y organic(1) growth)



(1) Organic growth: Assumes constant exchange rates and includes the consolidation of Telemig in January-March 2008. OIBDA figure does not include the impact of capital gains registered in the second quarter of 2008 from the sale of Airwave and Sogecable.
(2) OpCF: OIBDA-CapEx.
(3) Excludes impact of USO 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: € 0.5 m in 9M 09 and € 73 m in 9M 08), the revision of the estimates for the adjustment to workforce adaptations plans provided for in prior periods, which resulted in lower expenses in the second quarter of 2009 (Wireline: € 58 m; Wireless: € 32 m) and the sale of application rights (Wireless: € 48 m on revenues and OIBDA).

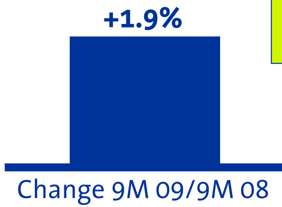
02 On track to meet 2009 guidance

Revenue Growth(1)



2009 GUIDANCE
Revenue growth

OIBDA Growth(1)

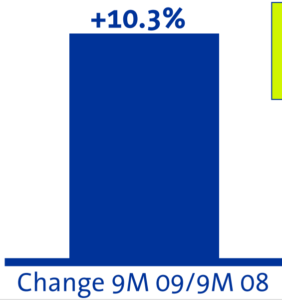


2009 GUIDANCE
+1%/+3%

CapEx(1)

2009 GUIDANCE
< €7,500 m

OpCF(1)



2009 GUIDANCE
+8%/+11%

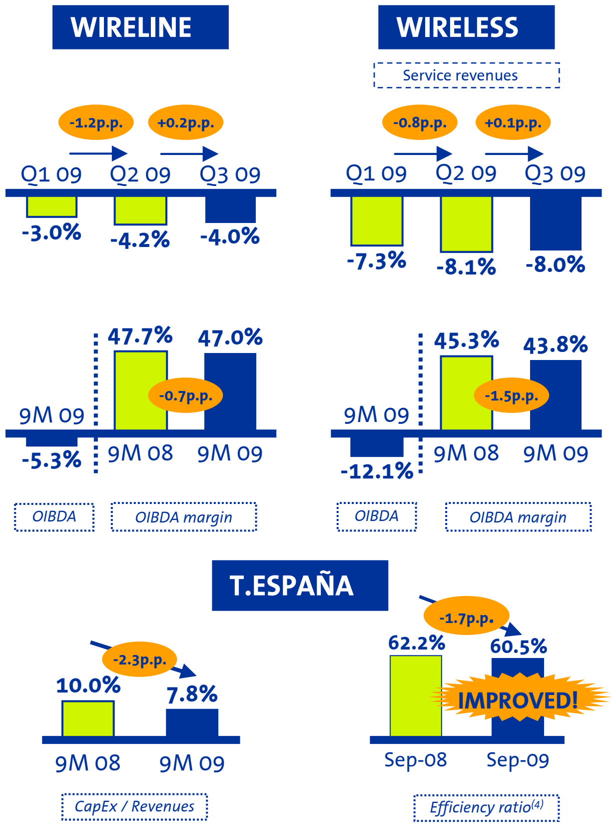
(1) Full year 2008 adjusted figures for guidance exclude Sogecable capital gain (€ 143 m), the application of provisions made in T. Europe in respect of potential contingencies deriving from the past disposal of shareholdings, once these risks had dissipated or had not materialized (€ 174 m) and includes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

02 T. España: enhanced commercial activity while maximizing OpCF

Revenue growth
(Underlying [1] y-o-y change)

OIBDA and OIBDA margin
(comparable [2] y-o-y change)

Margins over revenues;
(comparable[2])



MTRs cuts[3]: -2.4 p.p. in 9M 09

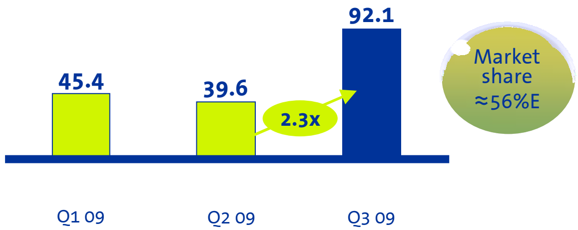
- **Slowdown in revenue decline ...**
- **... while sustaining sound profitability across businesses: 48.7% comparable[2] OIBDA margin ...**
- **... and investing in growth opportunities**

