

TELEFONICA: “Leveraging our fundamentals to deliver benchmark results”

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November 20th, 2008



TELEFONICA S.A.

Telefonica

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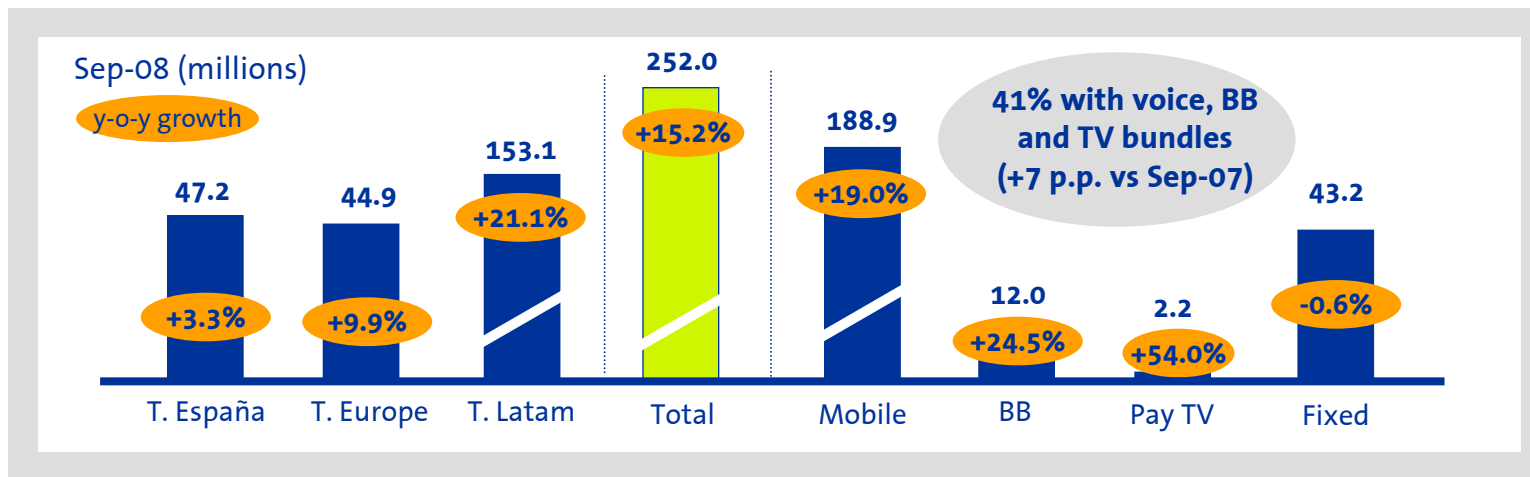
Continuing to deliver benchmark results in our industry

€ in millions	Jan-Sep 2008	Change 9M 08/9M 07	Change organic ⁽¹⁾ 9M 08/9M 07
Revenues	43,141	+2.7%	+7.0%
OIBDA	17,026	-6.7%	+9.8%
OIBDA Margin	39.5%	-4.0 p.p.	+1.0 p.p.
OI	10,223	-9.2%	+18.0%
OpCF	11,621	-12.1%	+10.1%
			Change ⁽²⁾ 9M 08/9M 07
Net income	5,596	-28.7%	+23.5%
EPS	1.2€	-27.0%	+26.4%

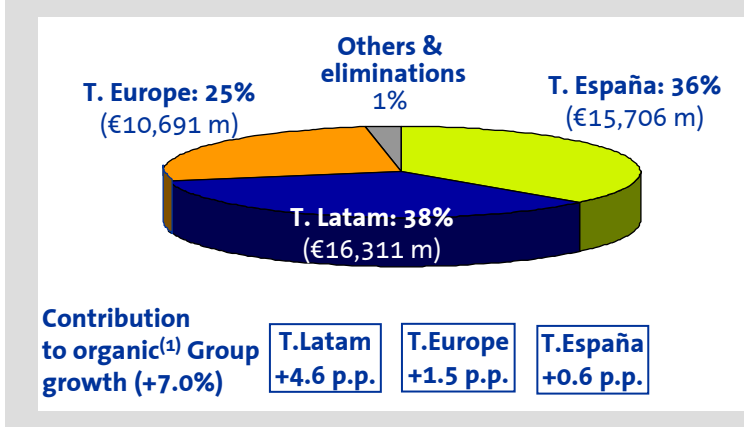
- Superior combination of growth and strong CF generation:
 - *Diversified portfolio*
 - *Strong competitive position in most markets*
 - *Ability to manage OpEx and CapEx*

