



Results
January – June / 2010

Telefonica

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Continue to execute 2010 priorities

#1 Capturing top line growth prospects

- Ramp-up in revenue growth in Q2 10
- Continued strong commercial momentum



- **Enhanced revenue trends** across all regions of operations
 - Continued wireless data revenue growth and further expansion of FBB
- **Benchmark profitability**, improving sequentially
- **High CF generation & Balance sheet strength**
- **Full year and mid-term guidance reiterated:**
 - Revenue and OIBDA growth acceleration in Q2, in line with Company expectations. Further ramp-up in H2 10E
- **DPS targets confirmed** (2010: €1.40; 2012: minimum of €1.75)

Growth reacceleration...

€ in millions	Jan-Jun 2010	Chg H1 10/H1 09	Organic chg H1 10/H1 09
Revenues	29,053	+5.4%	+2.0%
Operating Income before D&A (OIBDA)	10,905	0.0%	-2.3%
OIBDA Margin	37.5%	-2.0 p.p.	-1.7 p.p.
Operating Income (OI)	6,456	-0.6%	+0.2%
Net income	3,775	9.4%	
OpCF (OIBDA-CapEx)	6,610	-18.6%	-3.4%

The value of diversification

Group Contribution by regions			
H1 10	Rev	OIBDA	OpCF Ex-spectrum
T. España	32%	40%	44%
T. Latam	42%	41%	41%
T. Europe	25%	19%	16%

Arrows from the T. Europe row point to three yellow circles containing the following percentages: 67%, 60%, and 57%.

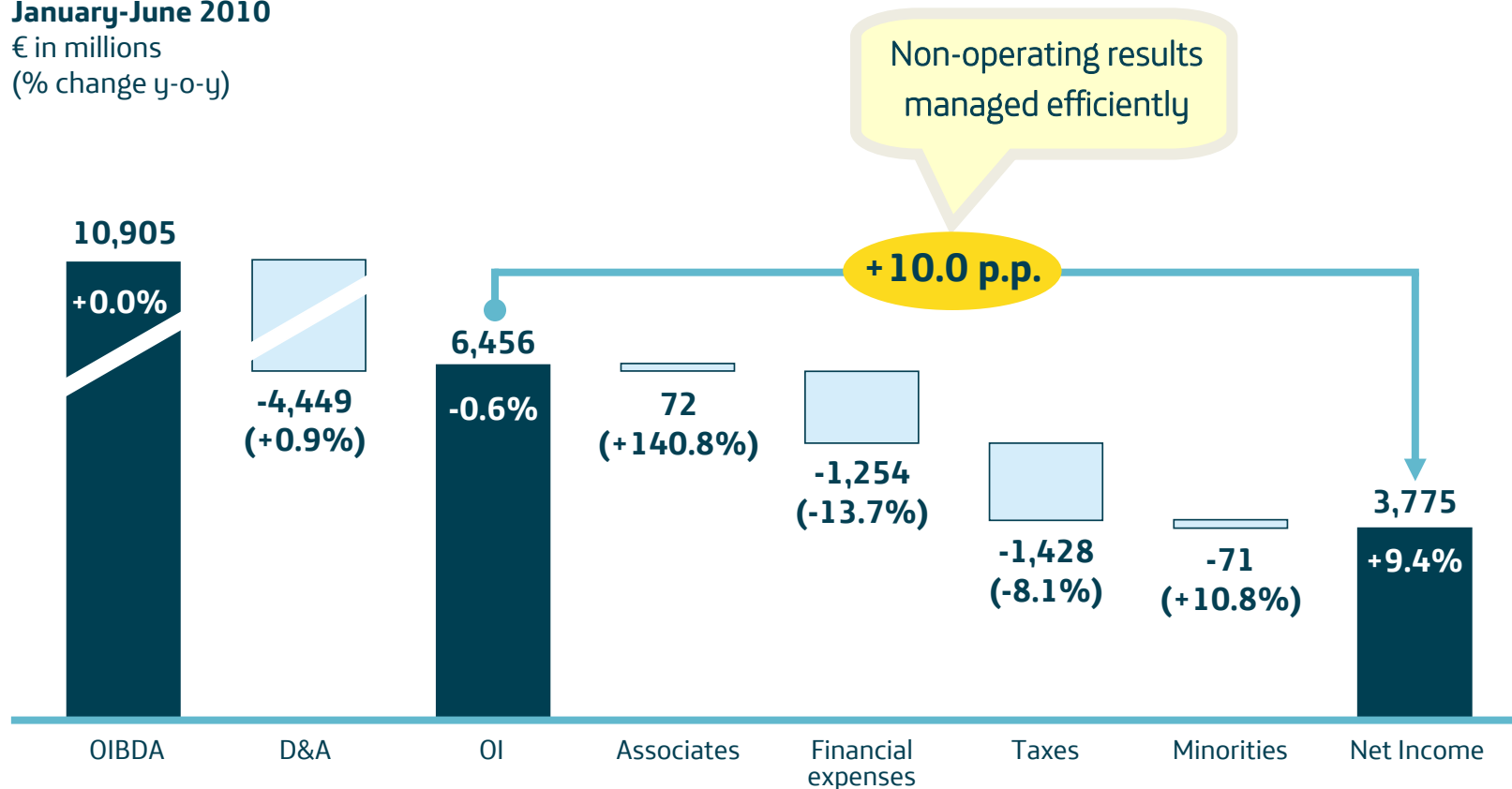
Positive contribution of forex to nominal growth rates of major metrics despite Venezuelan Bolivar devaluation

... from top to bottom

January-June 2010

€ in millions

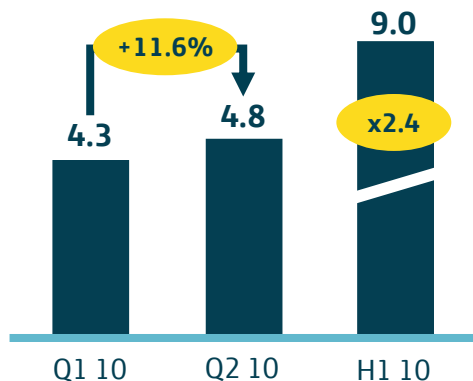
(% change y-o-y)



H1 10 EPS up 10.1% y-o-y to reach 0.83 €

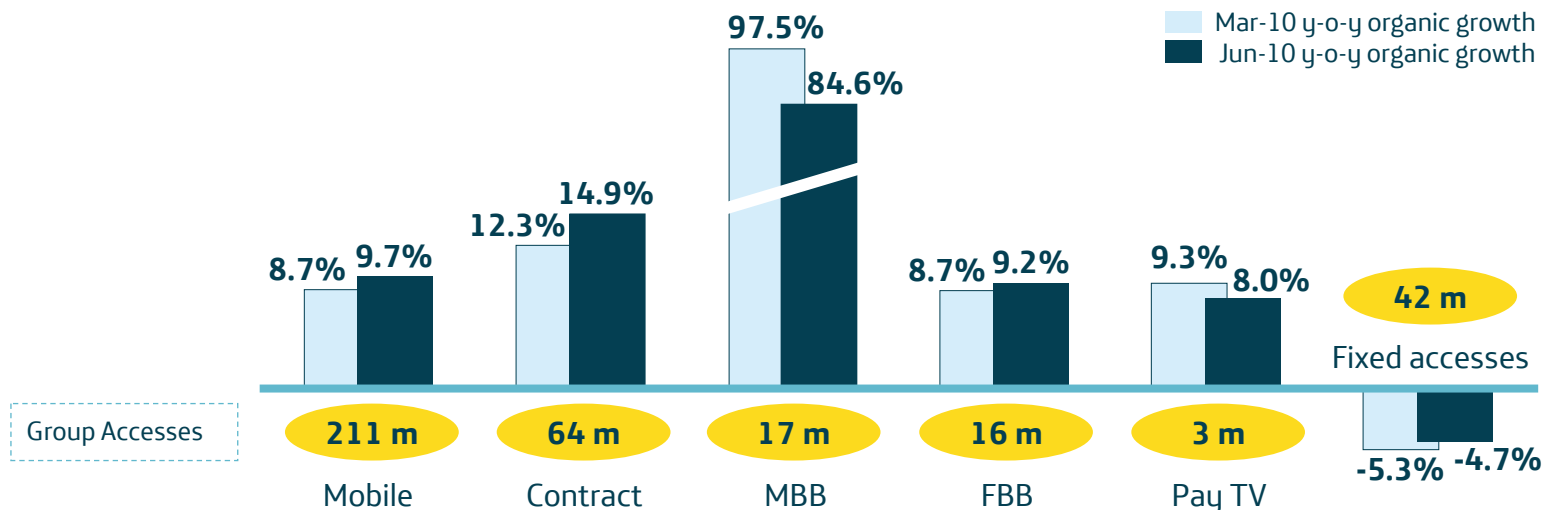
Sustained commercial push ...

