Telefónica: Delivering sustainable growth
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This presentation includes certain non-GAAP (Generally Accepted Accounting Principles) financial measures which have not been subject to a financial audit for any period.
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1. Industry: Is there growth in the Telecoms sector?

2. Telefónica Group:
   i. Will Telefónica maintain its differential growth profile?
   ii. Is your dividend policy sustainable?
   iii. What are your M&A ambitions?

3. T. España:
   i. Macroeconomic situation
   ii. Revenue performance: is the worst over?
   iii. Competitive environment: is there a price war in Spain?
   iv. Commercial activity across businesses
   v. Are you under investing?

4. T. Latam:
   i. Is the growth story in Latin America coming to its end?
   ii. How is Telesp performing?

5. T. Europe:
   i. How are you going to deliver growth in UK and Germany?

6. Conclusions
1. In the new digital world, advanced global operators are key to build new value proposals.

- **Advanced data distribution & services platform**
- **Internet content access platforms**
- **Network equipment providers**
- **Software & App providers**
- **User equipment manufacturers**
- **Content creators**

**Global Telco Operators**

**Agents from ICT business**

- New revenue streams from new mutually beneficial business models

**Agents from the “real” economy**

- **Education**
- **Financial services**
- **Health**
- **Retailers**
- **Government**
- **Intermediation & digital transformation partner**

**Billion of customers**
Service platforms enable a new wave of revenues

Beyond applications: Advanced platforms for quality service delivery

Adding comprehensive connectivity & service management

Third Parties
- Payment for distribution and additional services
- Revenue sharing

Telco service platforms for Comprehensive QoS

End User
- Content, advertising, on-demand services & apps
- Payment for segmented bundle of services

Partner players around our capabilities
Unify and simplify for our customers
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.
Communication demand will keep growing

- **Households**: 1.0 billion (Today), 1.2 billion (2020)
- **People**: 4.6 billion (Today), 6 billion (2020)
- **Machines**: 1.4 billion (Today), 40 billion (2020)

<table>
<thead>
<tr>
<th>Category</th>
<th>Today</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>M/(M+F)</td>
<td>75%</td>
<td>90%</td>
</tr>
<tr>
<td>MBB/BB</td>
<td>37%</td>
<td>95%</td>
</tr>
</tbody>
</table>


50 Bn of connected devices

Internet of people → Internet of things
New digital applications and services will accelerate this trend, increasing ICT share in consumer’s wallet.
We see a larger business with a change of mix in Telefónica

2008

Access and Voice (1) 81%
BB (2) 13%
Applications (3) 4%
Others (4) 2%

2009 (5)

Access and Voice (1) 79%
BB (2) 15%
Applications (3) 5%
Others (4) 1%

2012 E (5)

Access and Voice (1) 72%
BB (2) 21%
Applications (3) 6%
Others (4) 1%

% Revenues

(1) Access & Voice: Fixed and mobile access and voice (SMS included), fixed and mobile equipment, narrowband Internet and M2M revenue.
(2) BB connectivity (MBB & FBB): FFB connectivity: (DSL, FO, cable modem, ...), fixed data services, retail and wholesale and equipment. MBB connectivity: Big & Small Screen, mobile e-mail, and WAP browsing revenue.
(3) Apps and New Business: TV, ICT solutions, online advertising (e-Commerce, Terra), MBB VAS (Mobile content / Application downloaded), other FBB VAS, new growth sources and other digital content service revenue.
(4) Revenues from subsidiaries and other companies.
(5) Assuming constant exchange rates as of 2008 (average FX 08) and excludes changes in consolidation.
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6. **Conclusions**
We have maintained our superior performance despite a very challenging environment

**2009 Revenue Organic Growth**

- TEF: +0.2%
- FTE: -1.9%
- VOD: -2.6%
- KPN: -3.5%
- DTE: -3.6%
- BT: -4.8%
- TI: -5.6%

**Average Ex TEF**

- TEF: -3.7%
- FTE: -3.5%
- VOD: -3.6%
- KPN: -4.8%
- DTE: -5.6%

**Change in Capex/Sales (2009 y-o-y)**

- TEF: -1.7 p.p.

**Average Ex TEF**

- TEF: -1.7 p.p.