Capitalising on our highly diversified portfolio

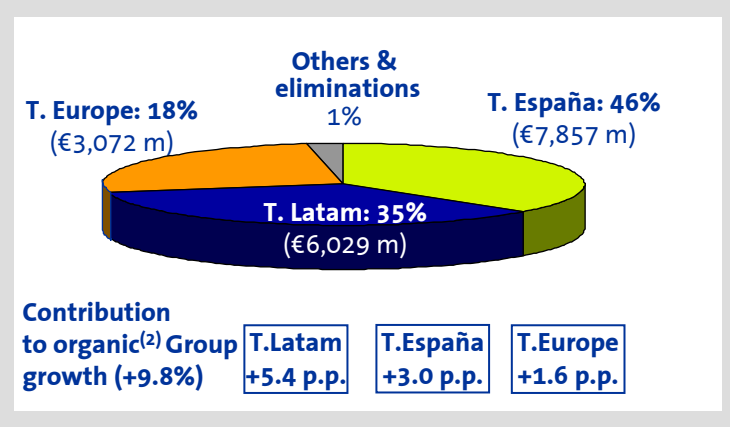
Accesses



9M 08 Revenue



9M 08 OIBDA



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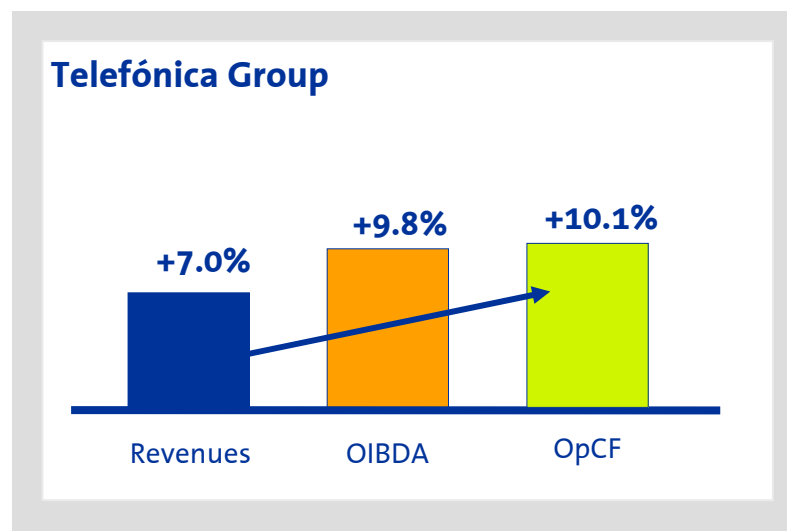
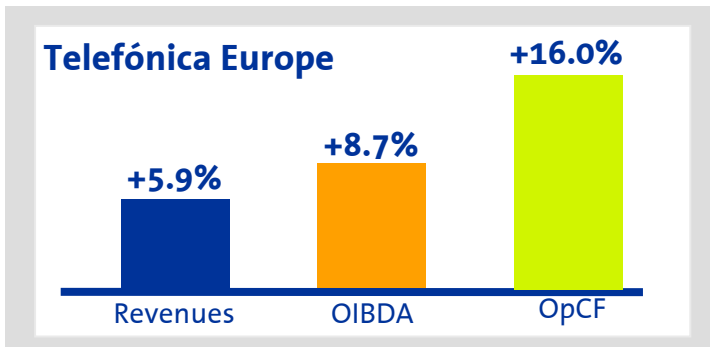
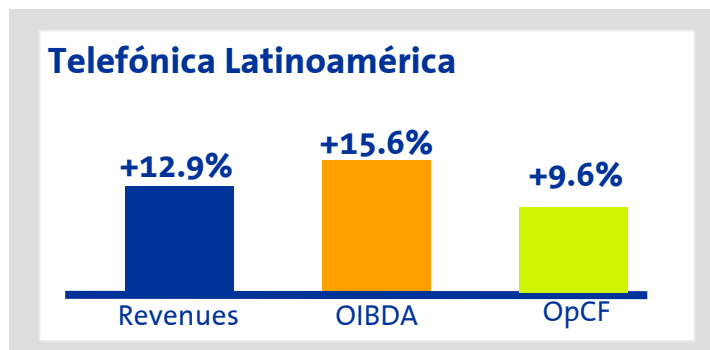
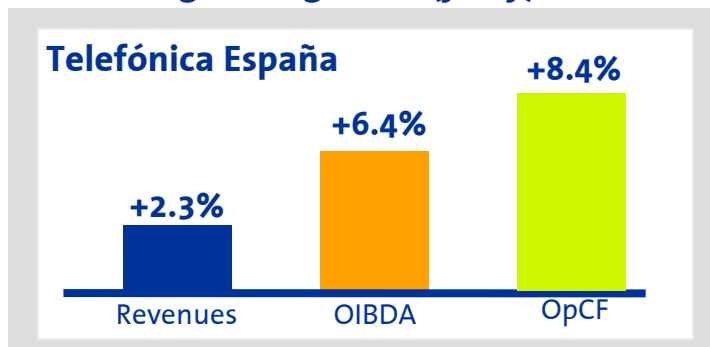
(1) Assuming constant exchange rates as of 9M 07 and including the consolidation of TVA in January-September 2007, Telemig in April-September 2007 and the impact in T. España revenues for new public voice telephone services business model (€ -106.1 m). It excludes the consolidation of Airwave in January-March 2007 and Endemol in January-June 2007.

(2) Assuming constant exchange rates as of 9M 07 and including the consolidation of TVA 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)



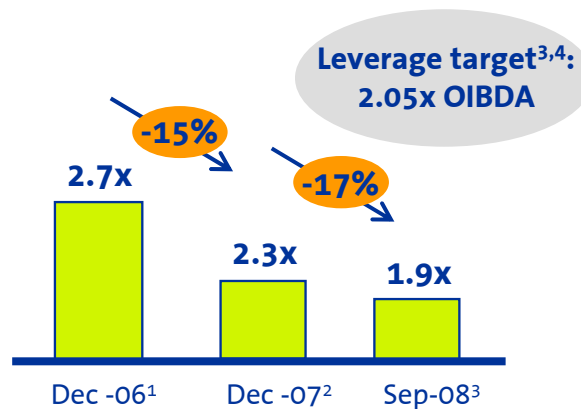
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Investor Relations

(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.

