Santander Annual Telecommunications Conference 2010

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Index

1. Q1 10 results
2. Mid term prospects
Delivering on our 2010 priorities

**GROUP 2010 PRIORITIES**

- #1 Capturing top line growth prospects
- Reinvesting efficiency gains to foster revenue expansion
- Higher CapEx to support growth in customers & volumes

**T. ESPAÑA 2010 PRIORITIES**

- Maintain a strong commercial momentum (FBB & MBB) and market leadership to capture market recovery
- Reinvest efficiency gains in the short term to ensure business growth prospects
- Deliver a strong cash-flow generation despite slight increase in CapEx
Strong commercial momentum across all businesses, to build foundations for future revenue growth

**T. España net adds (000)**

<table>
<thead>
<tr>
<th>Q1 09</th>
<th>Q1 10</th>
<th>Q1 09</th>
<th>Q1 10</th>
<th>Q1 09</th>
<th>Q1 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>197</td>
<td>45</td>
<td>102</td>
<td>30</td>
<td>-321</td>
<td>-278</td>
</tr>
</tbody>
</table>

-15 Q1 10

**Wireless Contract**

**Fixed BB**

**Pay TV**

**Fixed Lines**

**T. España market shares Mar-10**

<table>
<thead>
<tr>
<th>Total revenues</th>
<th>Wireless Contract Accesses</th>
<th>Fixed BB Accesses</th>
<th>Pay TV Accesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>53%</td>
<td>45%</td>
<td>55%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Churn stabilization in most businesses

Q1 10 gross adds\(^{(2)}\) up 25% y-o-y

Strong leadership in the market

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\(^{(1)}\) Internal estimates

\(^{(2)}\) Quarterly Gross adds variations include: Fixed telephony accesses, retail broadband accesses, mobile accesses and pay TV accesses
Focus on contract mobile...

**Contract customers up to 65% of total customer base**

**Wireless customers (y-o-y)**

- **Total** (1)
  - Dec-09: 23.7 m
  - Mar-10: 15.5 m
  - Change: +5.3%
- **Contract**
  - Dec-09: 22.2 m
  - Mar-10: 14.0 m
  - Change: +2.4%

**L12M Wireless contract net adds (2) (000)**

- **Total**
  - Movistar: 978
  - Yoigo: 489
  - Orange: 376
  - O2: 262

**Q1 10 Churn**

- **Contract**
  - Movistar: 1.5%
  - Yoigo: 2.2%
  - Orange: 1.0%

**Q1 10 Market shares**

- **Outgoing revenues**
  - Movistar: 43.4%
  - Yoigo: 23.7%
  - Orange: 21.7%

- **Customer**
  - Movistar: 15.5%
  - Yoigo: 26.7%
  - Orange: 32.2%

**Best in market**

- Movistar: 2.4%
- Yoigo: 43.4%

**Gap:** ~4 p.p.

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(1) 715,000 inactive prepay accesses were disconnected in December 2009
(2) According companies press releases as of Mar-10
(3) According to CMT Mar-10 data
...in a rational pricing environment

**Comparable** (1) **Mobile ARPU (y-o-y)**

<table>
<thead>
<tr>
<th>Q1 09</th>
<th>Q2 09</th>
<th>Q3 09</th>
<th>Q4 09</th>
<th>Q1 10</th>
</tr>
</thead>
<tbody>
<tr>
<td>-7.5%</td>
<td>-7.9%</td>
<td>-7.2%</td>
<td>-7.1%</td>
<td>-6.7%</td>
</tr>
<tr>
<td>-9.6%</td>
<td>-10.4%</td>
<td>-9.4%</td>
<td>-10.2%</td>
<td>-10.2%</td>
</tr>
</tbody>
</table>

**Q1 10 Outgoing Voice ARPM & Traffic (y-o-y)**

-6.5%  

**CAGR 06-10 E target**

-5% / -7%

Oct-07 ID

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(1) Comparable mobile ARPU: Since Q1 09 excludes the disconnection of 715,000 inactive prepay lines in December 2009.
### Exploiting the growth opportunity in MBB