T. España OpCF: € 6,113 m; -3.3%[2] y-o-y

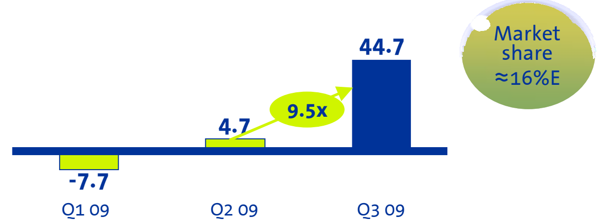
(1) Excluding USO (Q1 09 and Q3 08), seasonality in Q2 09 and Application Sale in Q3 09.
(2) Excludes impact of USO in Q1 09 on revenues (Wireline: € 75 m) and OIBDA (Wireline: € 46 m; Wireless: € -24 m) and Q3 08 on revenues (Wireline: € 183 m) and OIBDA (Wireline: € 110 m ;Wireless € -59 m), bad debt recovery in Q1 08 (Wireline: € 17 m; Wireless: € 8 m), Real Estate capital gains (Wireline: € 0.5 m in 9M 09 and € 73 m in 9M 08), the revision of the estimates for the adjustment to workforce adaptations plans provided for in prior periods, which has resulted in lower expenses in the second quarter of 2009 (Wireline: € 58 m; Wireless: € 32 m) and the sale of applications rights (Wireless: € 48 m on revenues and OIBDA).
(3) MTRs cuts have a negative impact in revenues of 2.4 percentage points in January-September 2009 vs. same period 2008.
(4) 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.

02 T. España: commercial activity improves for second quarter in a row

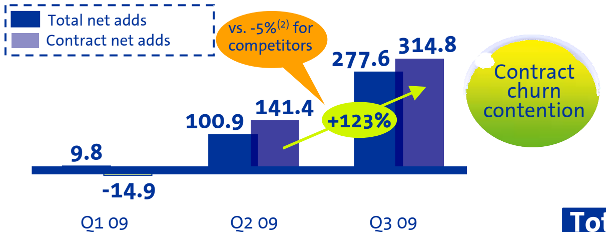
FBB net adds (´000)



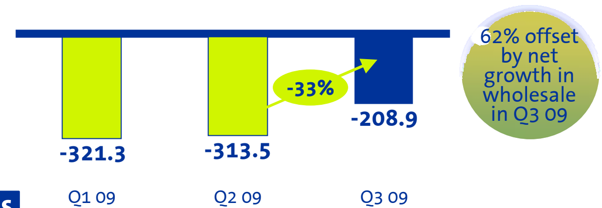
Pay TV net adds (´000)



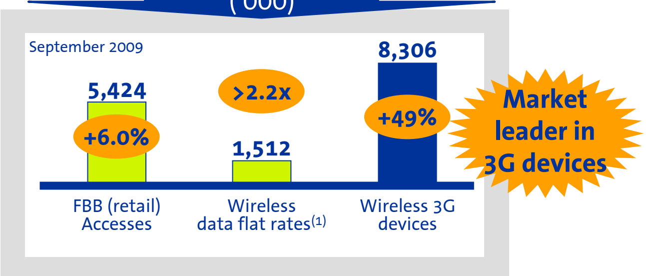
Wireless net adds (´000)

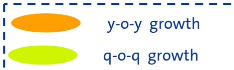


Fixed telephony lines losses



Total BB accesses (‘000)