**2009 OpCF margin**

- TEF: 27.0%
- FTE: 22.8%
- VOD: 20.0%
- KPN: 25.0%
- DTE: 17.7%
- BT: 14.6%
- TI: 19.8%

**Average Ex TEF**

- TEF: 20.1%
- FTE: 20.0%
- VOD: 20.0%
- KPN: 17.7%
- DTE: 14.6%

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(1) Source: Telefónica and Deutsche Bank (European Telecom Services. Incumbent operator trend analysis Q4 09, March 2010).

Despite the adverse economic environment in Spain, we have maintained our growth gap vs. the sector...

... while maintaining our benchmark cash flow generation and keeping investment in future growth.
2. We have already set the bases for future growth

- Geographical & Business **DIVERSIFICATION**
- Strong **GROWTH POTENTIAL** in our markets

### Telefónica markets (1)

- **FBB**\(^{(2)}\) +10%
- **Fixed** +0%
- **MBB**\(^{(3)}\) +70%
- **Mobile** +4%

#### Broadband everywhere
Access to support broadband
Traffic explosion

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(1) Telefónica Markets: Total markets from Telefónica footprint.
(2) FBB: Fixed Broadband.
(3) MBB: Mobile Broadband. Growth considers only Big Screen.
Growing our customer base & improving its quality

**Total accesses (1)**

- Dec-08: 252 millions
- Dec-09: 264 millions
- Dec-12E: >320 millions

**Mobile Retail Accesses (1,2)**

- Dec-08: 187 millions
- Dec-09: 198 millions
- Dec-12E: ≈228 millions

**Contract Mobile Accesses (4)**

- Dec-08: 54.3 millions
- Dec-09: 59.5 millions
- Dec-12E: >89 millions

**MBB (1,3)**

- Dec-08: 9 millions
- Dec-09: 15 millions
- Dec-12E: ≈67 millions

- **+10 p.p. growth in the weight of contract customers by Dec-12E vs. Dec-08 (Telefónica Group)**
- **Contract ARPU(4) 4.5x prepay one in 2009, with better y-o-y evolution (Telefónica Group)**
- **MBB growth mainly driven by Smartphones**
- **ARPU of Smartphones in Spain 1.7x contract ARPU(4) in 2009**

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**Variation 08-12E**

- Morroco accesses excluded in 2008 for comparison reasons.
- Mobile Retail accesses: Mobile voice accesses, M2M and Small Screen are included.
- MBB accesses: Including Big and Small Screen.
- Contract ARPU excluding M2M.
Massive MBB development (i)

**MBB (²) penetration**

<table>
<thead>
<tr>
<th>% Big and Small screen accesses over mobile accesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-08</td>
</tr>
<tr>
<td>5%</td>
</tr>
</tbody>
</table>

**MBB accesses (²)**

<table>
<thead>
<tr>
<th>millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-08</td>
</tr>
<tr>
<td>9</td>
</tr>
</tbody>
</table>

| +65% |

**MBB connectivity revenues (³)**

<table>
<thead>
<tr>
<th>€ in billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2008</td>
</tr>
<tr>
<td>1.3</td>
</tr>
</tbody>
</table>

CAGR 08-12 E

**World mobile devices sales (¹)**

<table>
<thead>
<tr>
<th>World; millions</th>
</tr>
</thead>
</table>
| ¹ Source: Gartner, “Forecast Mobile Devices World 2003-2013”.
| ² MBB accesses: Including Big and Small Screen.
| ³ MBB connectivity revenue: Including Big and Small Screen, mobile email and WAP browsing revenues.
| ⁴ Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation.
| ⁵ Smartphones includes High Tech.
| ⁶ Telefónica estimates.
| ⁷ XaaS: Everything as a service.
Massive MBB development (ii)

- A reality even in a difficult environment: T. España 2009

Wireless data rates net adds (000’s) (1)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Q1 09</th>
<th>Q2 09</th>
<th>Q3 09</th>
<th>Q4 09</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>168</td>
<td>177</td>
<td>303</td>
<td>434</td>
</tr>
</tbody>
</table>

+50% +57% +47% +55%

2m data rates in 2009 >x2 vs. 2008

Data connectivity revenues (y-o-y change)