Total organic net adds (million)



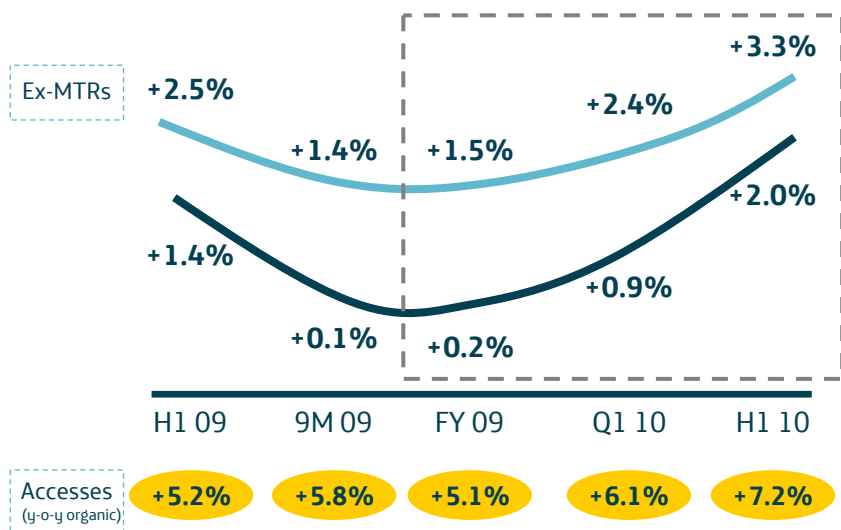
- Gross adds increased 16.2% y-o-y in H1 10
- Churn contained in H1 10 to 2.2% (-0.1 p.p. y-o-y)
- Contract organic mobile net adds gaining traction (56% over total mobile net adds in H1 10, +10 p.p. y-o-y)
- Robust MBB growth
- Strong FBB organic net adds (+30.4% vs. H1 09)
- Better trends in fixed accesses

Group accesses (278 m; +7.2% y-o-y organic growth)

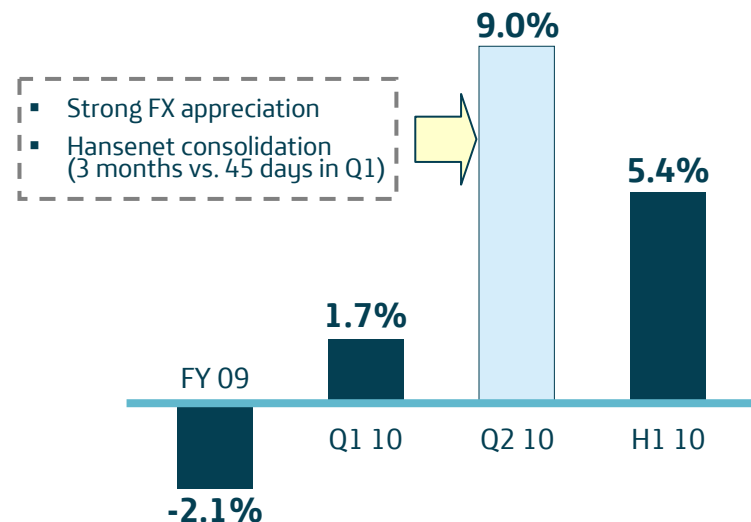


...translates into a superior revenue growth

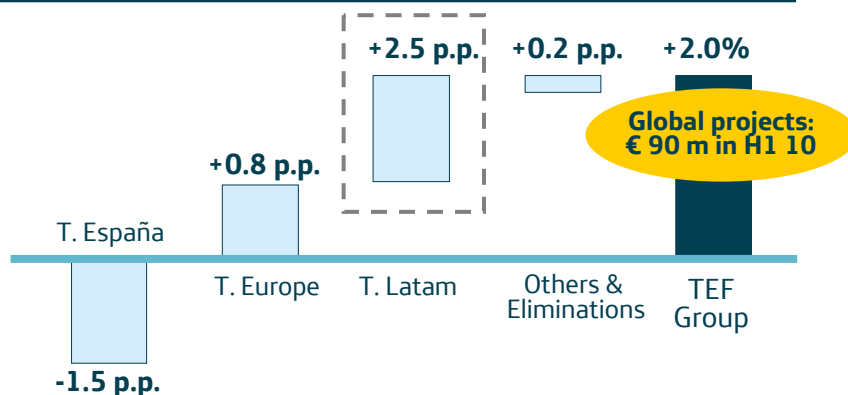
Organic revenue (y-o-y growth)



Reported revenue (y-o-y growth)



Contribution to organic revenue growth (H1 10)



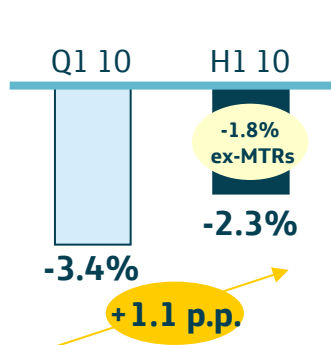
Reported revenue y-o-y growth

	FY 09	Q1 10	H1 10
T. España	-5.4%	-5.7%	-4.5%
T. Latam	+3.7%	+4.2%	+10.2%
T. Europe	-5.4%	+7.4%	+10.8%

Brazilian Real and Mexican and Colombian peso appreciation offset Bolívar devaluation in H1 10

Strong profitability despite increased commercial activity

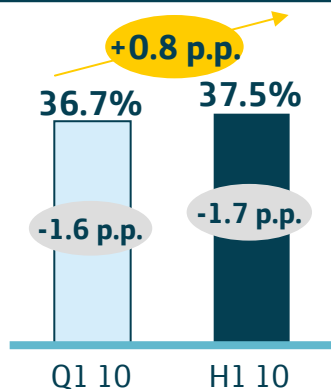
OIBDA (organic y-o-y growth)



H1 10 OIBDA evolution impacted by:

- Regulatory and other non recurrent effects, dragging 2.7 p.p. of growth
- OpEx organic growth (+5.5% vs. H1 09) mainly due to external services and personal expenses (+10.8% and +11.7%, respectively)
- Continued contention of interconnection costs (up 1.1% y-o-y organic) with growth in T. Latam offsetting MTRs declines in Europe
- Higher commercial costs (up 8.1% y-o-y organic) on increased commissions and handset subsidies
- Growth in other expenses mainly driven by network costs (network maintenance in T. Latam, own network in Germany)

OIBDA margin



Sequential improvement both in OIBDA and OIBDA margin:

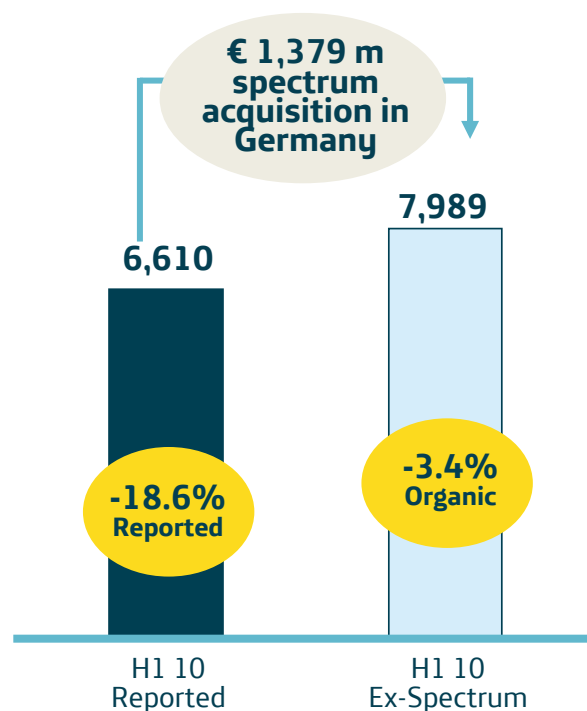
- Reaping benefits from higher commercial activity since H2 09
- Revenue rebound
- Leveraging our scale through global units already bearing fruits: € 85 m in OIBDA from centralization of processes within the Group

Organic y-o-y growth

Solid cash flow generation

Operating Cash Flow (OIBDA-CapEx)

€ in millions



● y-o-y growth

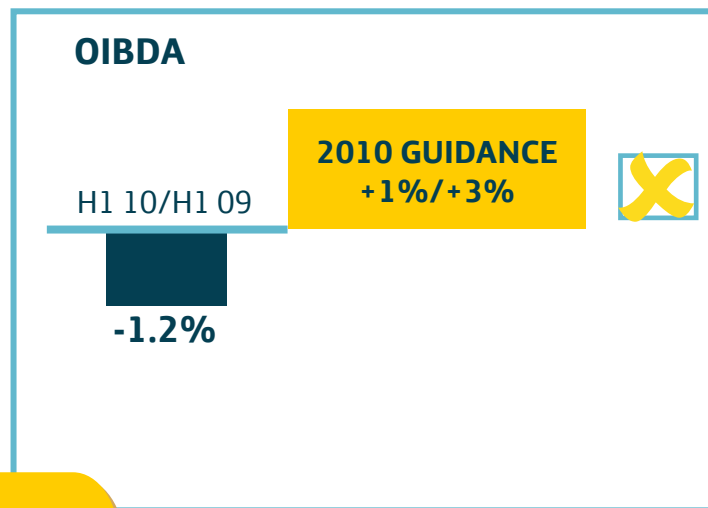
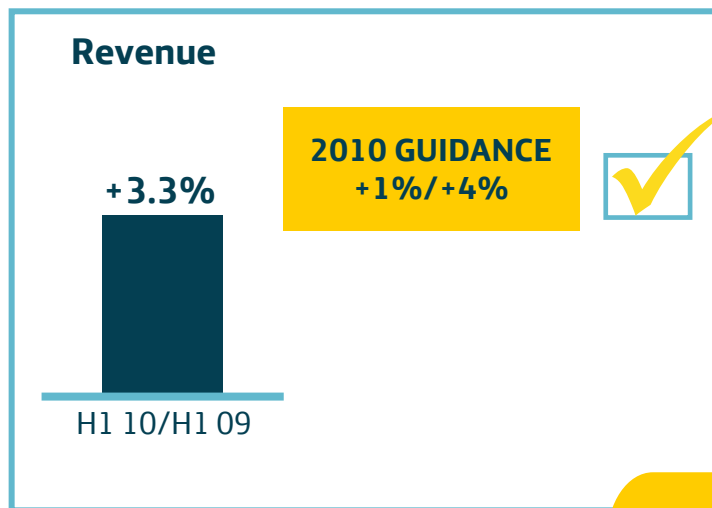
- **T. Latam** OpCF up 6.3% y-o-y organically to € 3,239 m
- Solid 3.1% y-o-y organic growth at **T. Europe**
- **T. España** delivered 3,547 m of OpCF in H1 10 (-9.2% y-o-y in comparable terms)