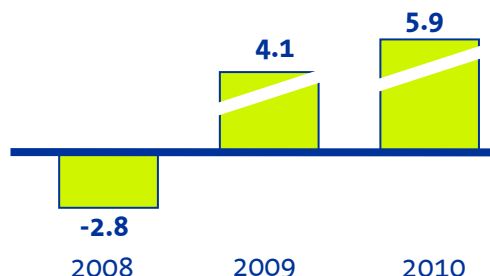


Financial strength

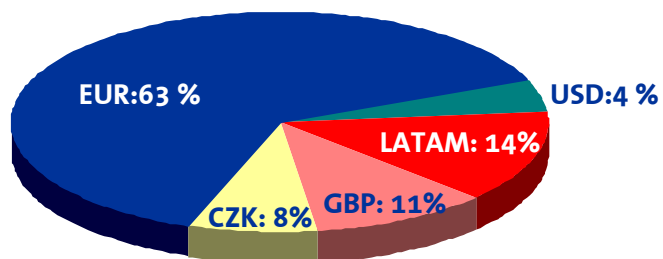
Net Financial Debt/OIBDA



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

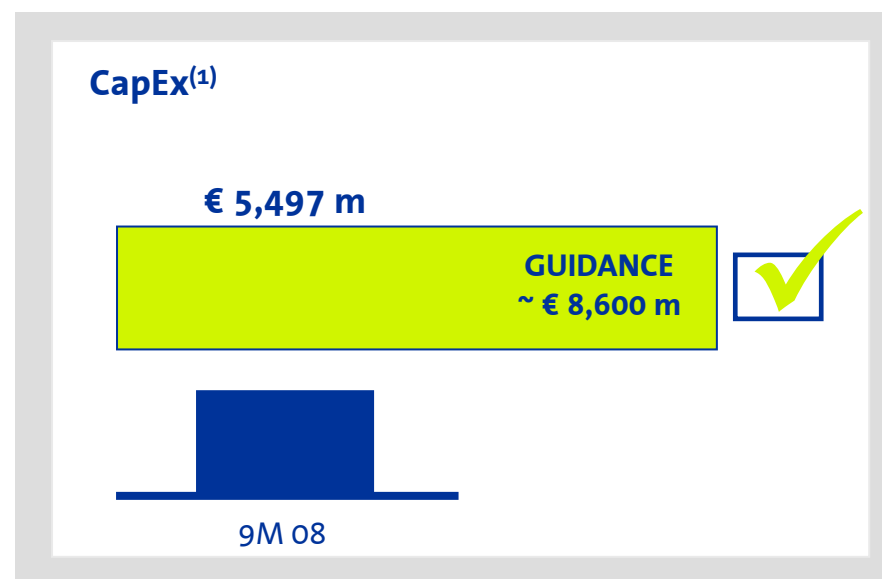
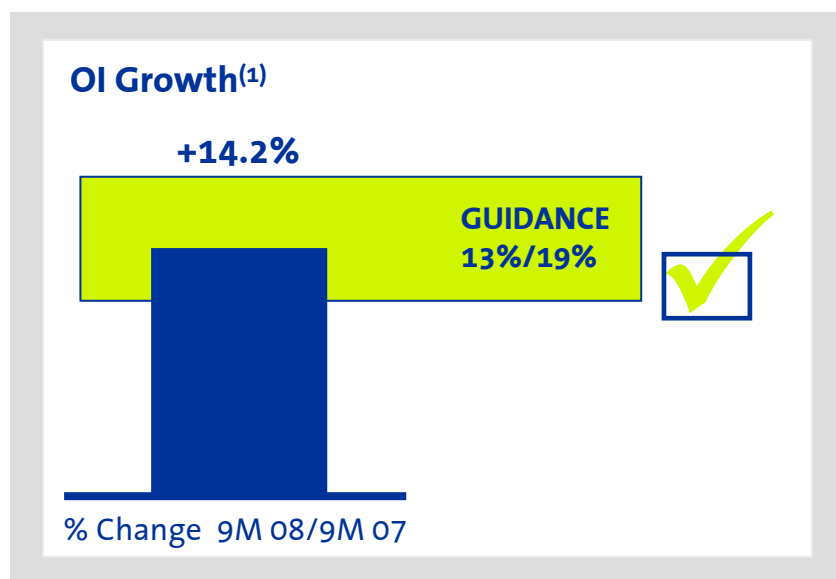
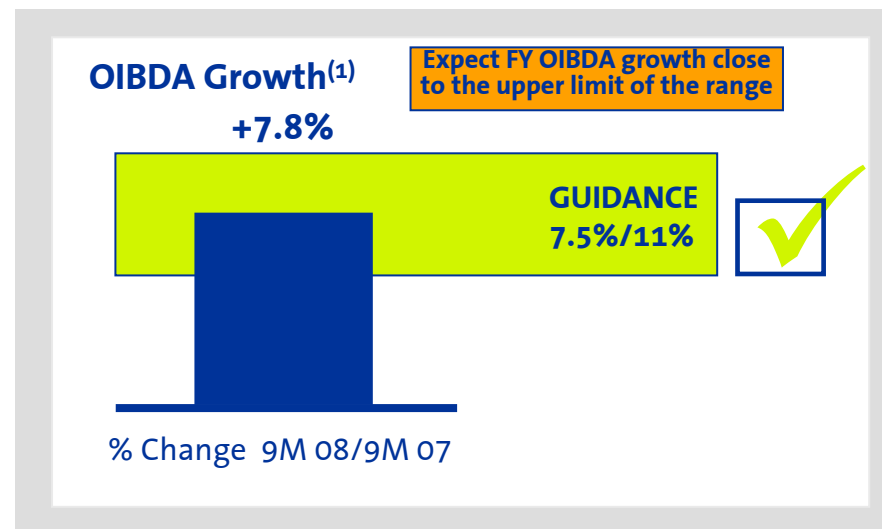
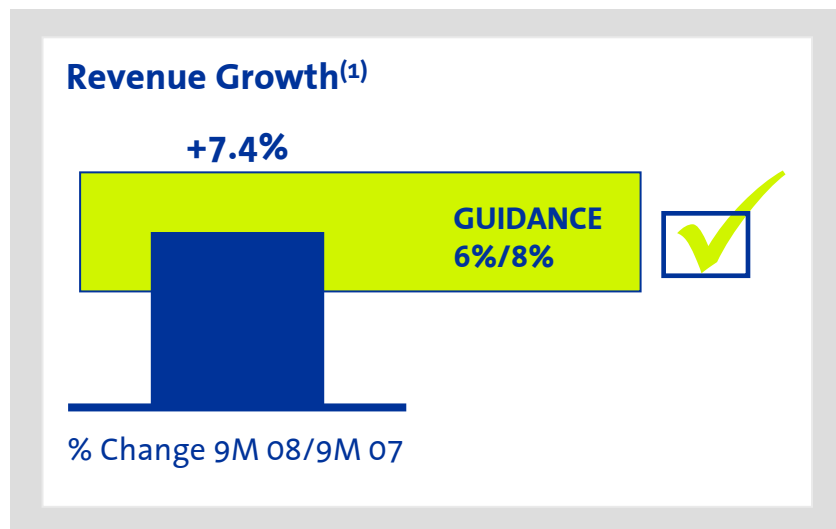