+52% revenue growth in 2009

- Tiered pricing in our markets: different customer needs, avoiding “all you can eat” tariffs

**MEXICO (volume based)**

<table>
<thead>
<tr>
<th>Profiles</th>
<th>Allowance *</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conecta</td>
<td>300 Mb</td>
<td>x</td>
</tr>
<tr>
<td>Navega</td>
<td>800 Mb</td>
<td>1.5 x</td>
</tr>
<tr>
<td>Descarga</td>
<td>5 Gb</td>
<td>2.2 x</td>
</tr>
</tbody>
</table>

*Fair usage policy rules applied. Additional modules are charged.*

**SPAIN (Smartphone - traffic based profiles)**

<table>
<thead>
<tr>
<th>Profiles</th>
<th>Max. down speed</th>
<th>Allowance*</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Int. Móvil (IM)</td>
<td>1 Mbps</td>
<td>100 Mb</td>
<td>x</td>
</tr>
<tr>
<td>IM Plus</td>
<td>3 Mbps</td>
<td>200 Mb</td>
<td>1.5 x</td>
</tr>
<tr>
<td>IM Premium</td>
<td>3 Mbps</td>
<td>1 Gb</td>
<td>2.5 x</td>
</tr>
</tbody>
</table>

*Unlimited volume. Download speed reduces to 64 Kbps when allowance volume reached. IM Plus and Premium includes unlimited access to Telefónica WiFi hotspots.*

(1) Monthly flat rates
Further FBB expansion through DSL upgrade and selective FO deployment

DSL:
- Expand BB markets; low coverage areas and low income segments
- Tiered offer including Premium at high speed (>10 Mbps)
- Selective FO deployment (speed > 25 Mbps)
- Bundles across segments

FBB (1) penetration

<table>
<thead>
<tr>
<th></th>
<th>Dec-08</th>
<th>Dec-09</th>
<th>Dec-12E</th>
</tr>
</thead>
<tbody>
<tr>
<td>29%</td>
<td>33%</td>
<td>52%</td>
<td></td>
</tr>
</tbody>
</table>

FBB retail accesses (1)

<table>
<thead>
<tr>
<th></th>
<th>Dec-08</th>
<th>Dec-09</th>
<th>Dec-12E</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.5</td>
<td>13.5</td>
<td>&gt;19</td>
<td></td>
</tr>
</tbody>
</table>

FBB connectivity revenues (2)

<table>
<thead>
<tr>
<th>FY 2008</th>
<th>FY 2012E</th>
</tr>
</thead>
<tbody>
<tr>
<td>€6.3</td>
<td></td>
</tr>
</tbody>
</table>

CAGR 08-12 E

FBB (1) retail accesses: Includes FO, DSL, Cable modem and satellite

FBB connectivity revenue: Includes connectivity (DSL, FO, Cable Modem...), fixed data services, retail and wholesale and equipment revenue

Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation

Lines passed with > 25 Mbps in 2012
> x9 vs. 2008
Development of applications and new business

### Apps. & New business revenue (1)

<table>
<thead>
<tr>
<th></th>
<th>FY2008</th>
<th>FY 2012E</th>
</tr>
</thead>
<tbody>
<tr>
<td>€ in billions</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>CAGR 08-12 E (2)</td>
<td></td>
<td>+12%/+15%</td>
</tr>
</tbody>
</table>

- **Mobile applications:**
  - >120m Mobile applications downloaded in 2012E

- **Pay TV:**
  - >4.5m Customers by 2012E vs. 2.3 m in 2008

- **Digital Home** services

- **ICT solutions:** infrastructure alternatives, Cloud Computing, M2M, ..... 

- **New Business:** e-Finance, e-Health, e-Travel, e-Learning, e-Security, ...

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(1) 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 services revenue.

(2) Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation.

