TELEFÓNICA: “Leveraging our fundamentals to deliver benchmark results”

SANTIAGO FERNÁNDEZ VALBUENA
TELEFÓNICA, S.A., CFO
November 20th, 2008
Disclaimer

This document contains statements that constitute forward looking statements in its general meaning and within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and other important factors that could cause actual developments or results to differ materially from those expressed in our forward looking statements.

Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica’s business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company's Annual Report as well as periodic filings filed with the relevant Securities Markets Regulators, and in particular with the Spanish Market Regulator.

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

<table>
<thead>
<tr>
<th>€ in millions</th>
<th>Jan-Sep 2008</th>
<th>Change 9M 08/9M 07</th>
<th>Change organic(1) 9M 08/9M 07</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td>43,141</td>
<td>+2.7%</td>
<td>+7.0%</td>
</tr>
<tr>
<td><strong>OIBDA</strong></td>
<td>17,026</td>
<td>-6.7%</td>
<td>+9.8%</td>
</tr>
<tr>
<td><strong>OIBDA Margin</strong></td>
<td>39.5%</td>
<td>-4.0 p.p.</td>
<td>+1.0 p.p.</td>
</tr>
<tr>
<td><strong>OI</strong></td>
<td>10,223</td>
<td>-9.2%</td>
<td>+18.0%</td>
</tr>
<tr>
<td><strong>OpCF</strong></td>
<td>11,621</td>
<td>-12.1%</td>
<td>+10.1%</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>5,596</td>
<td>-28.7%</td>
<td>+23.5%</td>
</tr>
<tr>
<td><strong>EPS</strong></td>
<td>1.2€</td>
<td>-27.0%</td>
<td>+26.4%</td>
</tr>
</tbody>
</table>

- **Superior combination of growth and strong CF generation:**
  - Diversified portfolio
  - Strong 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-September 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 (-106.1 million euros) is included. In OIBDA and OI, the impact of sales of assets (Airwave, Endemol and Sogecable) in both periods is excluded.

(2) Excluding the impacts from asset disposals (Airwave, Endemol and Sogecable).
Capitalising on our highly diversified portfolio

9M 08 Revenue

<table>
<thead>
<tr>
<th>Region</th>
<th>Revenue (€ millions)</th>
<th>y-o-y Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>T. España</td>
<td>47.2</td>
<td>+3.3%</td>
</tr>
<tr>
<td>T. Europe</td>
<td>44.9</td>
<td>+9.9%</td>
</tr>
<tr>
<td>T. Latam</td>
<td>153.1</td>
<td>+21.1%</td>
</tr>
<tr>
<td>Total</td>
<td>252.0</td>
<td>+15.2%</td>
</tr>
</tbody>
</table>

9M 08 OIBDA

<table>
<thead>
<tr>
<th>Region</th>
<th>OIBDA (€ millions)</th>
<th>y-o-y Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>T. España</td>
<td>188.9</td>
<td>+19.0%</td>
</tr>
<tr>
<td>T. Europe</td>
<td>12.0</td>
<td>+24.5%</td>
</tr>
<tr>
<td>T. Latam</td>
<td>2.2</td>
<td>+54.0%</td>
</tr>
<tr>
<td>Fixed</td>
<td>43.2</td>
<td>-0.6%</td>
</tr>
</tbody>
</table>


(2) Assuming constant exchange rates as of 9M 07 and including the consolidation of TV A in January-September 2007 and Telemig in April-September 2007. It excludes the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007 and the impact coming from assets disposals (Airwave, Endemol and Sogecable) in both periods.)
Solid conversion rate of top line growth into cash-flow

9M 08 Organic\(^{(1)}\) growth (y-o-y)

Telefónica España

- Revenues: +2.3%
- OIBDA: +6.4%
- OpCF: +8.4%

Telefónica Latinoamérica

- Revenues: +12.9%
- OIBDA: +15.6%
- OpCF: +9.6%

Telefónica Europe

- Revenues: +5.9%
- OIBDA: +8.7%
- OpCF: +16.0%

Telefónica Group

- Revenues: +7.0%
- OIBDA: +9.8%
- OpCF: +10.1%

\(^{(1)}\) Assuming constant exchange rates and including the consolidation of TVA in January-September 2007 and Telemig in April-September 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 (€ -106.1 m) is included. In OIBDA, the impact of sales of assets (Airwave, Endemol and Sogecable) in both periods is excluded.
Financial strength