Efficiency ratio: 75.3% in H1 10

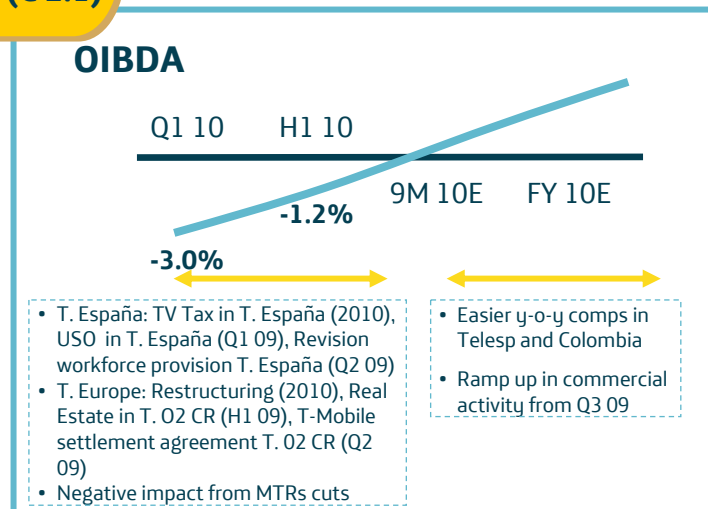
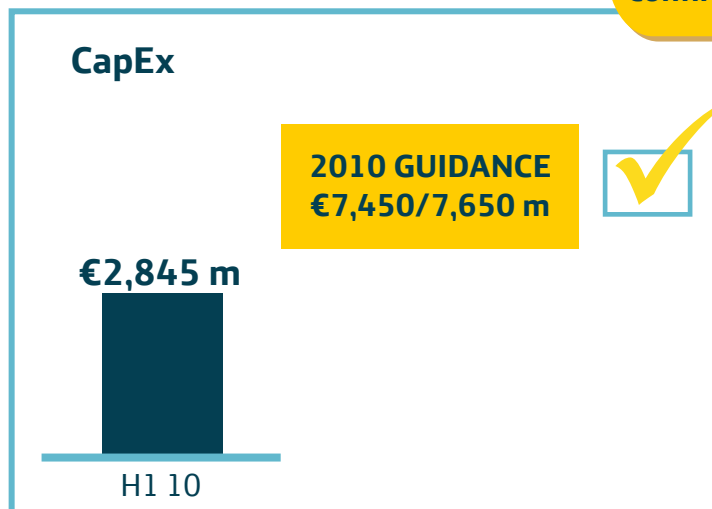
Organic growth assumes constant exchange rates as of H1 09 (average fx) and excludes the consolidation of HanseNet (since mid February) and Jajah (January-June) in 2010. In OIBDA and OI, Telyco Morocco results are excluded in January-June 2009. OIBDA figure does not include the impact of capital gain registered in the second quarter of 2010 from Manx Telecom disposal. CapEx excludes the spectrum acquisition in Germany in Q2 10 (€ 1,379 m). It excludes hyperinflationary accounting in Venezuela in both years.

Efficiency ratio: Defined as last twelve months (OpEx+CapEx- Internal exp. Capitalized in fixed assets)/Revenues. CapEx excludes the acquisition of spectrum and Efficiency Program at T. España.

On track with 2010 full year outlook



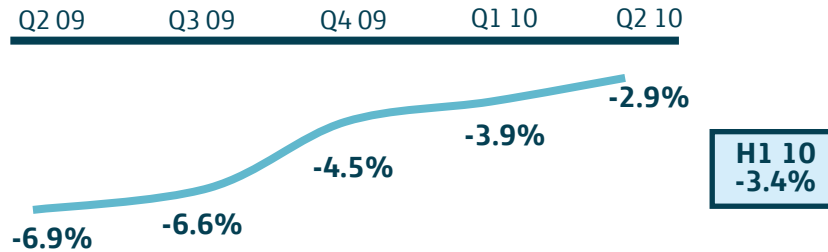
2010 EPS target confirmed (€ 2.1)



T. España: Gradual recovery and improved profitability

Revenues

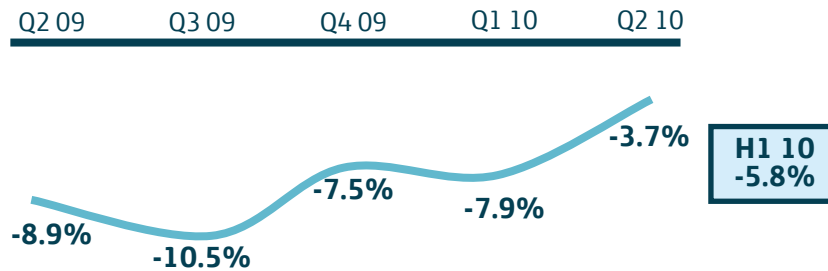
(comparable y-o-y change)



- Ongoing top line recovery from the bottom in Q2 09
- Improved fixed and mobile revenues

OIBDA

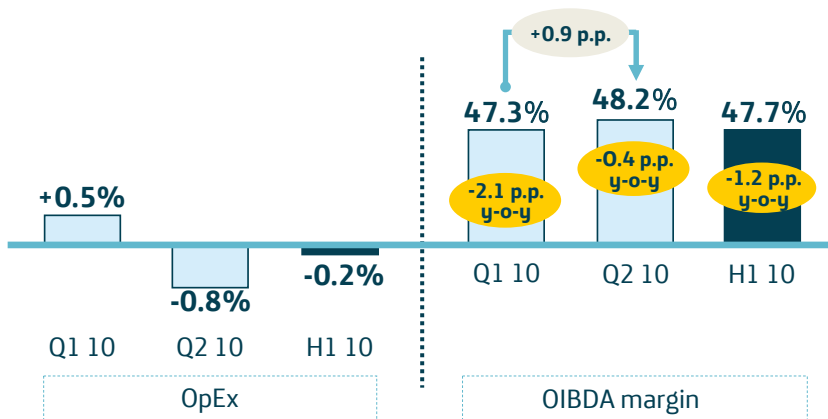
(comparable y-o-y change)



- Sound OIBDA sequential increase, leveraging OpEx efficiencies

OpEx & OIBDA margin

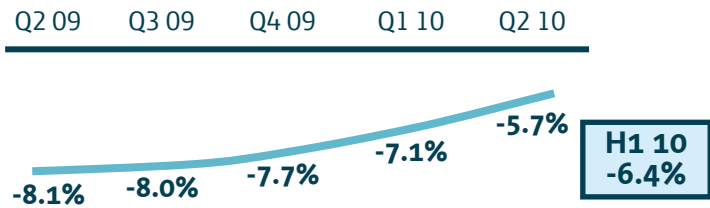
(comparable; y-o-y change)



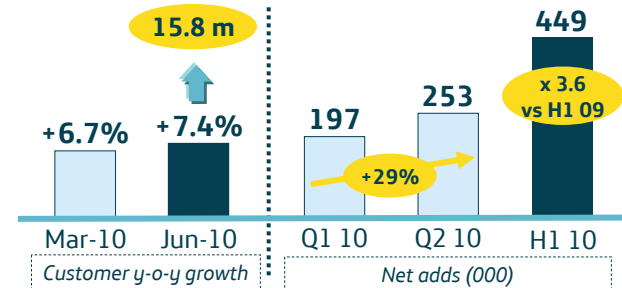
- Margin erosion contained
- Increased CapEx focused on MBB

Sound commercial momentum focused on contract

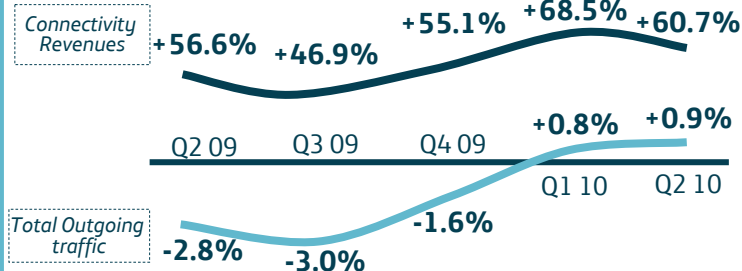
Wireless service revenues



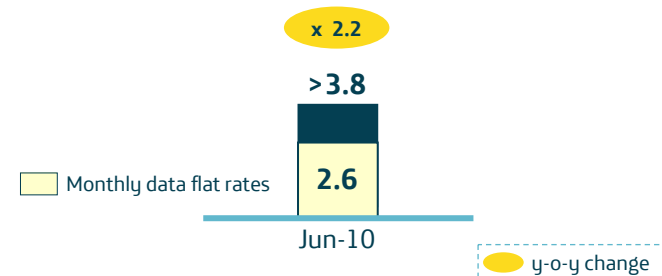
Wireless contract customers



Mobile Usage (y-o-y)



Mobile Broadband accesses (m)