Sep-08 debt distribution by currency (€ in billions)

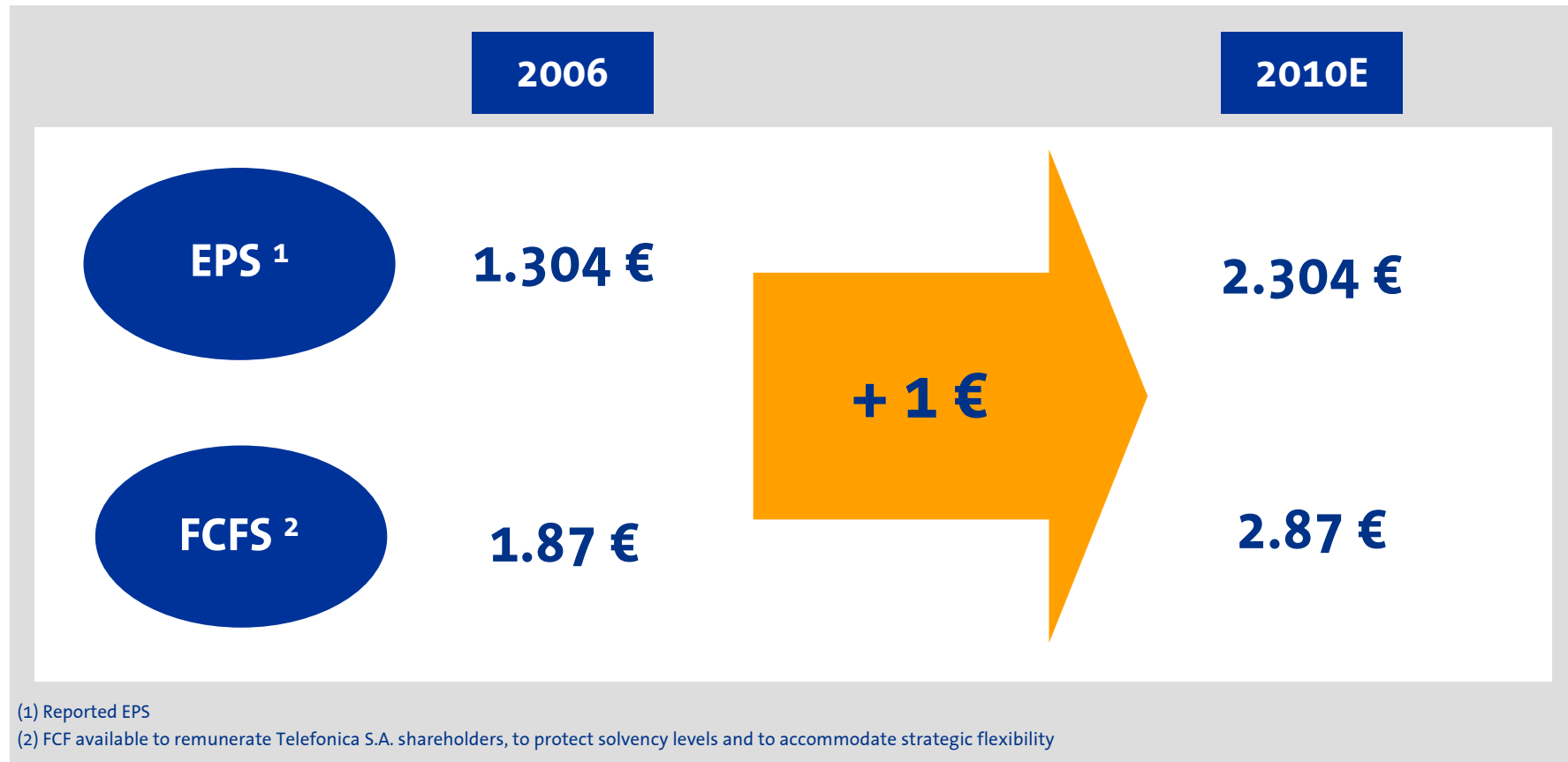


- **Continuing leverage improvement:**
 - €42.9 bn of net fin. debt in Sep-08
- **6.06% effective interest rate in 9M 08**
- **Average debt life around 6 years, longer than time needed for full repayment**
- **Next 12 months payment obligations already covered:**
 - Liquid assets, cash flow generation 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**

Fully on track to fulfill 2008 guidance ...



... as well as 2010 targets



(*) 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).