- **Net Financial Debt/OIBDA**
  - Dec -06\(^1\): 2.7x
  - Dec -07\(^2\): 2.3x
  - Sep-08\(^3\): 1.9x

- **Sep-08 Net Financial Debt Maturity** (€ in billions)
  - 2008: -2.8
  - 2009: 4.1
  - 2010: 5.9

- **Sep-08 debt distribution by currency** (€ in billions)
  - EUR: 63%
  - LATAM: 14%
  - USD: 4%
  - CZK: 8%
  - GBP: 11%

---

**Leverage target\(^3,4\): 2.05x OIBDA**

- **Continuing leverage improvement:**
  - €42.9 bn of net fin. debt in Sep-08
  - 6.06% effective interest rate in 9M 08
  - Average debt life around 6 years, longer than time needed for full repayment

- **Next 12 months payment obligations already covered:**
  - Liquid assets, cash flow generation and unused committed credit facilities
  - Negative net debt maturities for remaining 2008

- **Sep-08 debt distribution:** 39% variable; 37% fixed and 24% bounded

- **Active hedge policy to manage FX fluctuations risk**

---

2. Calculated based on 2007 OIBDA excluding results on the sale of fixed assets.
3. Calculated based on 9M 08 OIBDA figure annualized excluding results on the sale of fixed assets.
4. Total Debt + Commitments/OIBDA
Fully on track to fulfill 2008 guidance ...

**Revenue Growth**

- % Change 9M 08/9M 07:
  - **+7.4%**
  - **GUIDANCE 6%/8%**

**OIBDA Growth**

- % Change 9M 08/9M 07:
  - **+7.8%**
  - **GUIDANCE 7.5%/11%**

**O1 Growth**

- % Change 9M 08/9M 07:
  - **+14.2%**
  - **GUIDANCE 13%/19%**

**CapEx**

- 9M 08:
  - **€ 5,497 m**
  - **GUIDANCE ~ € 8,600 m**

---

**Notes:**

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 include 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.
... as well as 2010 targets

<table>
<thead>
<tr>
<th>Year</th>
<th>EPS ¹</th>
<th>FCFS ²</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1.304 €</td>
<td>1.87 €</td>
</tr>
<tr>
<td>2010E</td>
<td>2.304 €</td>
<td>2.87 €</td>
</tr>
</tbody>
</table>

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

(*) Base 2006 reported numbers include eleven months of O2 Group (consolidated since February 2006), eight months of Telefónica Telecom (consolidated since May 2006), six months of Iberbanda (consolidated since July 2006) and three months of start-up losses in Slovakia. In terms of guidance calculation, Endemol and Airwave results are excluded from the base 2006. OIBDA and OI exclude other exceptional revenues/expenses not foreseeable in 2007E-2010E. For comparison purposes the equivalent other exceptional revenues/expenses registered in 2006 are also deducted from reported figures. CapEx excludes investments related to Real State Efficiency Plan. CAGR 06-10E guidance assumes constant exchange rates as of 2006. All figures exclude changes in consolidation, other than Telemig acquisition (50% through TEF stake in Vivo), TVA and Deltax (Czech Republic).
Exploiting levers to preserve CF generation in a more difficult economic environment

- 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

Top line

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

OpEx & CapEx

Group CapEx (9M 08)
- Recurrent 25%
- Growth 75%

Group OpEx (9M 08)
- Variable ~50%

Notes:
(1) Transformation and growth projects.
(2) Interconnection and commercial costs (subsidies, commissions and advertising).
Telefónica España: Differential profile in the Spanish market

- A more defensive player in a slowdown scenario
- Leveraging our integrated business model

Revenue growth (9M 08 y-o-y change)

- T. ESPAÑA: +2.3%
- Energy & Water *: +2.1%
- Business Services *: +0.9%
- Industry *: -7.4%
- Retailers, Travel&Leis. *: -7.8%
- Construction *: -10.0%

(1) Including PUT effect
* Major corporate sales (Source: Agencia Tributaria, Ministerio de Economía y Hacienda España). Real growth rates: Jan-Sep 2008 vs. Jan-Sep 2007
Main trends in Spain