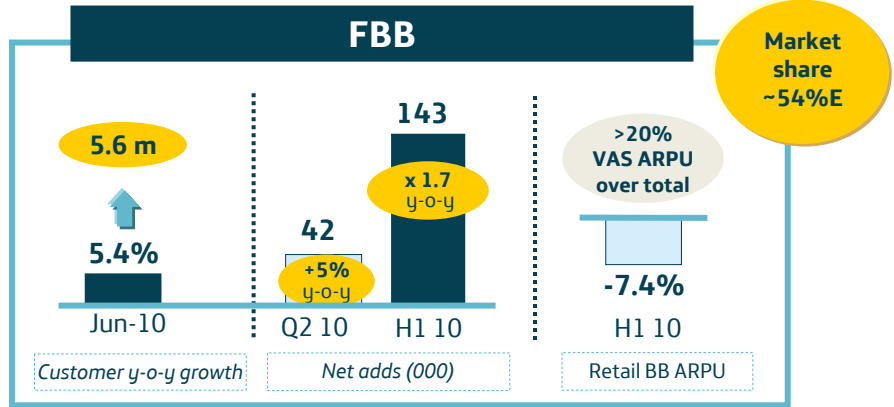
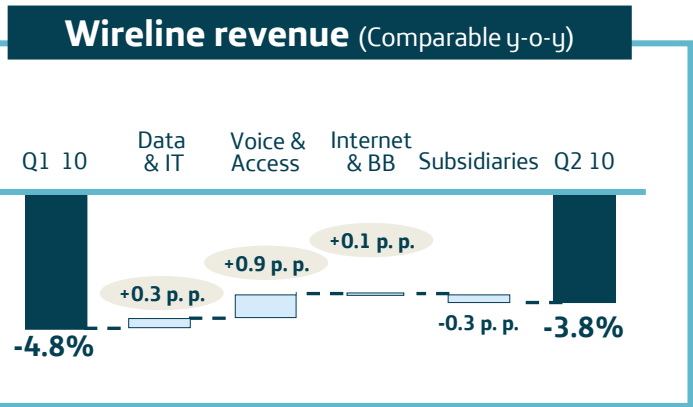
Leading the market with the highest gap between access and revenue share

- Net adds boosted by total gross adds (up 27.0% vs. H1 09) along with churn contention
- Contract account for over 66% of total base
- Benchmark churn rate in the market, improving in contract
- Continued recovery in voice traffic (+0.4% vs H1 09); outgoing voice ARPM (-6.5%) in line with previous quarters
- Advancing on MBB, more than doubling customer base

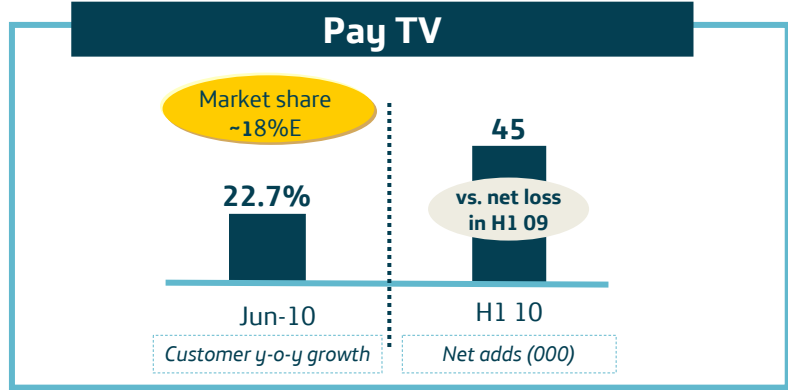
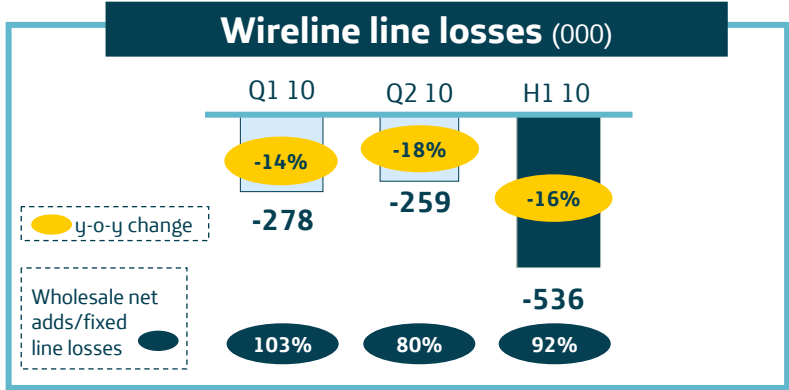
Mobile BB accesses include: Monthly and daily wireless data flat rates.

Revenue recovery, leveraging integrated leadership

Top line decline easing



Market share ~54%E

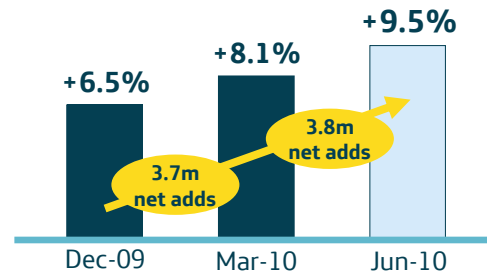


- Sequential improvement in top line driven by positive contribution from all revenue concepts, but subsidiaries
- Market leader leveraging on strong customer uptake and increased loyalty across businesses, thanks to focus on bundles
- Strong y-o-y reduction in retail line losses on improved value proposition, despite lowest wholesale ULL prices in Europe
- Total wireline accesses declining 0.9% y-o-y as wholesale net adds partly offset retail wireline losses
- FBB leadership on improved quality offer (upload speed increased for 6 & 10 Mb offers). ARPU erosion in a very competitive market
- Steady growth in Pay TV with ARPU and churn improvement

T.Latam: Revenue and OIBDA growth acceleration

Accesses growth

(y-o-y)

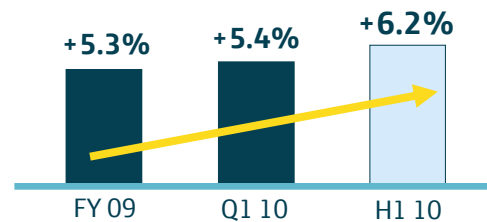


Strong commercial momentum maintained in Q2:

- Ramp up in accesses to 176.1 m
- 7.5 m net adds in H1 10: 2.9x y-o-y
- Churn contention

Revenue

(Organic y-o-y growth)

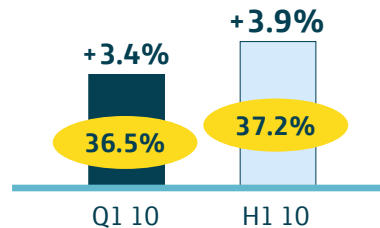


Robust organic top line growth acceleration:

- Improved trends across businesses
- Double digit growth in mobile service and Internet & Pay TV revenue
- Revenue acceleration across most countries

OIBDA

(Organic y-o-y growth)



OIBDA margin y-o-y erosion (-0.9 p.p. in H1 10 in organic terms) mainly driven by Telesp & Colombia:

- Comparison to ease in H2 10

7.3% y-o-y OpCF increase in euros (€3.2 bn), despite Bolivar's devaluation

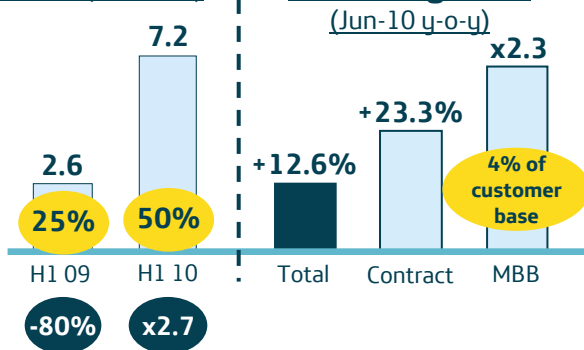
● OIBDA margin

Organic growth assumes constant exchange rates as of H1 09 (average fx) and excludes hyperinflation accounting in Venezuela in both years.

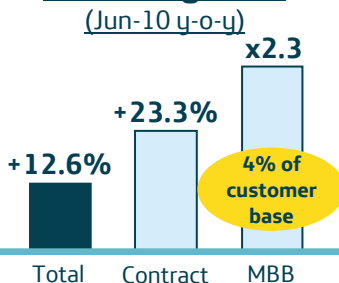
Wireless business: Strong commercial activity

Mobile KPIs

Net adds (in million)



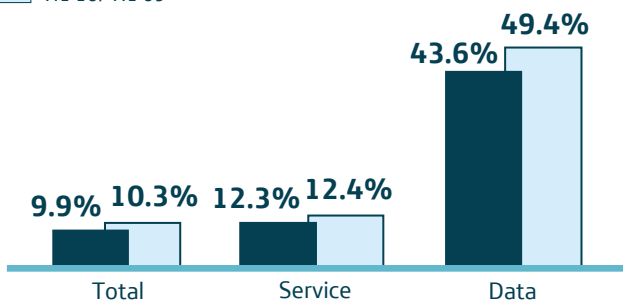
Accesses growth (Jun-10 y-o-y)



- **Gross adds up 22.6% y-o-y** in H1 10 (+43.1% in contract)
- **Churn improvement:** 2.5% in Q2 10 (-0.2 p.p. y-o-y)
- **+1.6 p.p. acceleration in customer growth q-o-q to 12.6%**
- **Focus on contract:** +6.7 p.p. vs. Mar-10 y-o-y growth rate leveraging migrations (>1.6 m net):
 - 19% of the customer base (+1.6 p.p. y-o-y)

