Telefónica: Delivering sustainable growth
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1. Telefónica will maintain its differential profile in the future in a growth industry

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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%

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\(^{(1)}\) 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.
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

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(1) Revenue Mix

<table>
<thead>
<tr>
<th>FY 2008</th>
<th>FY 2012E</th>
</tr>
</thead>
<tbody>
<tr>
<td>81%</td>
<td>72%</td>
</tr>
<tr>
<td>13%</td>
<td>21%</td>
</tr>
<tr>
<td>4%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Revenue Mix:
- **Access & Voice**: 81% of FY 2008, 72% of FY 2012E
- **BB Connectivity**: 13% of FY 2008, 21% of FY 2012E
- **Applications & New Business**: 4% of FY 2008, 6% of FY 2012E

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(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 wholesale equipment. MBB connectivity: big and small screen, mobile email, and WAP browsing revenue.
(4) Apps. & New business revenue: 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.
01 Transformation will reinforce profitable and sustainable growth

A new operating model

- Reinforced by our scale and strategic alliances
- Operational activity
- Commercial activity
- Network
- IT
- Processes

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

Efficiency ratio ~-4p.p. var. 08-12E
OpEx(1) per access -6%/-3% CAGR 08-12E

(1) OpEx considered for this calculation is Revenue-OIBDA.
Guidance will lead to a sustainable growth and an even lower risk profile

<table>
<thead>
<tr>
<th></th>
<th>2008 Adjusted (2)</th>
<th>CAGR 08-12E (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accesses (1) (millions)</td>
<td>252</td>
<td>&gt;320</td>
</tr>
<tr>
<td>Revenues € in millions</td>
<td>57,946</td>
<td>+1%/+4%</td>
</tr>
<tr>
<td>OIBDA € in millions</td>
<td>22,602</td>
<td>+2%/+4%</td>
</tr>
<tr>
<td>OI € in millions</td>
<td>13,556</td>
<td>+4%/+7%</td>
</tr>
<tr>
<td>OpCF € in millions</td>
<td>14,201</td>
<td>+5%/+7.5%</td>
</tr>
<tr>
<td>CapEx € in millions</td>
<td>~ €30 Bn</td>
<td>Cumulative 09-12E ~€64 Bn</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 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

Disciplined use of FCF

- Growing dividends
  - €1.40\(^{(1)}\) in FY 2010E (+21.7% y-o-y)
  - €1.75\(^{(1)}\)\(^{(2)}\) 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

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\(^{(1)}\) 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

<table>
<thead>
<tr>
<th>Metric</th>
<th>Jan-Sep 2009</th>
<th>Change 9M 09/9M 08</th>
<th>Change organic(1) 9M 09/9M 08</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>41,721</td>
<td>-3.3%</td>
<td>+0.1%</td>
</tr>
<tr>
<td>Operating Income before D&amp;A (OIBDA)</td>
<td>16,647</td>
<td>-2.2%</td>
<td>+1.8%</td>
</tr>
<tr>
<td>OIBDA Margin</td>
<td>39.9%</td>
<td>+0.4p.p.</td>
<td>+0.7p.p.</td>
</tr>
<tr>
<td>Operating Income (OI)</td>
<td>10,024</td>
<td>-2.0%</td>
<td>+2.1%</td>
</tr>
<tr>
<td>Net income</td>
<td>5,610</td>
<td>+0.3%</td>
<td>+6.4%</td>
</tr>
<tr>
<td>OpCF (OIBDA-CapEx)</td>
<td>12,270</td>
<td>+5.6%</td>
<td>+10.1%</td>
</tr>
</tbody>
</table>

**EPS (€)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Underlying(2)</th>
<th>y-o-y growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>9M 08</td>
<td>1.20</td>
<td>+9.0%</td>
</tr>
<tr>
<td>9M 09</td>
<td>1.23</td>
<td></td>
</tr>
</tbody>
</table>

**Contribution by regions**

<table>
<thead>
<tr>
<th>% Group</th>
<th>Revenues 9M 09</th>
<th>OIBDA 9M 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>T. España</td>
<td>35.1%</td>
<td>43.5%</td>
</tr>
<tr>
<td>T. Latam</td>
<td>39.8%</td>
<td>39.9%</td>
</tr>
<tr>
<td>T. Europe</td>
<td>24.1%</td>
<td>17.3%</td>
</tr>
</tbody>
</table>

**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

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(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)

**Telefónica Group**

- **Revenues**: +0.1%  
- **OIBDA**: +1.8% \(+0.3\%\)  
- **OpCF**\(^{(2)}\): +10.1% \(+10.2\%\)

Considering comparable terms \(^{(1)}\) in T. España

OIBDA margin

**T. España**  
(y-o-y growth in comparable terms\(^{(1)}\))

- **Revenues**: -6.4%  
- **OIBDA**: -8.2%  
- **OpCF**\(^{(2)}\): -3.3%

**T. Latam**  
(y-o-y organic\(^{(3)}\) growth)

- **Revenues**: +5.8%  
- **OIBDA**: +13.5%  
- **OpCF**\(^{(2)}\): +31.4%

**T. Europe**  
(y-o-y organic\(^{(3)}\) growth)

- **Revenues**: +1.4%  
- **OIBDA**: +4.6%  
- **OpCF**\(^{(2)}\): +16.1%

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\(^{(1)}\) 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 USD in Q1 09 on revenues (Wireline: € 75 m) and OIBDA (Wireline: € 66 m, Wireless: € 24 m) and Q3 08 on revenues (Wireline: € 83 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: € 38 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**