(3) BofAML March 2010.
Defense and growth of traditional business

- **Bundle access** with fixed and mobile voice to retain fixed voice only customers
- Capture **mobile penetration growth** opportunities (LatAm)
- Foster **prepay to contract migration**
- Innovative **tiered price plans**
- Increasing **loyalty**

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**Retail accesses**

<table>
<thead>
<tr>
<th></th>
<th>Dec-08</th>
<th>Dec-09</th>
<th>Dec-12E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile (2)</td>
<td>232</td>
<td>240</td>
<td>~265</td>
</tr>
<tr>
<td>Fixed (3)</td>
<td>19%</td>
<td>18%</td>
<td>14%</td>
</tr>
</tbody>
</table>

- CAGR 08-12 E
- Mobile weight variation 08-12E

**Access & voice revenue**

<table>
<thead>
<tr>
<th></th>
<th>FY 2008</th>
<th>FY 2012E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mobile</td>
<td>67%</td>
<td>75%</td>
</tr>
<tr>
<td>Fixed</td>
<td>33%</td>
<td>25%</td>
</tr>
</tbody>
</table>

- CAGR 08-12 E

**Bundles**

<table>
<thead>
<tr>
<th></th>
<th>Dec-08</th>
<th>Dec-12E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>42%</td>
<td>~60%</td>
</tr>
</tbody>
</table>

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(1) Morocco excluded in 2008 for comparison reasons.
(2) Mobile: Mobile voice accesses. M2M and small screen are included.
(3) Fixed: PSTN, Public Use Telephony, ISDN, Fixed wireless lines, self consumption, test and social interest lines, naked DSL, VOIP lines and narrowband internet accesses.
(4) Access & Voice: Fixed and mobile access & voice (SMS included), fixed & mobile equipment, narrowband internet and M2M revenue.
(5) Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation.
(6) Ex-Public Use Telephony.
We will fully capture revenue growth potential in our markets

**Revenue Mix**

**FY 2008**
- **Accesses & Voice**
- **BB connectivity**
- **Applications & new business**
- **Others**

**FY 2012E**
- **Accesses & Voice**
- **BB connectivity**
- **Applications & new business**
- **Others**

**(1) Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation.**
**(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, FT, cable modem ...), fixed data services, retail and wholesale 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.**
**(5) Revenues from subsidiaries and other companies.
Medium term guidance will lead to a sustainable growth and an even lower risk profile

<table>
<thead>
<tr>
<th>Metric</th>
<th>2008 Adjusted (2)</th>
<th>CAGR 08-12E (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Accesses</strong></td>
<td>252</td>
<td>&gt;320</td>
</tr>
<tr>
<td><strong>(1) (millions)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenues</strong></td>
<td>57,946</td>
<td>+1%/+4%</td>
</tr>
<tr>
<td><strong>€ in millions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OIBDA</strong></td>
<td>22,602</td>
<td>+2%/+4%</td>
</tr>
<tr>
<td><strong>€ in millions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OI</strong></td>
<td>13,556</td>
<td>+4%/+7%</td>
</tr>
<tr>
<td><strong>€ in millions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>OpCF</strong></td>
<td>14,201</td>
<td>+5%/+7.5%</td>
</tr>
<tr>
<td><strong>€ in millions</strong></td>
<td></td>
<td>Cumulative 09-12E &gt;€64 bn</td>
</tr>
</tbody>
</table>

> € 40 bn
Cumulative FCF (3)
FY 2009-2012E

**CapEx**

<table>
<thead>
<tr>
<th>Metric</th>
<th>~ € 30 bn</th>
<th>Cumulative 09-12E</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>€ in millions</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(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 contingencies deriving from the past disposal of shareholding; one of these risks has dissipated or had not materialized (€174 m), 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.
We have clear priorities for 2010

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

<table>
<thead>
<tr>
<th></th>
<th>2009 Adjusted(1)</th>
<th>2010 Guidance(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>56,407</td>
<td>+1%/+4%</td>
</tr>
<tr>
<td>OIBDA</td>
<td>22,344</td>
<td>+1%/+3%</td>
</tr>
<tr>
<td>CapEx (€ in millions)</td>
<td>7,262</td>
<td>7,450/7,650</td>
</tr>
</tbody>
</table>

- 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

€2.10 EPS target confirmed

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(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 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%

**Continue capturing synergies from our Strategic Alliances**

- >650 million combined customer base

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(1) As of Dec-09.
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

---

(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.
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6. **Conclusions**
Macroeconomic situation

**Economy indicators (1)**

- **Unemployment rate increase (y-o-y)**
  - 2010 E: +1.5 p.p.