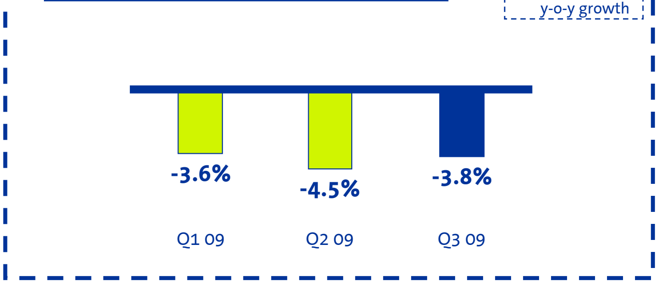




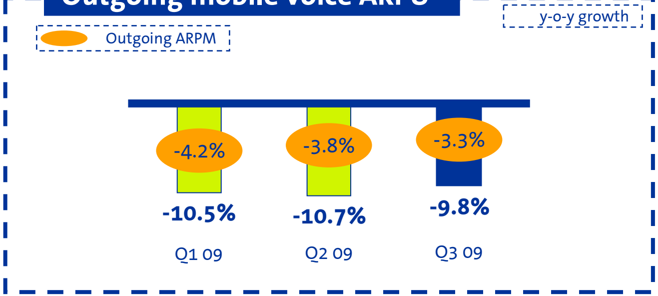
Estimated market shares.
(1) Monthly flat rates.
(2) Q3 09 vs. Q2 09 joint net adds for Vodafone, Orange, Yoigo (companies’ press releases) and MVNOs (Telefónica’s estimates)