- **41%** of total customer base on 3G as of Mar-10 (+11 p.p. vs. Mar-09)
- Q1 10 Connectivity revenues up 68% y-o-y

#### MBB net adds (000) vs MBB customers (m)

<table>
<thead>
<tr>
<th>Q1 10</th>
<th>MBB</th>
<th>Wireless 3G devices</th>
<th>Oct-09 ID</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;500</td>
<td>9.3</td>
<td>+35.5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2.3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Q1 10 Connectivity revenues up 68% y-o-y**

#### Offers with data control in our markets towards tiered pricing: different customer needs, avoiding “all you can eat” tariffs

<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 Wi-Fi hotspots

(1) Data for residential customers as of Q1 09

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**Note:** The figure shows the growth in MBB net adds and the number of MBB customers, with a focus on the connectivity revenues and the adoption of 3G services. The offers with data control are highlighted, emphasizing different pricing structures for varying data needs.
# Strong 55% market share in Fixed Broadband

- **Q1 10 FBB net adds (000)**
  - 286 (Market) + x 2.2 = 102 (movistar)
  - x 1.5

- **FBB accesses (y-o-y)**
  - Dec-09: 286
  - Mar-10: 5.6 m
  - **CAGR 08-12 E target**
    - FBB accesses
    - +4%/+7%
    - Oct-09 ID

- **Quality based offering**
  - Higher gross adds
  - Stable churn
  - Increased upload speeds (for 10 & 6 Mbps offers)
  - FO selective deployment

- **Total FBB ARPU**
  - Q1 10: -5.4%

- **Connectivity FBB ARPU erosion**
  - VAS ARPU represents over 20% of FBB ARPU
Pay TV: accelerating in Q1 10 and further growth potential ahead

Pay TV net adds (000)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Pay TV net adds (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 09</td>
<td>30</td>
</tr>
<tr>
<td>Q1 10</td>
<td>-8</td>
</tr>
</tbody>
</table>

Pay TV accesses (y-o-y)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Pay TV accesses (y-o-y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-09</td>
<td>+14.8%</td>
</tr>
<tr>
<td>Mar-10</td>
<td>+21.2%</td>
</tr>
</tbody>
</table>

Market share increased to 18%E despite limited coverage

Compelling offer

- Enhanced premium content
- Strong churn reduction

GROWTH POTENTIAL ON LOW PENETRATION LEVELS IN SPAIN

Dec-09 Pay TV penetration

<table>
<thead>
<tr>
<th>Region</th>
<th>Pay TV penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>25%</td>
</tr>
<tr>
<td>Europe</td>
<td>55%</td>
</tr>
</tbody>
</table>

Pyramid Research. Penetration over households (Report Apr-10).
Fixed telephony line losses decelerating

103% retail wireline loss offset by wholesale net adds in Q1 10 (vs. 53% in Q1 09)

**CAGR 08-12 E target**
- Fixed accesses
  -4%/-5%
- Oct 09 ID

**Total wireline accesses (000)**

<table>
<thead>
<tr>
<th></th>
<th>Mar-09</th>
<th>Retail wireline loss</th>
<th>Wholesale lines net adds</th>
<th>Mar-10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total wireline accesses net adds</strong></td>
<td>-150</td>
<td>-79%</td>
<td>+9</td>
<td></td>
</tr>
</tbody>
</table>

**Mar-10 Retail wireline accesses (y-o-y)**

- **Avg. Ex-TEF:**
  -8.6%

<table>
<thead>
<tr>
<th>Country</th>
<th>Q1 09</th>
<th>Q1 10</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>TI</td>
<td>-6.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DT</td>
<td>-6.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TEF</td>
<td>-7.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FT</td>
<td>-7.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BT</td>
<td>-10.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KPN</td>
<td>-12.3%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **41%(1) of our fixed accesses are bundled**

- **Wireline market continues growing** since Nov-09
- **Lines losses stabilizing:** lowest lines losses in last 5 quarters ex seasonality
As a result, T. España is posting gradual top line recovery...