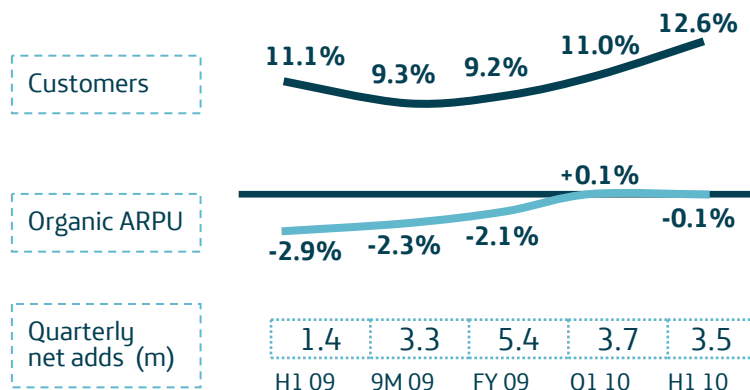
Revenue growth (y-o-y organic)

■ Q1 10/ Q1 09
□ H1 10/ H1 09



- Revenues acceleration across all services
- +5.8 p.p. y-o-y ramp up in data/service revenues to >21%

Mobile Customer & ARPU (y-o-y change)

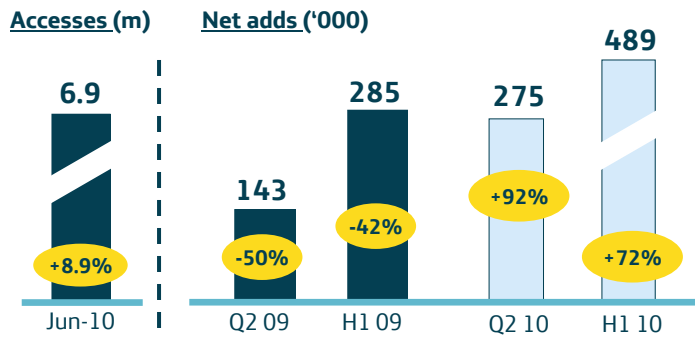


- ARPU stabilization y-o-y, despite fast accesses growth

Wireline business: Stabilizing revenue drivers

Latam Retail FBB

y-o-y growth

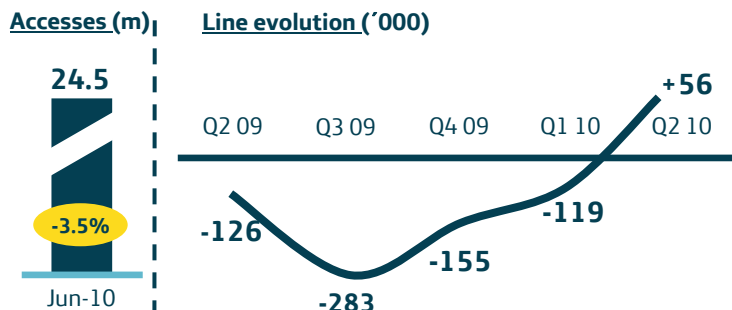


Record FBB net adds since Q3 08, with increasing net adds q-o-q for the last 3:

- Robust push in net adds
- New record at Telesp in Q2 10
- BB/fixed lines: +3 p.p. y-o-y to 28%
- Higher quality led to the lowest churn ever

Latam Retail Fixed Accesses

y-o-y growth

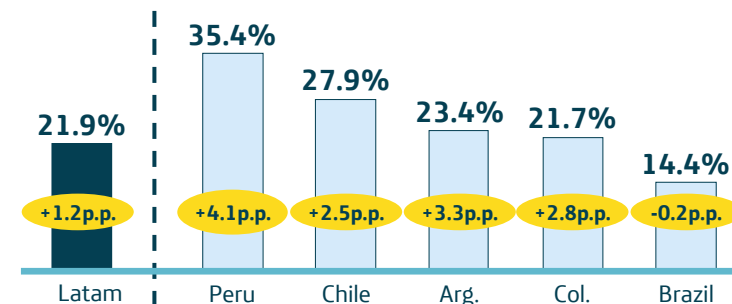


Outstanding performance in fixed accesses in Q2:

- First positive net adds since Q3 08
- Improved quality led churn reduction

Internet & Pay TV rev/ Total rev (H1 10)

y-o-y growth



Further advance in transformation:

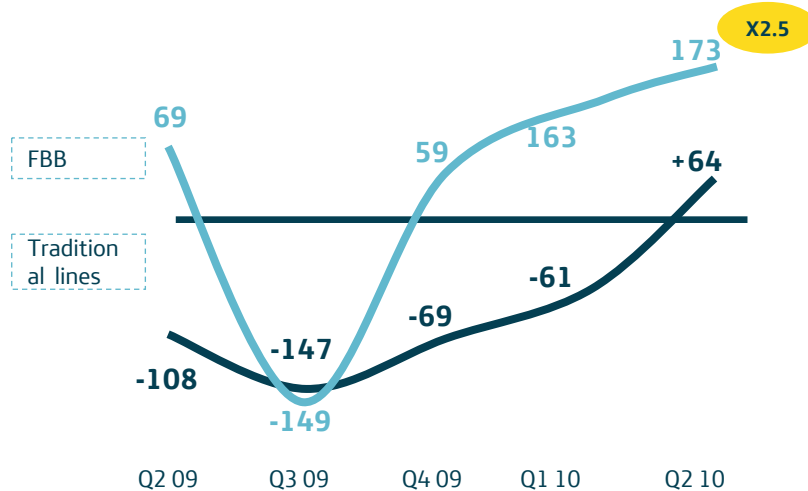
- 2P&3P/BB: +6 p.p. y-o-y to 57%
- Higher contribution from internet & Pay TV revenue in most operations

Q4 09 wireline net adds and growth rates exclude the disconnection of fixed telephony accesses in Colombia.

Teleesp: Sustained commercial recovery gradually flowing into financials

Net adds
(000)

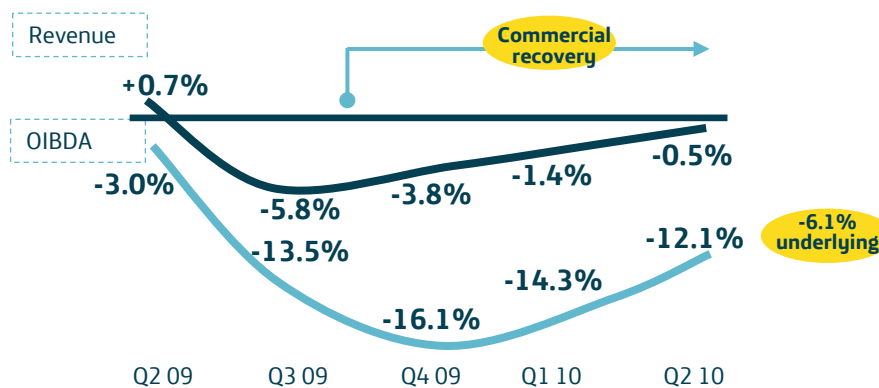
y-o-y growth



Strong commercial momentum:

- Positive fixed line net adds for the 1st quarter since Q1 06: positive net adds for 4 consecutive months in a row
- Record BB net adds since launch 10 years ago: 2x vs. H1 09; +6.1% q-o-q
- Strong gross adds and further churn reduction on enhanced customer satisfaction
- Improved quality acknowledged by Anatel

Financials
(y-o-y in local currency)

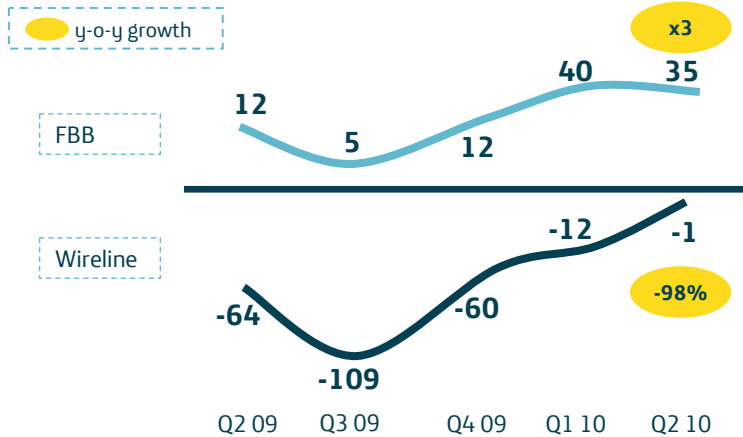


Revenue stabilization on better performance of fixed line revenue in Q2

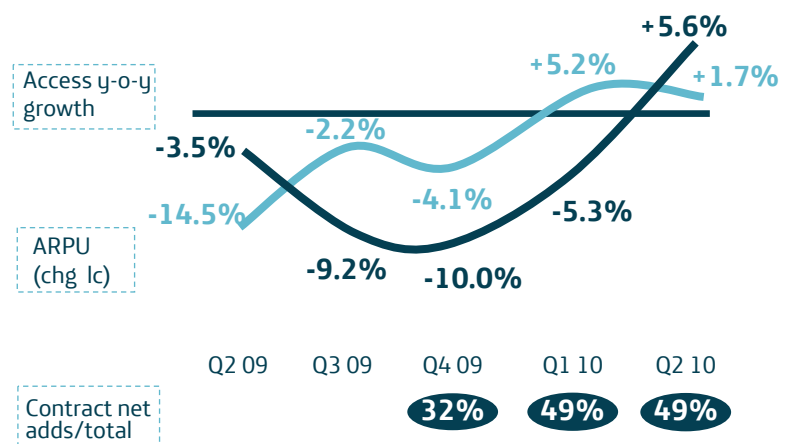
- OIBDA declined driven by change in business mix and enhanced customer care
- Improved underlying OIBDA in Q2: -6.1% y-o-y