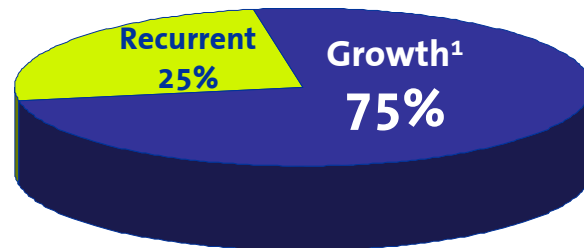
Exploiting levers to preserve CF generation in a more difficult economic environment

Top line

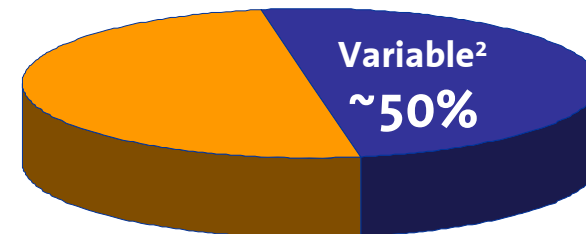
- Strong competitive position across most markets
- Integrated businesses model
- More segmented offer to anticipate customer needs
 - Lower entry prices (BB, SIM only ...)
 - Higher speeds and more advanced services (BB, i-phone...)
- Liberalised prices in most services (BB, pay TV & mobile) & more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

OpEx & CapEx

Group CapEx (9M 08)



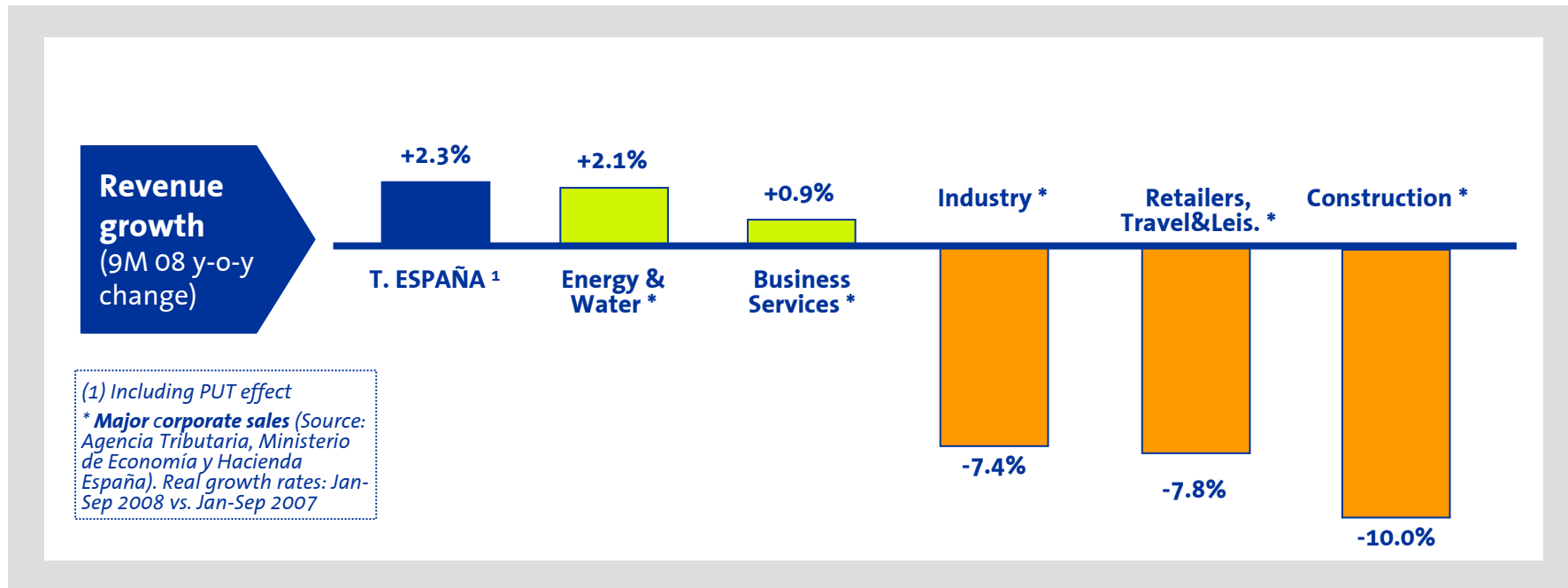
Group OpEx (9M 08)



+

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

Telefónica España: Differential profile in the Spanish market



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

Main trends in Spain

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**

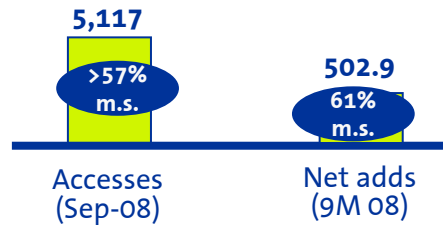
HARD DATA FOR TELEFONICA ESPAÑA

- **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**

Sustained leadership in Spain, capitalizing our integrated approach

Leading the growth in fixed BB and wireless

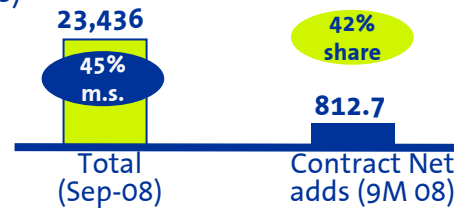
T.España wireline retail broadband accesses (000's)



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

T.España wireless customers (000's)

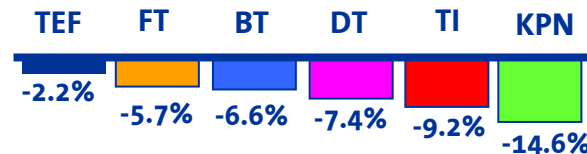


Strong focus in the value segment:

- +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

Limiting fixed line losses

Fixed lines in domestic markets (Sep-08/Sep-07)



Line losses driven mainly by naked shared ULL and increased competitors' activity:

- +1.6%E y-o-y fixed line market growth

Capturing the growth opportunities In Latin America

Growth levers

WIRELESS

- Further penetration increase
- Voice usage upside
- Data potential

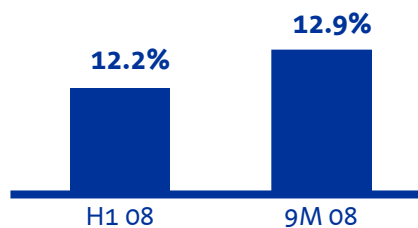
WIRELINE

- Accesses expansion
- Traffic bundles
- ARPU expansion

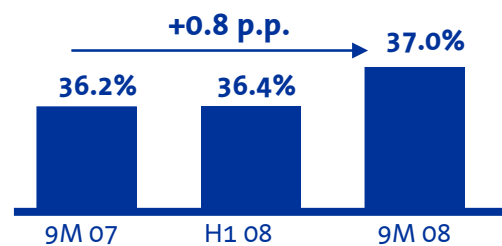
Delivering strong results

- **+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



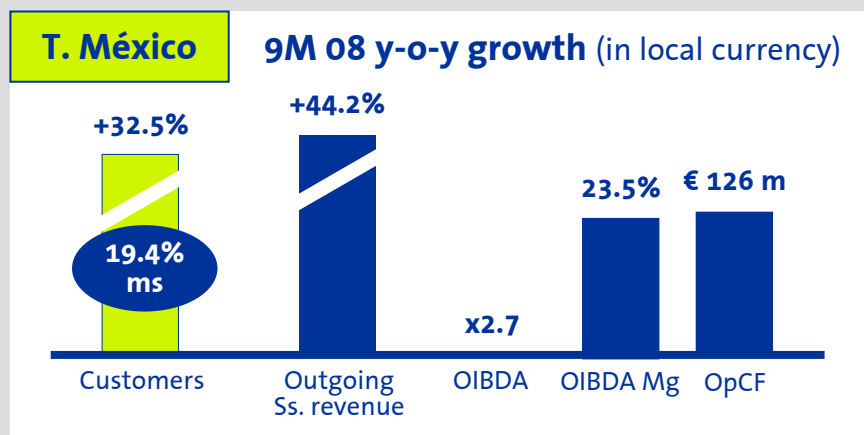
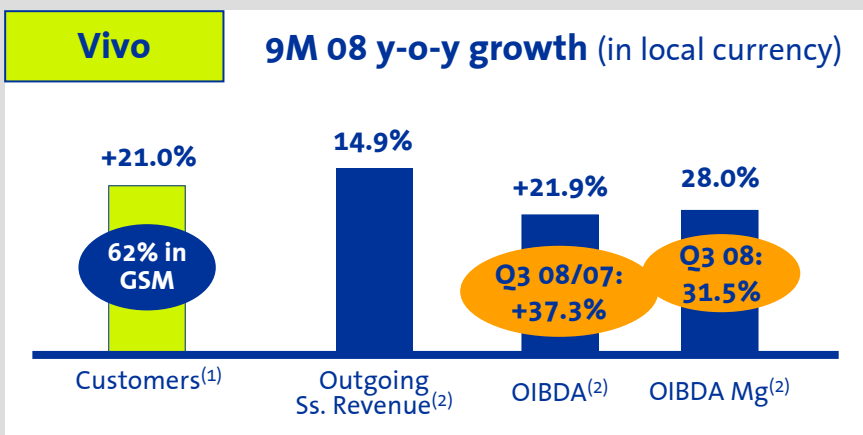
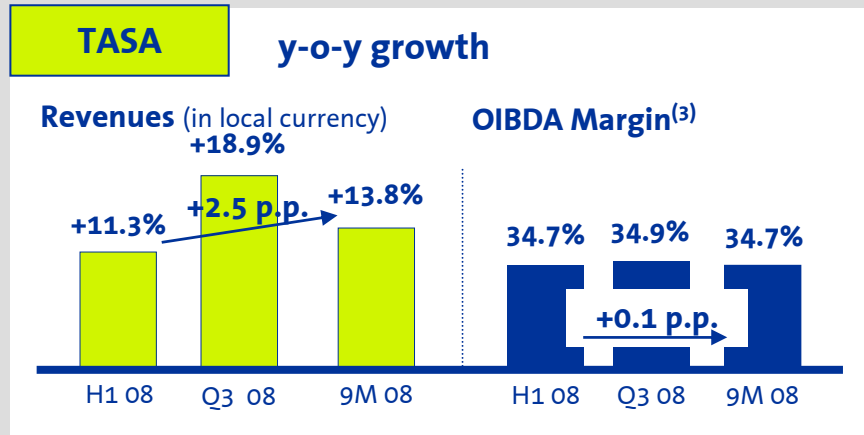
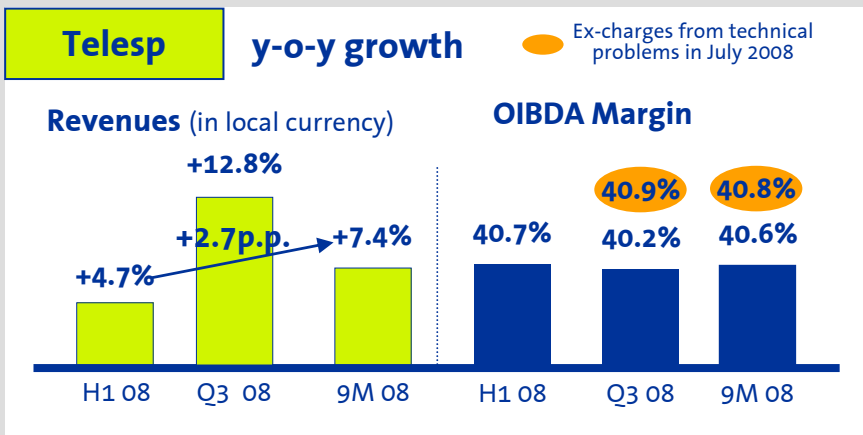
T. Latam OIBDA margin