02 T. España: stable declines in usage and rational pricing competition

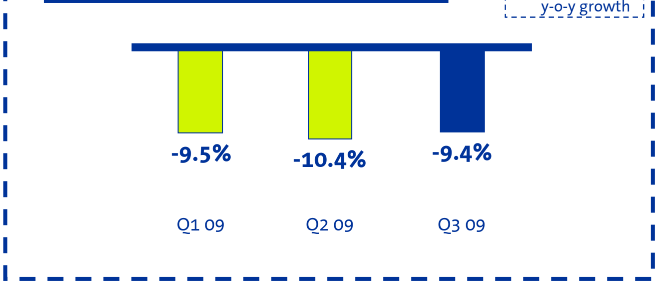
Mobile traffic



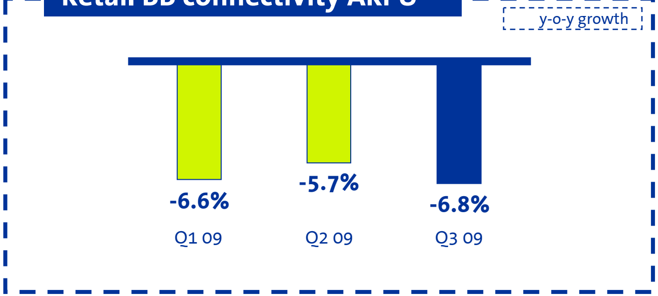
Outgoing mobile voice ARPU



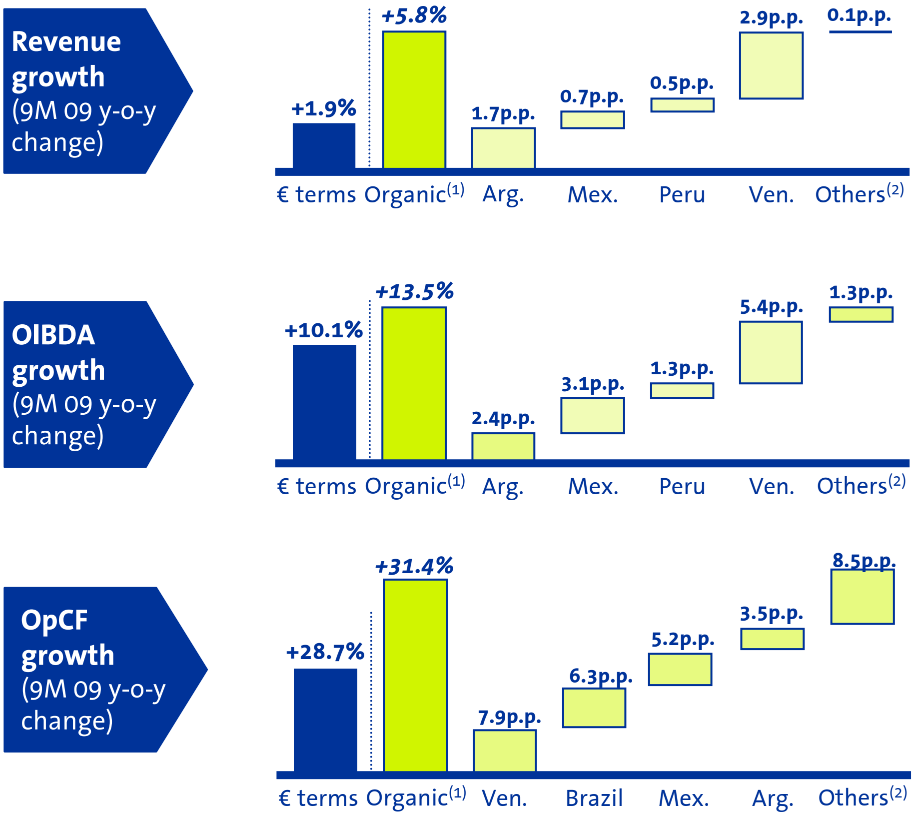
Mobile ARPU



Retail BB connectivity ARPU



02 T.Latam: A story of profitable growth



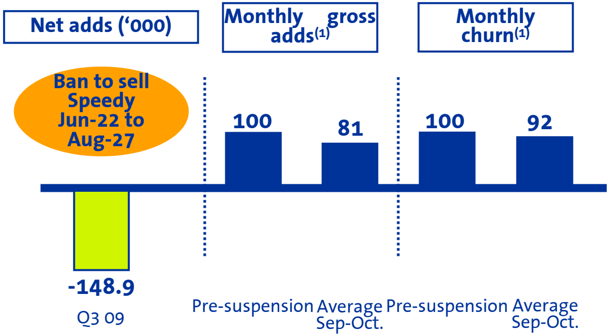
- **Sustained organic top line growth:**
  - Double digit growth in mobile and Internet & Pay TV
- **Increased commercial activity across markets in Q3 09**: total net adds up 2.4x q-o-q
- **Robust OIBDA growth:**
  - OpEx discipline and further synergies, leveraging scale
  - Q3 09 growth similar to H1 09 despite higher net adds
  - +2.7 p.p. margin[1] y-o-y expansion
- **Further improvement in efficiency ratio[3], boosting OpCF**

T. Latam OpCF: € 4,668 m

(1) Assuming constant exchange rates and including the consolidation of Telemig in Jan-Mar2008.
(2) Includes Brazil, Central America, Colombia, Ecuador, Chile, Uruguay and Others.
(3) Defined as last twelve months (OpEx+CapEx- Internal exp. Capitalized in fixed assets)/Revenues. CapEx excludes the acquisition of spectrum.

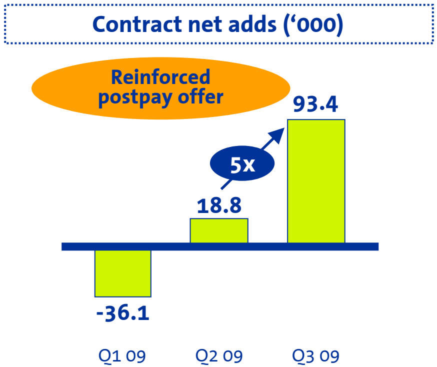
02 T. Latam: initiatives to turn around operations in Telesp and Colombia mobile start to pay off

Telesp FBB



- Progressive resume of Speedy sales across distribution channels from September
- Absence of commercial campaigns until November
- Focus on good quality adds
- Improved quality and customer satisfaction KPIs, leading to lower churn