- 2009 GUIDANCE
  - Revenue growth: +0.3%

**OIBDA Growth**

- 2009 GUIDANCE
  - +1.9% 

**CapEx**

- 2009 GUIDANCE
  - < €7,500 m

- 9M 09: €4,557 m

**OpCF**

- 2009 GUIDANCE
  - +10.3%

- 8%/+11%

Change 9M 09/9M 08

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(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)**

- **Wireline**
  - Q1 09: -3.0%
  - Q2 09: -4.2%
  - Q3 09: -4.0%

- **Wireless**
  - Q1 09: -7.3%
  - Q2 09: -8.1%
  - Q3 09: -8.0%

**OIBDA and OIBDA margin (comparable (2) y-o-y change)**

- **Wireline**
  - 9M 09: 47.7%
  - 9M 08: 47.0%
  - 9M 09: -0.7p.p.

- **Wireless**
  - 9M 09: 45.3%
  - 9M 08: 43.8%
  - 9M 09: -1.5p.p.

**Margins over revenues; (comparable(3))**

- **T.España**
  - 9M 08: 10.0%
  - 9M 09: 7.8%

**T. España OpCF:** € 6,113 m; -3.3%(2) y-o-y

- Slowdown in revenue decline...
- ... while sustaining sound profitability across businesses: 48.7% comparable(2) OIBDA margin...
- ... and investing in growth opportunities.
02 T. España: commercial activity improves for second quarter in a row

### FBB net adds (000)

- **Q1 09**: 45.4
- **Q2 09**: 39.6
- **Q3 09**: 92.1

Market share: 56%

### Pay TV net adds (000)

- **Q1 09**: -7.7
- **Q2 09**: 4.7
- **Q3 09**: 44.7

Market share: 16%

### Wireless net adds (000)

- **Q1 09**: 9.8
- **Q2 09**: 100.9
- **Q3 09**: 277.6

Total net adds: 314.8

### Fixed telephony lines losses

- **Q1 09**: -321.3
- **Q2 09**: -313.5
- **Q3 09**: -208.9

63% offset by net growth in wholesale in Q3 09

### Total BB accesses (000)

September 2009

- **FBB (retail) Accesses**: 5,424 (+6.0%)
- **Wireless data flat rates**:
  - **Q1 09**: 8,414
  - **Q2 09**: 1,512
  - **Q3 09**: +49%

**Market leader in 3G devices**
02 T. España: stable declines in usage and rational pricing competition

- **Mobile traffic**
  - Q1 09: -3.6%
  - Q2 09: -4.5%
  - Q3 09: -3.8%

- **Outgoing mobile voice ARPU**
  - Q1 09: -10.5%
  - Q2 09: -10.7%
  - Q3 09: -9.8%

- **Mobile ARPU**
  - Q1 09: -9.5%
  - Q2 09: -10.4%
  - Q3 09: -9.4%

- **Retail BB connectivity ARPU**
  - Q1 09: -6.6%
  - Q2 09: -5.7%
  - Q3 09: -6.8%
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

Revenue growth (9M 09 y-o-y change)

- +1.9% total
- +5.8% Organic(1)
- 1.7p. Arg.
- 0.7p. Mexico
- 0.5p. Peru
- 2.9p. Ven.
- 0.1p. Others(1)

OIBDA growth (9M 09 y-o-y change)

- +10.1% total
- +13.5% Organic(1)
- 2.4p. Arg.
- 3.1p. Mexico
- 1.3p. Peru
- 5.4p. Ven.
- 1.3p. Others(1)

OpCF growth (9M 09 y-o-y change)

- +28.7% total
- +31.4% Organic(2)
- 7.9p. Ven.
- 6.3p. Brazil
- 5.2p. Mexico
- 3.5p. Arg.
- 8.5p. Others(2)

T. Latam OpCF: € 4,668 m

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(1) Assuming constant exchange rates and including the consolidation of Telemig in Jan-Mar 2008.
(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

- 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

- 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
**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

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**Mobile net adds (‘000)**

<table>
<thead>
<tr>
<th></th>
<th>Q2 09</th>
<th>Q3 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Contract</td>
<td></td>
<td></td>
</tr>
<tr>
<td>69.3%</td>
<td>72.4%</td>
<td></td>
</tr>
</tbody>
</table>

**Revenue growth (1)**

<table>
<thead>
<tr>
<th></th>
<th>Q2 09</th>
<th>Q3 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organic growth</td>
<td>+0.5%</td>
<td>Flat</td>
</tr>
<tr>
<td>Flat</td>
<td>+1.8%</td>
<td>+3.0%</td>
</tr>
</tbody>
</table>

**OpCF (OIBDA - CapEx) (1)(2)**

<table>
<thead>
<tr>
<th></th>
<th>9M 08</th>
<th>GER</th>
<th>UK</th>
<th>Other</th>
<th>9M 09</th>
</tr>
</thead>
<tbody>
<tr>
<td>% Contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>60% market share of net adds across markets(3)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>+13.5p.p.</td>
<td>+5.8p.p.</td>
<td>-0.6p.p.</td>
<td>+18.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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(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

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\(^{(1)}\) Source: BoA-ML "European Telecoms Matrix Q3 2009", Sep.-09. Penetration measured over households.

\(^{(2)}\) Source: Telecom Italia and Telefonica quarterly releases as of September 2009.
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1 Telefónica will maintain its differential profile in the future in a growth industry

2 Delivering solid quarterly results

3 Conclusions
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**