- 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%

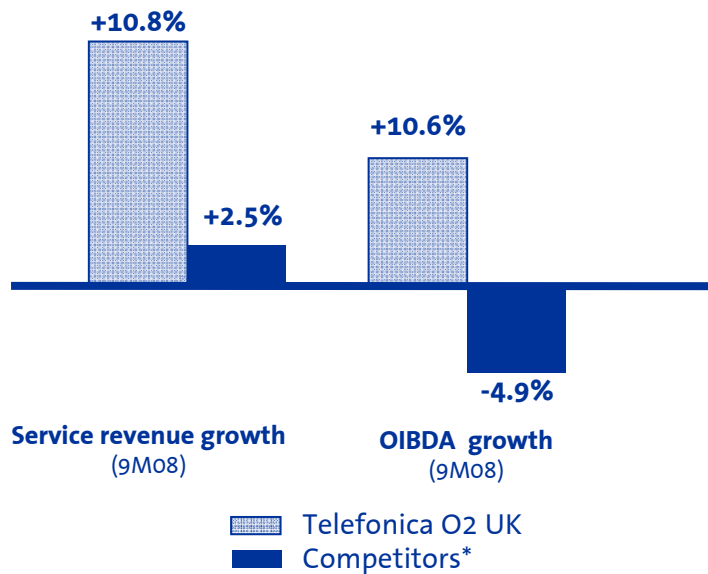
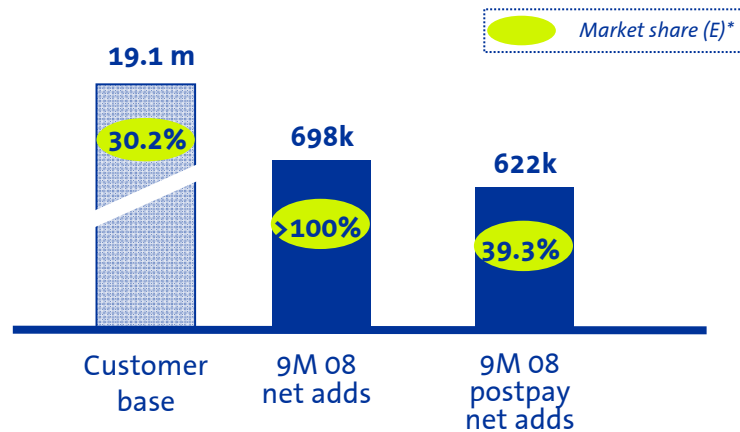
TELEFONICA S.A. (1) Assuming constant exchange rates and including the consolidation of TVA in Jan-Jun/Jan-Sep 2007 and Telemig in Apr-Jun/Apr-Sep 2007 respectively.
 Investor Relations (2) Aggregated wireline margin over revenues includes fixed to mobile interconnection in Argentina.
 (3) Aggregated margin.

Solid performance across main operations in Latin America



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

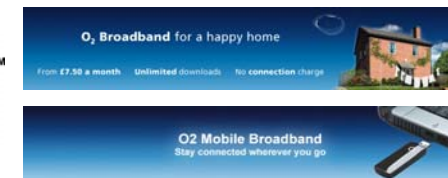
Outperforming the market & maintaining profitability in the UK



- 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”:



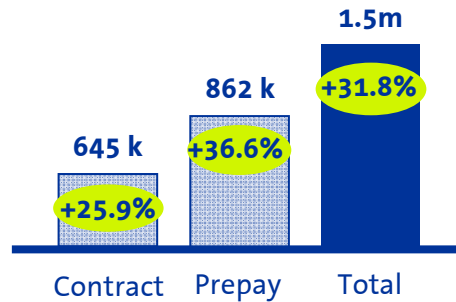
- Strong performance in SMEs driven by new sales structure
- Mobile BB proposition re-freshed & best value combined DSL-MBB offer in the market



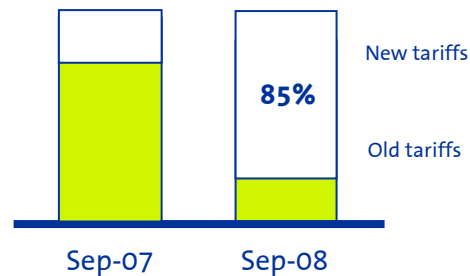
Continued customer growth & profitability in Germany

9M 08
mobile
net adds

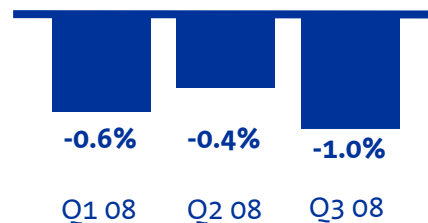
y-o-y change



Migration
program
to contract
value
customers



Mobile
Serv. Rev
(market) ⁽²⁾
(% y-o-y)



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

SCHLECKER



debitel
freenet



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

TELEFONICA S.A. Investor Relations (1) Partners: Hansenet, Tchibo, Fonic.
(2) Reported figures: T-Mobile, Vodafone, E-Plus, T. O2 Germany