Colombia: Turnaround efforts start to pay off

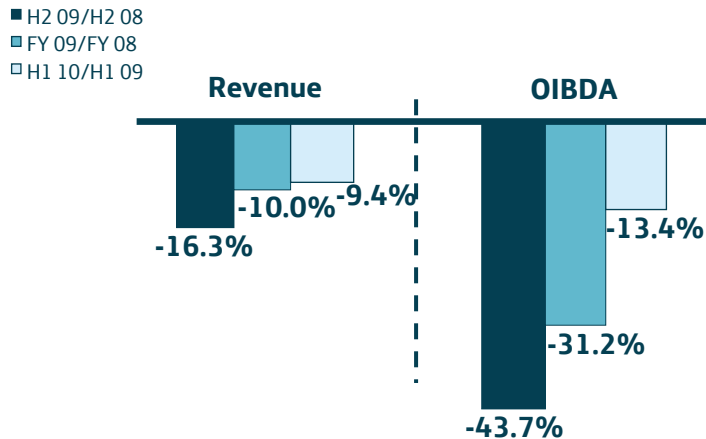
Wireline net adds (000)



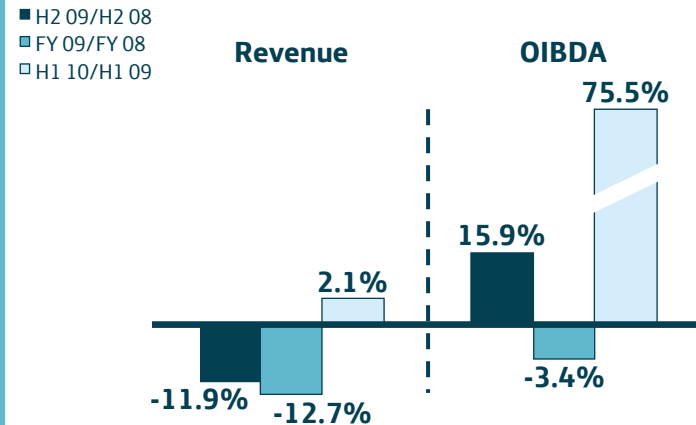
Wireless KPIs



Wireline Financials (y-o-y in local currency)



Wireless Financials (y-o-y in local currency)



Q4 09 FBB and wireline net adds and growth rates exclude the disconnection of inactive fixed telephony and FBB accesses in Colombia.

Good performance across key operations



Mexico

- **Ramp up in customer growth** (+15.7% y-o-y) **driven by contract segment** (+47.7% y-o-y)
- **Improved gross adds & best in class churn rate** (2.2% in H1 10)
- **Solid service revenue growth** (+9.7% y-o-y) & **OBDA margin expansion** to 33.9% in H1 10



Venezuela

- **Strong financials** despite devaluation
- **Lower commercial activity on limited availability of handsets**
- **Service revenues** (+23.0% y-o-y) **boosted by data services** (+54.8% y-o-y)
- **Healthy OIBDA margin** (45.1%) despite high costs



Vivo

- **Net adds up 2.3x vs. H1 09**
- **Market share gain for 4th quarter in a row:** 30.2%; 34.7% in contract
- **Service revenue growth ramp up** to 9.0% y-o-y (+11.5% in Q2) driven by data (+70.2%)
- **Solid OIBDA margin** at 30.1%



Argentina

- **Positive fixed accesses growth** driven by ramp up in BB and in traditional fixed lines net adds
- **Top line acceleration** to 14.7% y-o-y on strong mobile service and FBB revenues
- **Healthy OIBDA margin** at 34.6%, stable vs. Q1 10

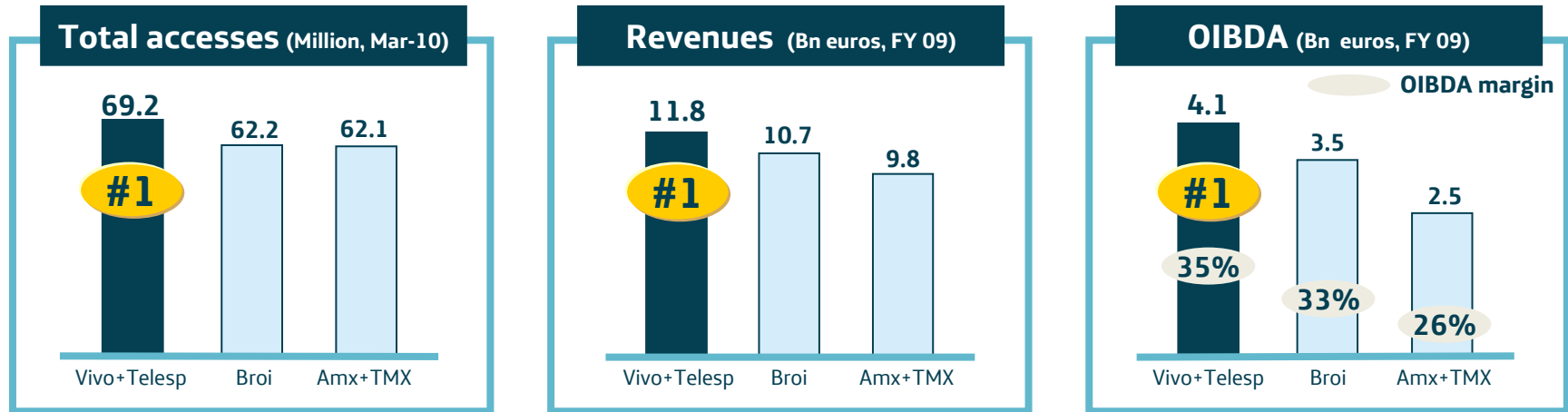


Chile

- **Sequential improvements in revenue and OIBDA growth**
- **Strong mobile data revenue**, up 40.5% y-o-y
- **Robust profitability:** 44.2% OIBDA margin

Financial variations in local currency.

Becoming the leader in the growing Brazilian market



- The **leading integrated telco player** in Brazil ...
 - ... with strong growth potential (FBB, wireless penetration, MBB, pay TV ...)
- The **most profitable player** ...
 - ... with further room for improvement leveraging significant synergies potential
- An **EPS and FCPS accretive transaction from year 1**

Telefónica's value proposition is in line with the offer supported by PT's shareholders at the EGM

€7.5bn for PT's 50% stake in Brasilcel to be paid in 3 tranches

Offer voted at the EGM

+ PT services to Vivo

+ PT services to Vivo

+ Acquisition of Dedic

+ Call option on TEF's stake in PT

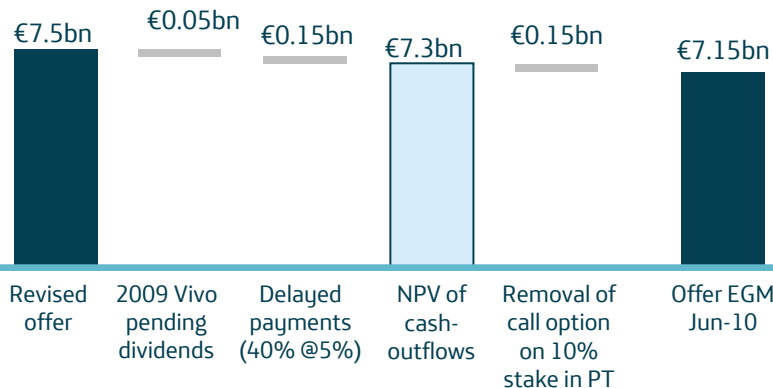
+ 5% guaranteed return on deferred sale value