- **Real GDP growth (y-o-y)**
  - 2009: -3.6%
  - 2010 E: -0.5%

- **Household consumption growth (y-o-y)**
  - 2009: -5.0%
  - 2010 E: -0.5%

**Consumption growth (%)**

- **Actual consumption**
- **Consumption based on fundamentals**

**Household consumption in communications (% of total spending) (2)**

- Spain: 2.7%
- Italy: 2.2%
- Portugal: 3.0%
- Holland: 3.1%
- France: 3.3%
- Germany: 2.9%

**Gradual improvement**

- Number of households: +226K in 2009

**Spain: consumption growth far from fundamentals**

**Below the European average**

---

**Notes:**

(1) Analysts’ consensus for 2010 forecasts.  
Revenue performance: is the worst over?

Revenue trends improving for the second consecutive quarter across businesses.

The worst is behind us!

Market back to growth in 2011.

**Revenue performance**

**REVENUE (Underlying[^1] y-o-y change)**

<table>
<thead>
<tr>
<th>T. ESPAÑA</th>
<th>FY 09</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wireless</td>
<td>-5.9%</td>
<td>-5.7%</td>
<td>-6.2%</td>
<td>-6.6%</td>
<td></td>
</tr>
<tr>
<td>Wireline</td>
<td>-3.7%</td>
<td>-3.0%</td>
<td>-4.2%</td>
<td>-4.0%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Wireless</td>
<td>-8.0%</td>
<td>-7.3%</td>
<td>-8.1%</td>
<td>-8.0%</td>
<td>-7.7%</td>
</tr>
</tbody>
</table>

[^1]: Excluding USO (Q4 09, Q1 09 and Q3 08), seasonality in Q2 09 and Application Sale in Q3 09.
Competitive environment: is there a price war in Spain?

### Telefónica Market Shares (1)

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total market revenues</td>
<td>55%</td>
<td>54%</td>
</tr>
<tr>
<td>Wireless Contract</td>
<td>46%</td>
<td>46%</td>
</tr>
<tr>
<td>Fixed BB</td>
<td>57%</td>
<td>56%</td>
</tr>
<tr>
<td>Pay TV</td>
<td>14%</td>
<td>17%</td>
</tr>
</tbody>
</table>

1. Estimation of market shares.

### Strong leadership in the market

### Rational pricing environment

#### Outgoing ARPM (y-o-y change)

- FY 08: -4.7%
- FY 09: -4.1%

#### Retail BB connectivity ARPU (y-o-y change)

- FY 08: -4.2%
- FY 09: -6.3%

1. Retail BB connectivity ARPU:
   - Outgoing ARPM: -5% / -7%
   - CAGR 06-10 E
Strong commercial activity in the last part of the year building foundations for 2010

<table>
<thead>
<tr>
<th></th>
<th>H1 09</th>
<th>H2 09</th>
<th>H1 09</th>
<th>H2 09</th>
<th>H1 09</th>
<th>H2 09</th>
<th>H1 09</th>
<th>H2 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wireless Contract</td>
<td>126.5</td>
<td>639.7</td>
<td>345.5</td>
<td>737.0</td>
<td>85.0</td>
<td>145.4</td>
<td>-3.0</td>
<td>93.4</td>
</tr>
<tr>
<td>Wireless Data rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed BB</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay TV</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Lines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- January 2010 FBB and Mobile customers net adds similar to full Q1 09
- Line losses peaked in 2009. Wireline market growing since Nov-09 (1)
Are you under investing?

**TEF ACHIEVING HIGHER EFFICIENCIES BASED ON**

- Reduced prices on scale benefits
- Integrated player approach strategy
- Lower economic activity
- Lower eGSM investments
- Reduced Real Estate activity

**y-o-y CapEx evolution (1)**
(2009; % change)

-15.6%  -12.1%  -22.6%  -41.2%

**Weight in market CapEx (1)**
(2009 %)

57%  19%  13%  7%  2%  2%

**Weighted market average (ex-TEF)**
-19.5%

---

(1) Expansión: March 10th, 2010 (Vodafone data 12 months to Sep-09 vs. 12 months to Sep-08 in local currency).
Index

1. **Industry: Is there growth in the Telecoms sector?**
2. **Telefónica Group:**
   i. Will Telefónica maintain its differential growth profile?
   ii. Is your dividend policy sustainable?
   iii. What are your M&A ambitions?
3. **T. España:**
   i. Macroeconomic situation
   ii. Revenue performance: is the worst over?
   iii. Competitive environment: is there a price war in Spain?
   iv. Commercial activity across businesses
   v. Are you under investing?
4. **T. Latam:**
   i. Is the growth story in Latin America coming to its end?
   ii. How is Telesp performing?
5. **T. Europe:**
   i. How are you going to deliver growth in UK and Germany?
6. **Conclusions**
Is LatAm growth potential exhausted?