**Revenues**
(comparable y-o-y change)

- Q1 09: -5.7%
- Q2 09: -6.9%
- Q3 09: -6.6%
- Q4 09: -4.5%
- Q1 10: -3.9%

**Wireless**
(Service revenues y-o-y change)

- Q1 09: -7.3%
- Q2 09: -8.1%
- Q3 09: -8.0%
- Q4 09: -7.7%
- Q1 10: -7.1%

**Wireline**
(comparable y-o-y change)

- Q4 09 Data & IT: -2.9%
- Q4 09 Internet & BB: -0.6 p.p.
- Subsidiaries: +0.3 p.p.
- Q1 10 Subsidiaries: -0.7 p.p.

**Top line gradual recovery**
- Lowest revenue decline for the last five quarters

**Sequential quarterly improvement since we reached the bottom** in Q2 09, driven by:
- ramp up in customer growth
- improvement in ARPU

**Weaker performance vs. previous Qs** affected by lower contribution of subsidiaries

**Seasonality of the IT business**

**Lower voice and access revenues**

**BB revenue were back to growth** in the quarter
... and continues to be a benchmark in efficiency across the industry

**OIBDA**
(comparable\(^{(1)}\) y-o-y change)

- **Q1 09:** -5.0%
- **Q2 09:** -8.9%
- **Q3 09:** -7.5%
- **Q4 09:** -7.9%
- **FY 09:** -8.0%

**Domestic operations** (FY 09) \(^{(3)}\)

**OIBDA margin**
(comparable/adjusted terms as defined by companies)

- **Q1 09:** 48.0%
- **Q2 09:** 46.5%
- **Q3 09:** 44.2%
- **Q4 09:** 44.2%
- **Q1 10:** 41.0%

Weighted Avg. Ex-TEF: -7.7%

**Revenues per employee**
(000's euros; Dec-09)

- **Q1 09:** 558
- **Q2 09:** 466
- **Q3 09:** 303
- **Q4 09:** 376
- **Q1 10:** 293

**Employees**
(000's employees; Dec-09)

- **Q1 09:** 35.3
- **Q2 09:** 58.4
- **Q3 09:** 11.0
- **Q4 09:** 25.1
- **Q1 10:** 92.6

- **Q2 09:** 81.3

\(^{(1)}\) Comparable terms for Q1 10 y-o-y change exclude the following effects: USO in Q1 09, real estate capital gains in Q1 09, Telyco Morocco in Q1 09 and TV Tax in Q1 10. Previous quarters year-on-year comparable changes published in Company’s press releases.

\(^{(2)}\) Quarterly Gross adds variations include: Fixed telephony accesses, retail broadband accesses, mobile accesses and pay TV accesses.

\(^{(3)}\) According to companies press releases as of Dec-09.
Year-on-year performance will not be linear along the year

- Commercial activity ramped up along 2009
- OIBDA margin gradually eroded by higher commercial costs

<table>
<thead>
<tr>
<th>2009 OIBDA one offs (€ m):</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universal Service</td>
<td>+22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reversion redundancy program provision</td>
<td></td>
<td></td>
<td>+90</td>
<td></td>
</tr>
<tr>
<td>Aplications sale</td>
<td></td>
<td></td>
<td></td>
<td>+48</td>
</tr>
<tr>
<td>Meditel sale capital gain</td>
<td></td>
<td></td>
<td></td>
<td>+220</td>
</tr>
</tbody>
</table>

(1) Quarterly Gross adds include: Fixed telephony accesses, retail broadband accesses, mobile accesses and pay TV accesses.

(2) Comparable terms for Q1 10 y-o-y change exclude the following effects: USO in Q1 09, real estate capital gains in Q1 09, Telyco Morocco in Q1 09 and TV Tax in Q1 10. Previous quarters year-on-year comparable changes published in Company’s press releases.
Spanish BENIGN regulatory environment?