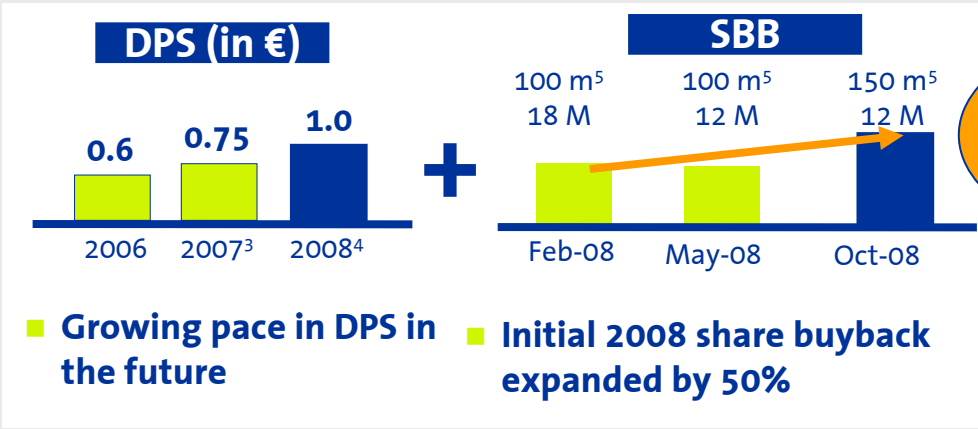
Disciplined use of FCF with clear priorities

> € 40 bn
Cumulative FCF 07E-10E¹

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

1st

SHAREHOLDER REMUNERATION



9%⁽²⁾ of current market cap YTD

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

2nd

DELEVERAGE



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

3rd

SELECTIVE M&A

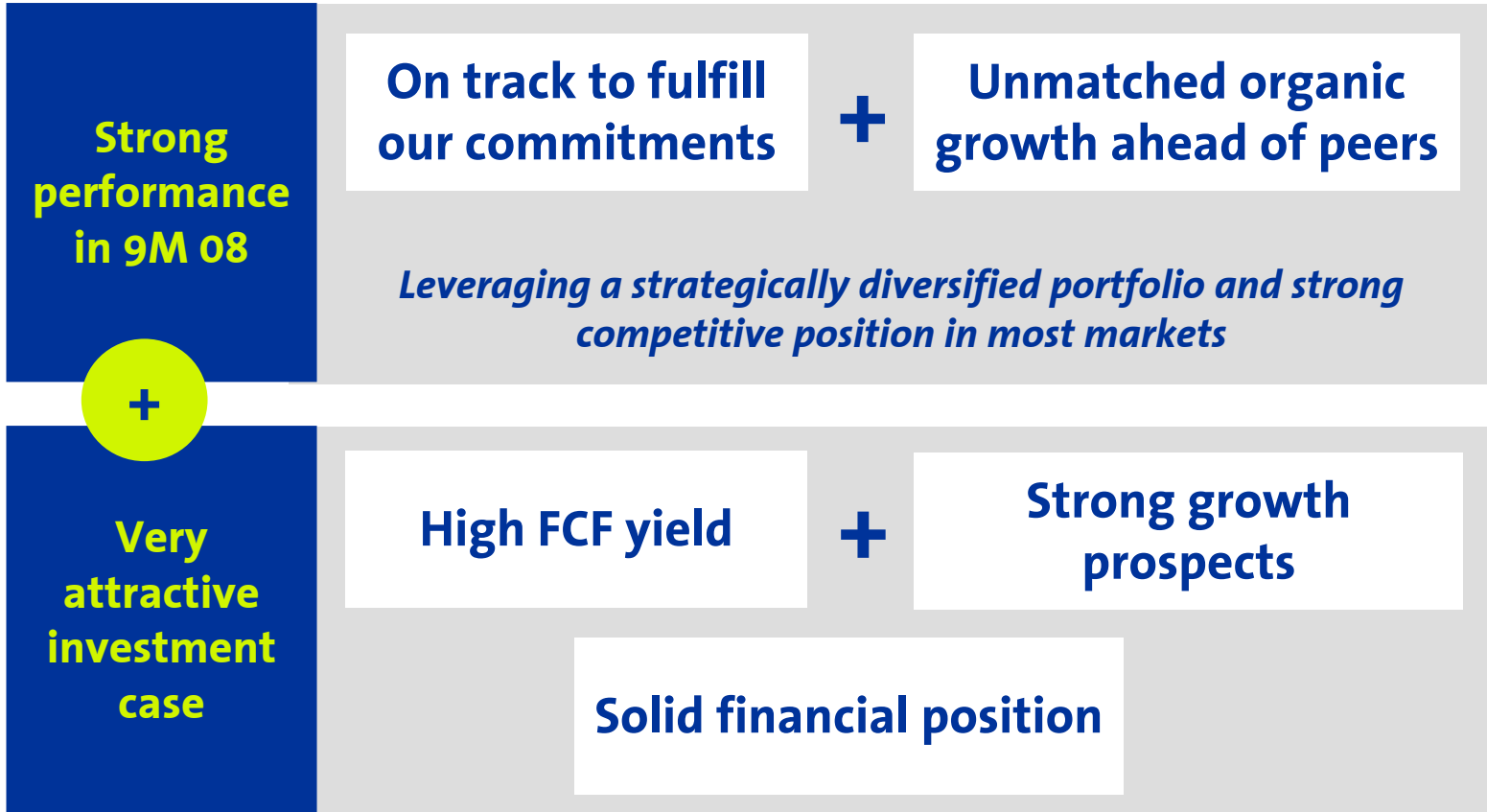


To foster growth in current markets: Brazil, Mexico & China

(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



Telefonica