**Telefonica S.A. Investor Relations**

**HARD DATA FOR THE MARKET**

- **Telecom expenditure** in our market only represents 3%¹ of the total family expenses
- **Industry’s performance is more dependent on the evolution of households** than on new houses
- **Slower growth across businesses** from September 2007

**HARD DATA FOR TELEFONICA ESPAÑA**

- **Differentiated profile, leveraging leading position in high value segments & integrated approach**
- **Stable churn in mobile, BB and TV**
- **Bad debt under 1% of revenues in 9M 08**
- **Sustained** wireline BB ARPU performance: -3.4% vs. 9M 07 to 43.8€
- **Strong wireless data ARPU, with the highest connectivity revenues quarterly growth since Q4 07: +71.3% in Q3 08**
- **60% of wireline revenues are fixed**
- **>45% of OpEx are variable**
- **Strong margins, 50% 9M 08, with further Opex/CapEx synergies to be captured through integration**

¹ Family Budget Survey, INE 2006.
Sustained leadership in Spain, capitalizing our integrated approach

**T.España wireline retail broadband accesses (000's)**
- **Accesses (Sep-08):** 5,117
- **Net adds (9M 08):** 502.9

**T.España wireless customers (000's)**
- **Total (Sep-08):** 23,436
- **Contract Net adds (9M 08):** 812.7

**Fixed lines in domestic markets (Sep-08/Sep-07)**
- **TEF:** -2.2%
- **FT:** -5.7%
- **BT:** -6.6%
- **DT:** -7.4%
- **TI:** -9.2%
- **KPN:** -14.6%

**Strengthening position leveraging our best in class offering:**
- Best perceived BB provider by AI (Oct-2008)[1]
- Over 84% of retail BB accesses with 2P & 3P

**Strong focus in the value segment:**
- +4.5% y-o-y in wireless customers; +9.0% in contract to 61.7% of customer base
- Stable blended churn rate at 1.8% & contract churn at 1.1% (market avgs. 2.0% and 1.3%)
- ~688k new 3G devices in Q3 08 to 5.6 m

**Line losses driven mainly by naked shared ULL and increased competitors' activity:**
- +1.6%E y-o-y fixed line market growth

---

Note: m.s. = market share.
Capturing the growth opportunities in Latin America

Growth levers
- Further penetration increase
- Voice usage upside
- Data potential
- Accesses expansion
- Traffic bundles
- ARPU expansion

Delivering strong results
- +13 p.p. y-o-y to 78% in Sep-08
- Outgoing MoU: +18.6% vs. 9M 07
- Data revenue: +39.3% vs. 9M 07 ex-fx
- BB: +24.9%; TV: +66%; fixed: +1.4% y-o-y
- 59% bundled lines + control in Sep-08; +8 p.p. vs. Sep-07
- Average revenue per line expansion: +5.5% vs. 9M 07 ex-fx

T. Latam organic(1) revenue growth
- H1 08: 12.2%
- 9M 08: 12.9%

T. Latam OIBDA margin
- 9M 07: 36.2%
- H1 08: 36.4%
- 9M 08: 37.0%

Stabilization of wireline(2) margins vs. H1 08 at 39.0%
- +3.5 p.p. y-o-y advance in 9M 08 wireless(3) margins to 32.4%

---

(1) Assuming constant exchange rates and including the consolidation of TVA in Jan-Jun/Jan-Sep 2007 and Telemig in Apr-Jun/Apr-Sep 2007 respectively.
(2) Aggregated wireline margin over revenues includes fixed to mobile interconnection in Argentina.
(3) Aggregated margin.
Solid performance across main operations in Latin America

**Telesp**  
**y-o-y growth**  
Revenues (in local currency)  
- **9M 08**: +12.8%  
- **Q3 08**: +7.4%  
- **H1 08**: +4.7%

**OIBDA Margin**  
- **9M 08**: 40.7%  
- **Q3 08**: 40.2%  
- **H1 08**: 40.6%

- (1) Including Telemig in Sep 2007.
- (2) Includes Telemig in April-Sep 2007.
- (3) Margin over revenues include fixed to mobile interconnection.