**Wholesale pricing among lowest in Europe**

- **Spanish Full ULL price ~10% down on EU’s average**
- **Last CMT decisions decreasing rates while other NRA’s increasing rates**
- **New glide path reducing MTRs every six months, down to 4 € cents/min. by 2012**
- **PSTN monthly fee frozen for 2 years (2009 & 2010)**

<table>
<thead>
<tr>
<th>Country</th>
<th>Full ULL rate (€/month)</th>
<th>Average MTR (€cent/min)</th>
<th>Retail line rental (€/month)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>8.5</td>
<td>6.7</td>
<td>16.09</td>
</tr>
<tr>
<td>Netherl.</td>
<td>7.79</td>
<td>5.31</td>
<td>11.0</td>
</tr>
<tr>
<td>Swed.</td>
<td>7.83</td>
<td>5.83</td>
<td>13.9</td>
</tr>
<tr>
<td>Italy</td>
<td>8.34</td>
<td>6.12</td>
<td>19.9</td>
</tr>
<tr>
<td>UK</td>
<td>8.49</td>
<td>6.50</td>
<td>14.7</td>
</tr>
<tr>
<td>Portug.</td>
<td>8.62</td>
<td>6.76</td>
<td>13.4</td>
</tr>
<tr>
<td>France</td>
<td>8.99</td>
<td>7.32</td>
<td>15.5</td>
</tr>
<tr>
<td>Germany</td>
<td>9.00</td>
<td>8.23</td>
<td>15.9</td>
</tr>
<tr>
<td>Nether.</td>
<td>10.20</td>
<td>EU average</td>
<td>EU average</td>
</tr>
</tbody>
</table>

**TV tax ≈ €150 m in 2010 E**

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1. As of October 2009
2. As of December 2009

**TELEFONICA S.A.**
Investor Relations
2010: Economy environment

Economy indicators

- Unemployment rate increase (y-o-y)
  - 2010 E: +1.0 p.p.

- Real GDP growth (y-o-y)
  - 2009: -3.6%
  - 2010 E: -0.6%

- Real household consumption growth (y-o-y)
  - 2009: -5.0%
  - 2010 E: +0.2%

Gradual improvement

Government measures

- Public servants wages cut by 5% this year, frozen next year
- Pensions frozen
- Cuts in a number of subsidies (Personal income tax deduction, maternity benefit)
- VAT to be raised by 2 p.p. from July 2010
- Personal income tax raised in some regions
- Public investment cut by €6 bn
- Regional and local governments to cut spending by €1.2 bn

Footnote: (1) Funcas consensus 2010 forecasts (June 2010)
Are you under investing in Spain?

TELEFÓNICA ACHIEVING HIGHER EFFICIENCIES BASED ON

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

CapEx evolution (1) (2009; % change)
-15.6% -19.1% -22.6% -41.2% -19.5%

Weight in market CapEx (1) (2009 %)
57% 19% 13% 7% 2% 2%

96% total CapEx 4% total CapEx

Weighted market average (ex-TEF)
Jazztel +56% +4%
Yoigo

(1) Expansión: March 10th, 2010 (Vodafone data 12 months to Mar-10 vs. 12 months to Mar-09 in local currency).
Our mid term priorities

2012 targets

**Mobile Accesses**
- **2008**: 23.6 millions
- **2009**: Ex-discon. 24.3
- **2009**: 23.6
- **2012E**: (1) +3% / +5% (1)

**Retail FBB accesses**
- **2008**: 5.2 millions
- **2009**: 5.5
- **2012E**: +4% / +7%

**MBB Accesses**
- **2008**: 1 millions
- **2009**: >3
- **2012E**: x7

**Pay TV Accesses**
- **2008**: 0.6 millions
- **2009**: 0.7
- **2012E**: x2

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(1) Mobile accesses including voice, MBB data-only cards and M2M access base. Prepay identification effect not included
(2) MBB Including: Big and Small screen
Conclusions

- Delivering on our priorities:
  
  Strong commercial activity and market leadership to capture market growth

- Continued top line recovery:
  
  Underlying revenue trends in Q1 improving for the third quarter in a row

- Rich cash flow generation through focus in efficiency:
  
  T. España a benchmark among peers