+ 2009 accrued Vivo's dividends

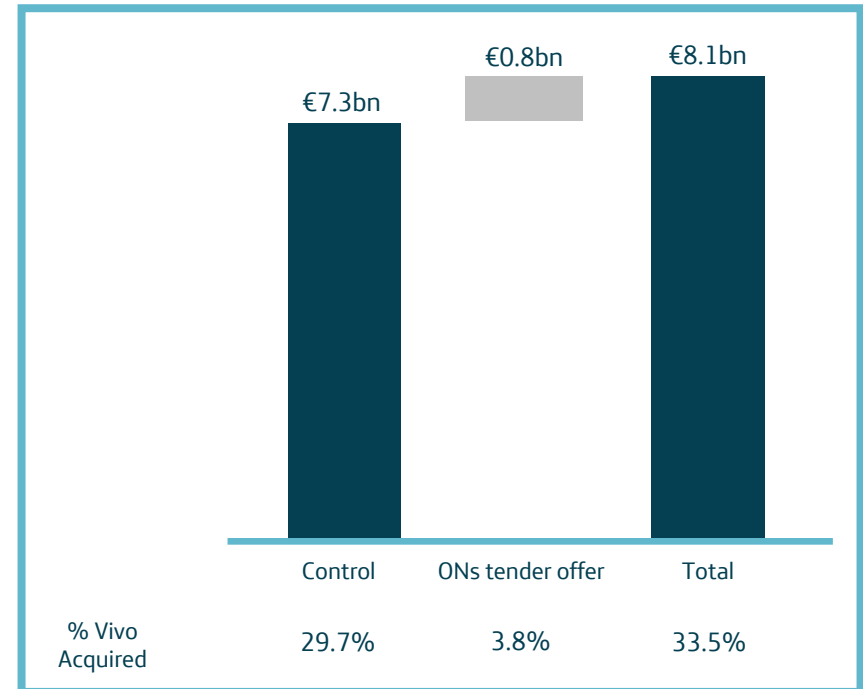
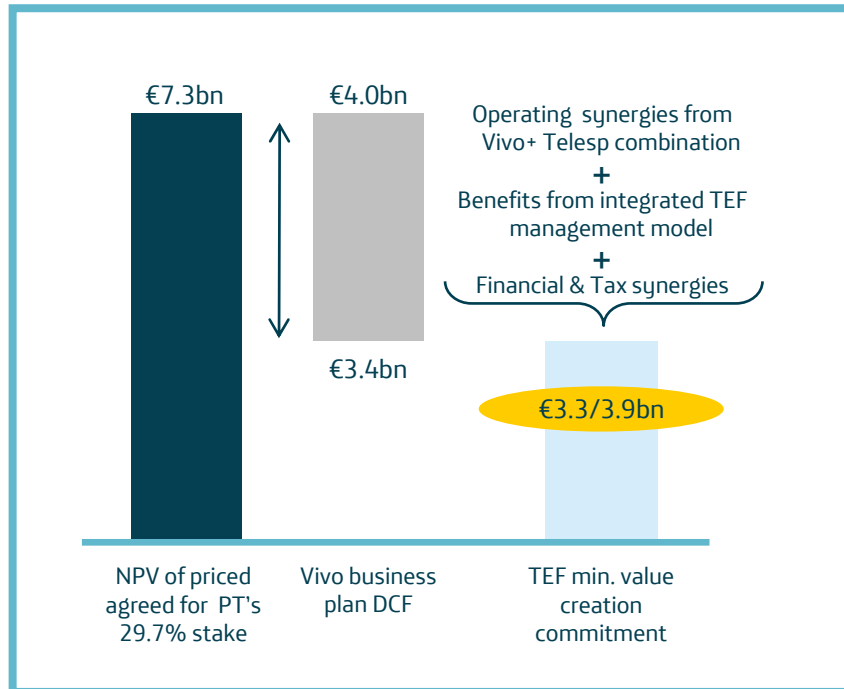
Cash Offer for PT's 50% stake in Brasilcel

NPV of total cash outflows@5: €7.3bn

€7.15bn



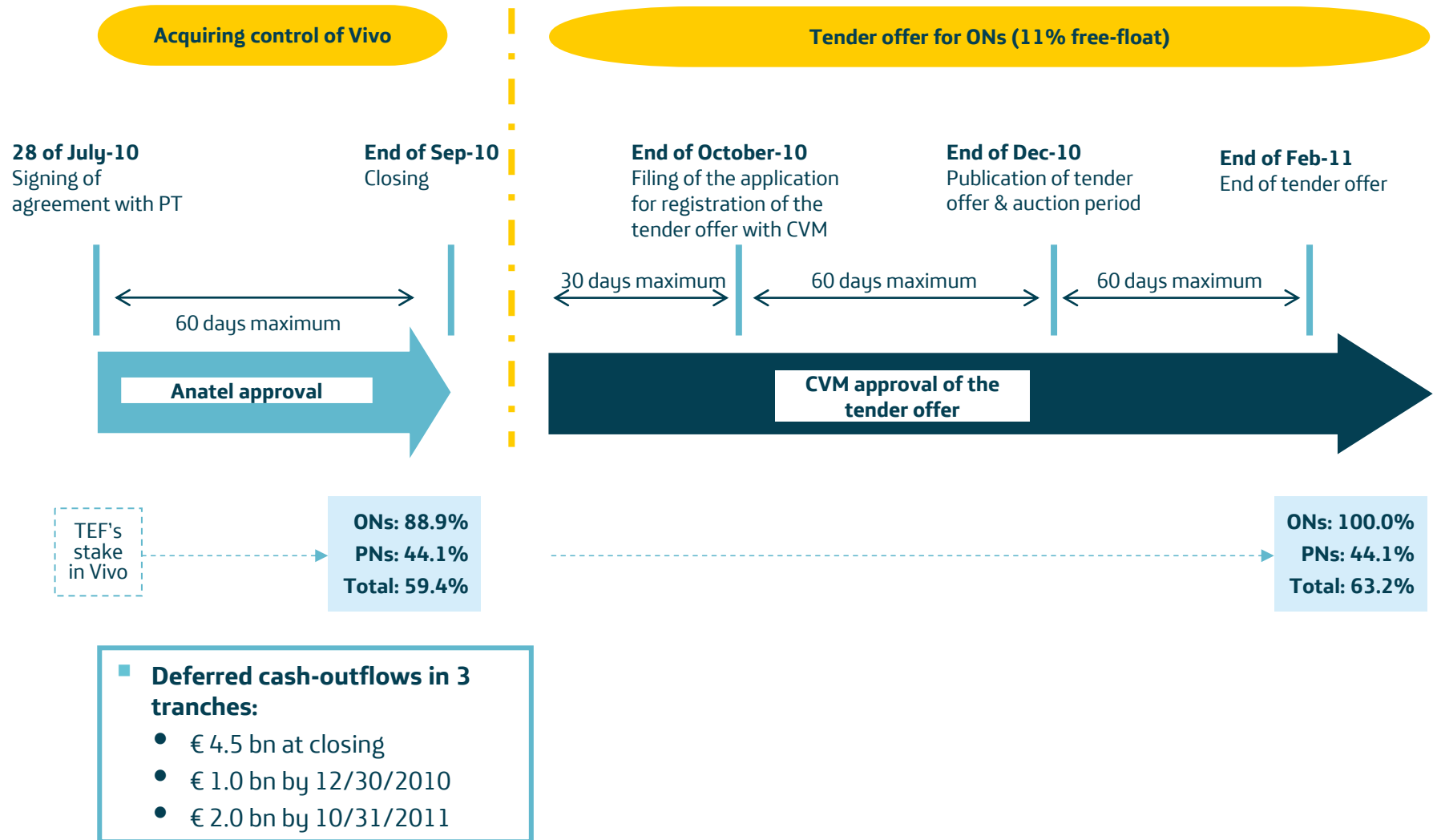
Control price averaged down by tender offer for ONs



<u>FV/EBITDA 10</u>			
Excluding synergies	11.6x	9.4x	11.4x
<u>FV/EBITDA 11</u>			
Excluding synergies	10.4x	8.4x	10.2x

Significantly lower multiples based on internal estimates & including synergies

Key dates of the transaction

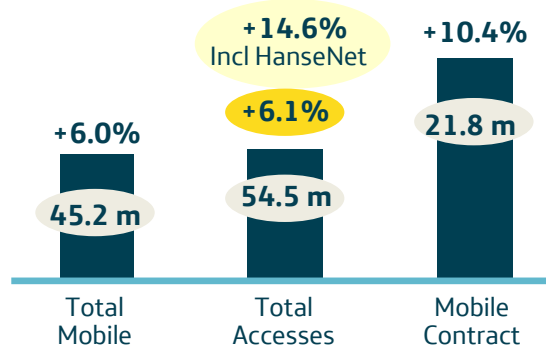


T. Europe: Improving trends, continued momentum

Accesses

(Jun-10; y-o-y growth)

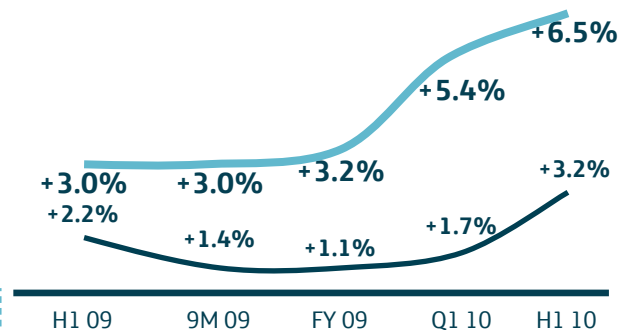
Organic



Revenue

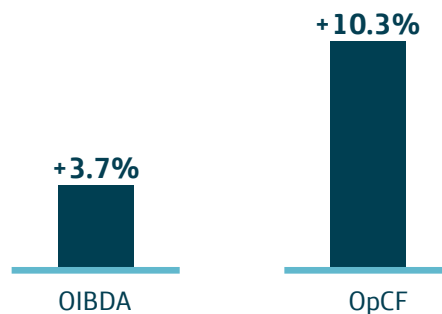
(y-o-y growth)

Organic ex-MTR y-o-y change
Organic y-o-y change



H1 10 Profitability

(y-o-y growth in comparable terms)



Customer growth, quality improvement:

- Mobile contract: 48% of base (+2 p.p. y-o-y)
- Strong MBB expansion to over 8 m accesses (+53.9% y-o-y)
- Positive trend in churn

Sequentially accelerating organic growth:

- UK, Germany main contributors
- Non-P2P SMS organic rev. up 32.3% y-o-y in H1 10
- Driving mobile Internet, leading innovation in mobile data tariffs

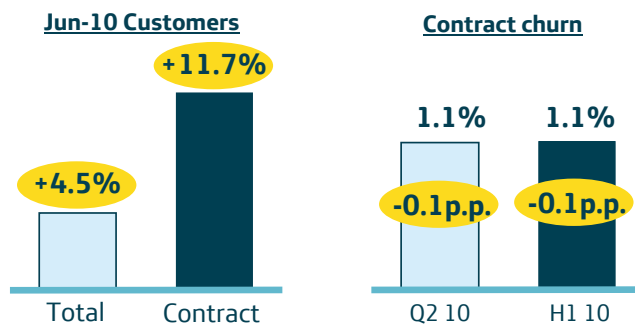
Sustained profitability, actively managing business portfolio:

- 28.0% OIBDA margin in H1 10, flat y-o-y in comparable terms
- CapEx down 5.8% y-o-y in organic terms; focus on growth & transformation
- Smooth HanseNet integration, spectrum acquisition in Germany and disposal of Manx T.