**TASA**  
**y-o-y growth**  
Revenues (in local currency)  
- **9M 08**: +18.9%  
- **Q3 08**: +13.8%  
- **H1 08**: +11.3%

**OIBDA Margin** (3)  
- **9M 08**: 34.7%  
- **Q3 08**: 34.9%  
- **H1 08**: 34.7%

- (1) Including Telemig in Sep 2007.
- (2) Includes Telemig in April-Sep 2007.
- (3) Margin over revenues include fixed to mobile interconnection.

**Vivo**  
9M 08 y-o-y growth (in local currency)  
- **Customers**: +21.0%  
- **Outgoing Ss. Revenue**: +14.9%  
- **OIBDA**: +21.9%  
- **OIBDA Mg**: +28.0%

- (1) Including Telemig in Sep 2007.
- (2) Includes Telemig in April-Sep 2007.
- (3) Margin over revenues include fixed to mobile interconnection.

**T. México**  
9M 08 y-o-y growth (in local currency)  
- **Customers**: +32.5%  
- **Outgoing Ss. revenue**: +44.2%  
- **OIBDA**: 19.4%  
- **OIBDA Mg**: 31.5%  
- **OpCF**: €126 m  
- **Outgoing Ss. revenue x2.7**

- (1) Including Telemig in Sep 2007.
- (2) Includes Telemig in April-Sep 2007.
- (3) Margin over revenues include fixed to mobile interconnection.

**Ex-charges from technical problems in July 2008**
Outperforming the market & maintaining profitability in the UK

- Highest ever quarterly contract net adds in Q3 08
- Market leading contract churn: 1.3% (-0.4 p.p. y-o-y)
- More targeted offer in a market “polarising”:

- Strong performance in SMEs driven by new sales structure
- Mobile BB proposition re-freshed & best value combined DSL-MBB offer in the market

* Competitors: Vodafone, Orange, T-Mobile UK, some quarterly financial figures are estimated
Continued customer growth & profitability in Germany

- Continued mobile customer growth (+14.9% y-o-y) leveraged on enhanced value mix and partnerships:
  - 49.2% of base in contract
  - Good traction with mobile BB “Surfstick”
  - Improved mix on O2 branded contract gross adds
  - Partners\(^{(1)}\) added 681k customers in 9M 08

- Market mobile service revenues still shrinking:
  - O2 Germany revenue: +2.0% 9M 08
  - Accelerated migrations to better value tariffs
  - Best value flat rate launched – SIM only, 6 months contract @ €15/month

- Sequential OIBDA growth throughout Jan-Sep period:
  - Benefits from restructuring 2007 and higher usage of own infrastructure
  - Positive OIBDA contribution from wholesale ULL

- Enhanced network coverage

---

\(^{(1)}\) Partners: Hansenet, Tchibo, Fonic.  
\(^{(2)}\) Reported figures: T-Mobile, Vodafone, E-Plus, T. O2 Germany
Disciplined use of FCF with clear priorities

> € 40 bn
Cumulative FCF 07E-10E\(^1\)

\(~ 44\%\(^{(2)}\) of current market cap to be generated in the next 3 years\)

**SHAREHOLDER REMUNERATION**

<table>
<thead>
<tr>
<th>Year</th>
<th>DPS (in €)</th>
<th>SBB</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>0.6</td>
<td>100 m(^5)</td>
</tr>
<tr>
<td>2007</td>
<td>0.75</td>
<td>100 m(^5)</td>
</tr>
<tr>
<td>2008</td>
<td>1.0</td>
<td>150 m(^5)</td>
</tr>
</tbody>
</table>

- **Growing pace in DPS in the future**
- **Initial 2008 share buyback expanded by 50%**

**DELEVERAGE**

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

**SELECTIVE M&A**

To foster growth in current markets: Brazil, Mexico & China

---

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 TEF market cap of 14th November, 2008.
3. Paid in H2 07 (0.35€) and 0.4€ to be paid in H1 08.
4. Fiscal year 2008, paid in H2 08 (0.5€) and H1 09.
5. Shares.
In summary

**Benchmark results in the telecoms industry**

**Strong performance in 9M 08**

- On track to fulfill our commitments
- Leveraging a strategically diversified portfolio and strong competitive position in most markets

**Very attractive investment case**

- Unmatched organic growth ahead of peers
- High FCF yield
- Strong growth prospects
- Solid financial position