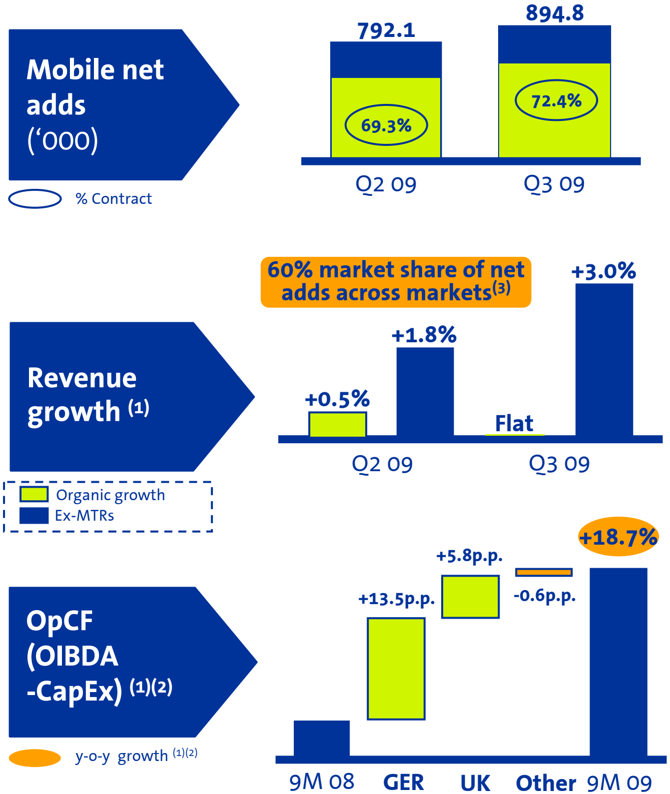
Colombia mobile



- Enhanced quality of gross adds
- Lower churn in Q3 09 (-1.2 p.p. q-o-q and -0.5 p.p. y-o-y)
- Improved ARPU performance: +6.2% q-o-q in local currency, on the back of solid data revenue growth (+39.7% y-o-y in Q3 09)
- Continued OIBDA margin expansion: +1.6 p.p. y-o-y to 25.6% in 9M 09

(1) Index (%)

02 T. Europe: consistent approach showing a distinctive performance in key markets



- **Customer growth drives revenue outperformance in key markets**
  - Commercial activity ramped up in Q3 09
  - Churn reduction in key segments & geographies (-0.2 p.p. to 1.4% y-o-y contract churn in Q3 09)
  - Sustained traction in the contract segment
  - Mobile Internet driving non-P2P SMS organic[1] revenue growth: +36.8% y-o-y in 9M 09

- **Continued OpCF growth leveraging efficiencies and increased contribution from Germany**
  - Further decrease in non-commercial costs, compensating higher commercial activity
  - +0.9 p.p. OIBDA margin expansion[1] to 28.6% in 9M 09
  - +6.0% y-o-y OIBDA ex restructuring costs in 9M 09[2]
  - Seasonal CapEx increase of 12.0%[1] q-o-q on increased commercial activity

(1) Organic growth: Assuming constant exchange rates. The impact derived from past assets disposals (€ 113 m in 2008 from Airwave) is also excluded from the calculation.
(2) Excluding restructuring costs of 42 million euros in the January-September 2009 period.
(3) Market share of mobile net additions in the 12 month period from Sep-08 in UK, Germany, Ireland and Czech Republic (does not include Slovakia). Source: Company reports and internal estimates.

02 T. Europe: Hansenet transaction perfectly completes our strategy towards the integrated play

Attractiveness of the ADSL German market

- **Largest ADSL market in Europe with significant growth potential**
  - 21.8 m ADSL accesses in 2008, +5.6% CAGR 08-12E, +14 p.p. penetration in 4 years(1)
- **Rising number of integrated households in Germany, an untapped opportunity**
  - Increase revenue/household through bundling & churn reduction

Hansenet: the best fit for T. O2 Germany

- **#4 player in BB market and strong network, successful partnering with TEF**
  - 2.3 m BB customers (Jun-09), 28% households own coverage, high market share in key cities
- **Leading brand, quadruple player and strong success story in fixed-mobile bundling**
  - 25% of Alice households also contracted Alice mobile (on O2 network)

Benefits of the proposed transaction

- **T. O2 Germany to become #3 player in the German telco market**
  - € ~5 Bn annual revenue, ~2.6 m retail BB accesses, over 15m mobile customers(2)
- **Significant synergies potential – limited overlap with T. O2 Germany**
  - Commercial: Product up-selling – cross-selling & direct channel expansion
  - Further review of current operating model towards common platforms

(1) Source: BoA-ML "European Telecoms Matrix Q3 2009", Sep -09. Penetration measured over households.
(2) Source: Telecom Italia and Telefónica quarterly releases as of September 2009.

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03 Conclusions

- We are one of the **best positioned** players to take advantage of this **growth industry**
- We have the right **growth strategy**
- We consistently **deliver on our commitments thus we are a lower risk investment case**
- We will continue to be a Company **focused on enhancing shareholders' returns**
- We have a **strong diversification & solid execution across business**

Telefónica