- **Macroeconomic strength:**
  - >5% annual GDP growth in 2004-08, but -2.3% in 2009E
  - >3.7% GDP growth in 2010E & 2011E

- **Structural social improvements** in the growth period:
  - Unemployment reduced from 11% to 7.5% since 2002
  - >50 m people have left poverty since 2000
  - Brazil: Middle & upper class ascent even in the crisis period

- Countries > US$ 10 thousand GDP per capita PPP(1) represent 75% of total
- >US$780 bn(2) increase in Private Consumption from 90s to 2009E

- 80% of Latam population is urban
- 5 of the biggest cities worldwide in Latam

Source: United Nations and International Monetary Fund.

(1) Minimum for the development of the middle class.
(2) Assumes constant exchange rates as of 2009.
What are the growth opportunities in the region?

**FURTHER PENETRATION INCREASE**

**Mobile penetration**
- Dec-08: 82%
- Dec-12E: >100%

**POSTPAY MIGRATION: UP & CROSS SELLING**

**Customer mix % postpay**
- Dec-08: 16%
- Dec-12E: 25-30%

**MBB: NEXT KEY WAVE OF GROWTH**

**MBB accesses**
- Dec-08: 1 m
- Dec-12E: 30-32 m

**FOCUS ON TRANSFORMATION**

**FBB/Fixed accesses**
- Dec-08: 23%
- Dec-12E: 40-43%

**Pay TV accesses**
- Dec-08: x2
- Dec-12E: x4

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(1) Ex MBB Big Screen.
(2) MBB Accesses: Including big and small screen.
(3) Sao Paulo, Argentina, Chile, Colombia & Peru.
(4) Sao Paulo, Chile, Colombia & Peru.
ARPU upside through up & cross selling in a more mature market

- 106% penetration
- Strong customer growth in the market
- Lowest churn in the region

Outgoing ARPU evolution in Chile, Jul-09 (Index)

- Dec-08: 28%
- Dec-12E: ~35%

Customer mix (% Postpay)

Prepay
- New customers
- Outgoing ARPU

Prepay + Usage
- Upselling

Hybrid-Pre
- 200
- 143

Hybrid-Post
- 286
- 371

Postpay
- 429
- 514

Data Plans
- 743

Example (1)
- 106% penetration
- Strong customer growth in the market
- Lowest churn in the region

Notes:
- 1 Control Group Methodology.
Quality improvements in Telesp starting to pay off

- **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
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How are you going to deliver growth in UK and Germany?

**Q4 09 Mobile Service Revenue Growth**
(y-o-y; local currency)

**UK**
- +1.6%
- -3.7%
- -4.0%
- -3.8%
- -11.7%

**GER**
- +0.2%
- -1.3%
- -1.8%
- -4.9%

**Mobile internet driving growth**
- “Home of Smartphones”: 28 m by 2012 E (x4 vs. 2008), positively impacting ARPU & churn
- Acquisition of Jajah: leapfrog step in social communication capabilities

**UK: customer focus consistency and operational leverage**
- Keeping customer experience & contract churn leadership
- Continued iPhone trading momentum, keeping biggest European customer base, ahead of the learning curve
- Investing for capacity: 1,500 additional BSs in 2010 and improved network management (e.g. disconnecting abusers of fair use policy, encourage uptake on WiFi, apps/services to notify customers)
- O2 OIBDA > combined TMo & Orange

**Germany: challenger on P/S innovation and best-in-class network**
- Quality and choice offer (“My Handy” & “O2o”)
- Setting the market context as the disruptive player (O2o, O2 On)
- Already solid #3 position in MBB
- Acquisition of Hansenet: enhanced integrated approach; cross-selling potential and reduce churn

(1) Source: company reports.
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