T.O2 UK: Steady growth, shaping the business

Mobile customer KPIs

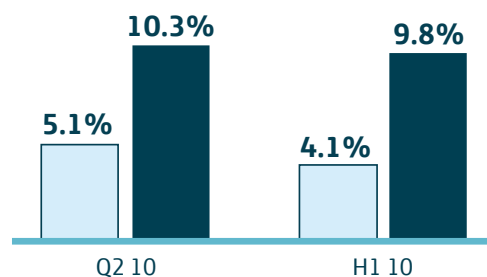
● y-o-y change



Mobile service revenue

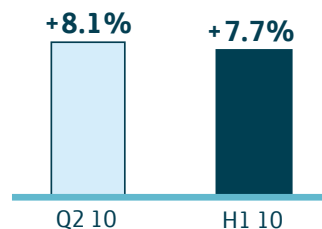
(local currency, y-o-y growth)

■ Reported y-o-y change
■ Ex-MTRs y-o-y change



OIBDA

(y-o-y growth in local currency)



■ Driving smartphone adoption & innovation:

- The “Home of Smartphones”: sustained iPhone momentum since exclusivity ended
- 47% of the base in contract (+3 p.p. y-o-y)
- Bold move to tiered data pricing

■ Steady revenue growth:

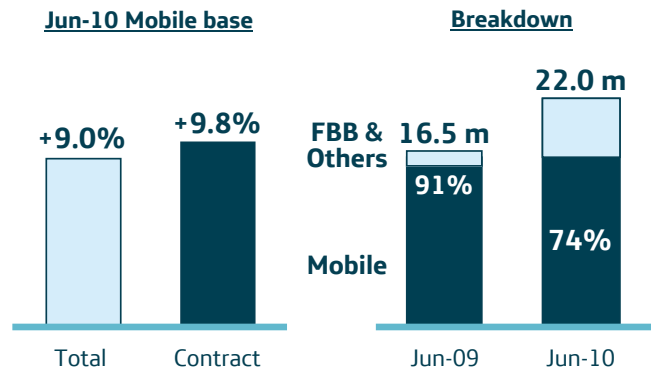
- Total H1 ARPU up 2.2% y-o-y ex-MTR in lc driven by higher contract base
- Robust non-P2P SMS revenue in H1: up 42.6% y-o-y in lc, to 32% of data revenues
- Roaming revenues up on Q1

■ Enhanced profitability, in line with targeted commercial activity:

- OIBDA margin of 25.9% in H1 (+0.9 p.p. y-o-y)
- Disciplined approach to acquire and retain high value customers

T.02 Germany: Sustained solid momentum, smooth HanseNet integration

Customer Base (y-o-y growth)

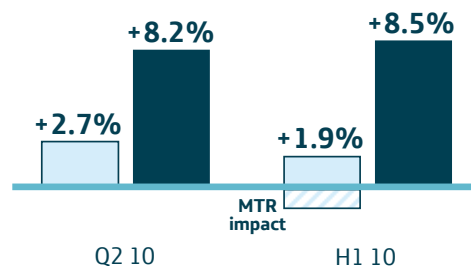


Continued customer base expansion:

- Sustained leadership in MBB
- Total mobile net adds grew 4.1% y-o-y in H1
- Q2 prepay net adds up 13.5% y-o-y

To June, HanseNet focused on integration

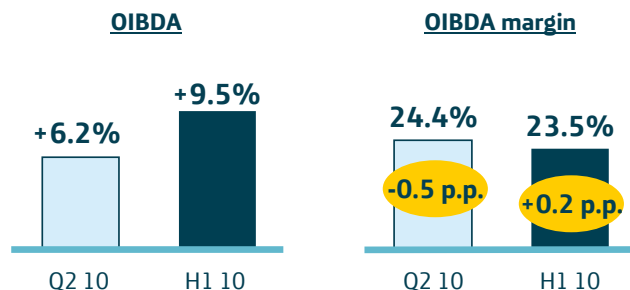
Revenues (y-o-y growth)



Solid organic revenue growth on “02o” and “My Handy” propositions:

- Non-P2P SMS revs up 34.9% y-o-y in H1
- Improving ARPU trends vs. Q1
- Strong growth in fixed revenues

H1 10 Profitability (organic y-o-y growth)



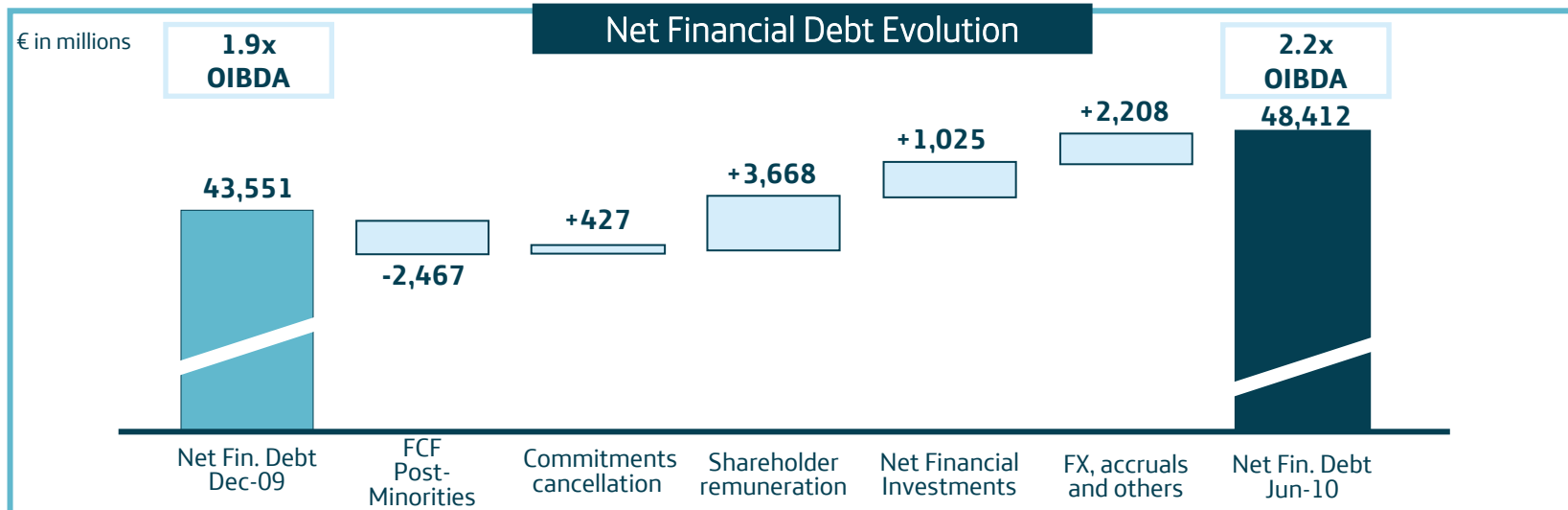
Strong profitability:

- Higher efficiencies in most cost areas
- HanseNet dragging 1 p.p. of H1 OIBDA margin
- OpCF close to 3x higher y-o-y in organic terms

New spectrum acquisition: positioning 02 as a key player in the German market

Organic : excludes the consolidation of HanseNet in January-June 2010 and the acquisition of additional spectrum.
FBB & Other accesses: include fixed broadband, traditional fixed, pay TV and wholesale accesses.

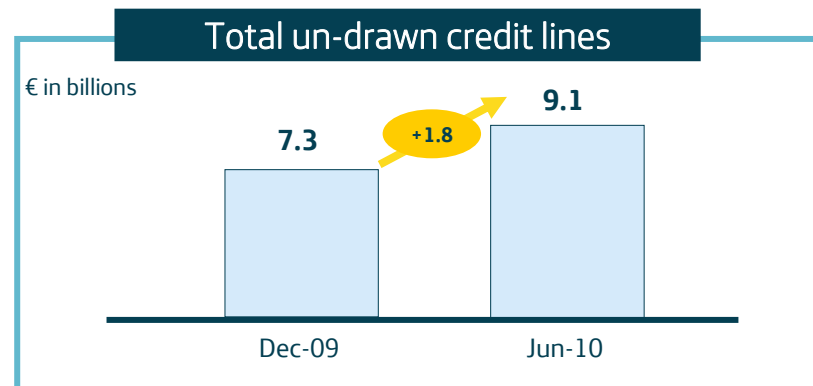
Effective interest rate contained below 5%



Lower Cost of Debt

	H1 10
Net interest Expenses	€ -1,172 m
FX results	€ -82 m
Total Financial Results	€ -1,254 m
Total Average Debt	€ 47,840 m


4.94% effective interest rate



- Leverage target, including commitments, up to the middle of our target range (2.3x OIBDA)
- Solid liquidity helped by € 1.8 bn increased in committed bank credit lines
- Contained financial expenses benefiting from floating exposure positioning

Conclusions

**Solid set of results, delivering
our 2010 priorities**



- **Sequential ramp-up in growth rates across the P&L**
- **Robust top line growth, above peers, driven by strong commercial momentum**
- **Benefiting from diversification:**
 - **Increased exposure to Brazil; #1 integrated player**
- **Retaining benchmark profitability and very healthy cash generation**
- **Solid financial position to face current headwinds**
- **Fully on track to fulfill 2010 and 2012 guidance**
- **Committed to dividend targets**

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