



Results

January-September / 2010

Telefonica



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Solid execution, delivering on 2010 priorities

- **Sustained acceleration of organic revenue growth vs. H1 10 driven by:**

 - Strong commercial push

 - Continued strength in mobile data revenue growth

- **Strong profitability:**

 - Contained margin erosion despite higher commercial costs on rapid customer growth

 - Benefits from our integrated business model and scale

- **Solid OpCF generation with sound financial position**

- **Full year and mid-term outlook confirmed:**

 - Improving revenue and OIBDA y-o-y growth under guidance criteria in 9M 10

 - €2.10 EPS in 2010

- **Growing DPS reiterated** (2010: €1.40; 2012: minimum of €1.75)

Sustained earnings momentum fuelled by diversification

€ in millions	Jan-Sep 2010	Chg 9M 10/9M 09	Organic chg 9M 10/9M 09
Revenues	44,280	+6.0%	+2.5%
Operating Income before D&A (OIBDA)	20,368	+22.5%	-2.3%
OIBDA Margin	46.0%	+6.2 p.p.	-1.9 p.p.
Operating Income (OI)	13,624	+36.8%	+0.1%
Net income	8,835	+65.6%	
OpCF (OIBDA-CapEx)	13,127	+7.1%	-5.2%

Group Contribution by regions			
9M 10	Rev	OIBDA Ex-capital gain VIVO (IFRS3 Revised)	OpCF Ex-spectrum and VIVO's capital gain
T. España	32%	40%	46%
T. Latam	42%	42%	41%
T. Europe	25%	18%	15%

67%	60%	56%
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- Positive impact in OIBDA in Q3 10 from the revaluation¹ of our pre-existing stake in Vivo
- Positive effect of forex across the P&L despite Venezuelan Bolivar devaluation
- 9M 10 CapEx includes spectrum acquisition in Germany (Q2 10) and Mexico (Q3 10)

¹ IFRS 3 Revised –Business combinations

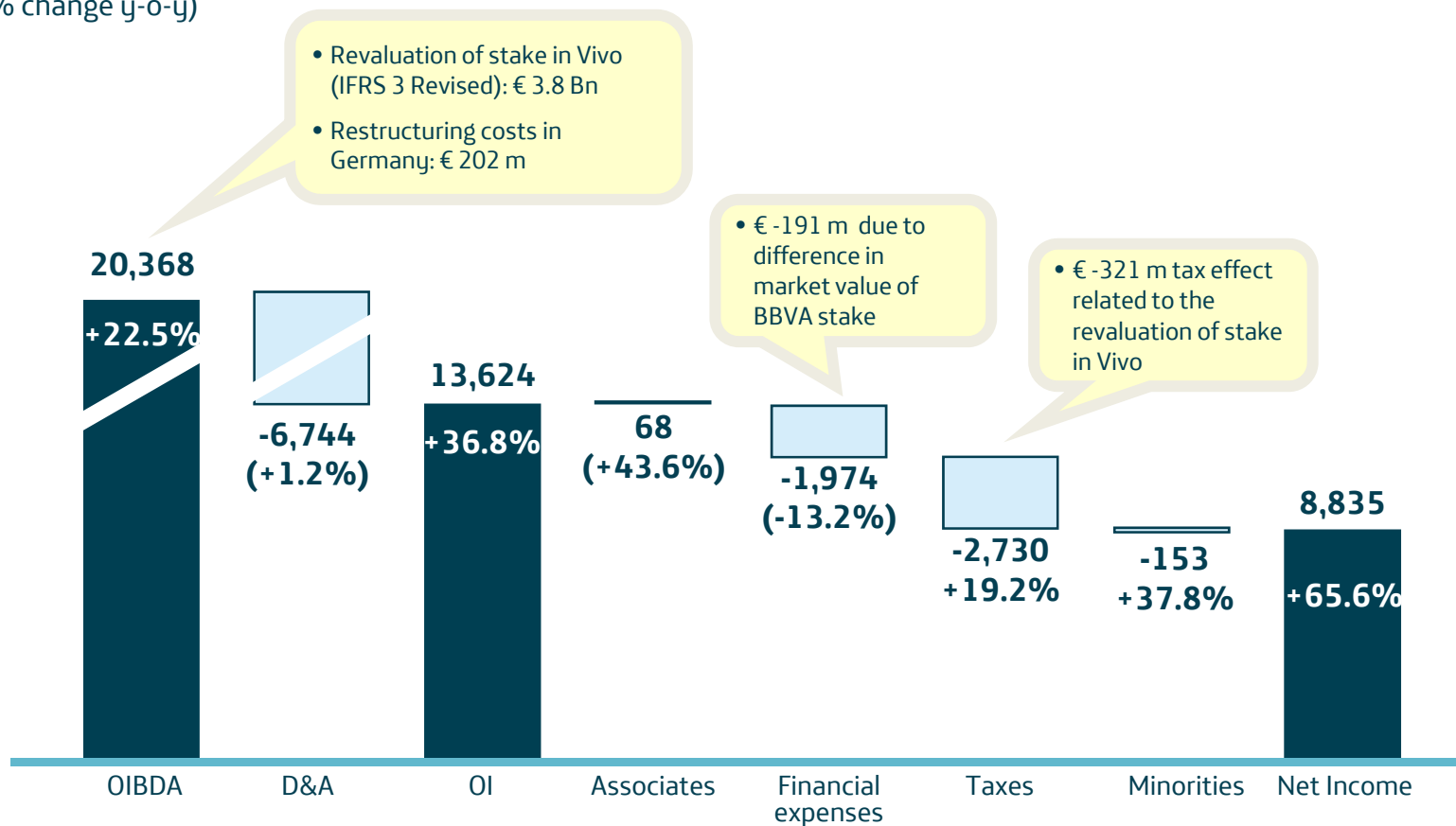
Organic growth assumes constant exchange rates as of 9M 09 (average fx) and excludes changes in the perimeter of consolidation. Therefore, it excludes the consolidation of HanseNet (since mid February 2010), Jajah (January-September 2010), Telyco Marruecos in January-September 2009, and Manx Telecom in July-September 2009 and includes Tuenti (August-September 2009). OIBDA and OI figures do not include the impact of capital gain registered in the second quarter of 2010 from Manx Telecom disposal and in the third quarter from the revaluation of our pre-existing stake in VIVO. CapEx excludes the spectrum acquisition in Germany in Q2 10 and in Mexico in Q3 10. Figures exclude hyperinflationary accounting in Venezuela in both years.

Robust bottom line

January-September 2010

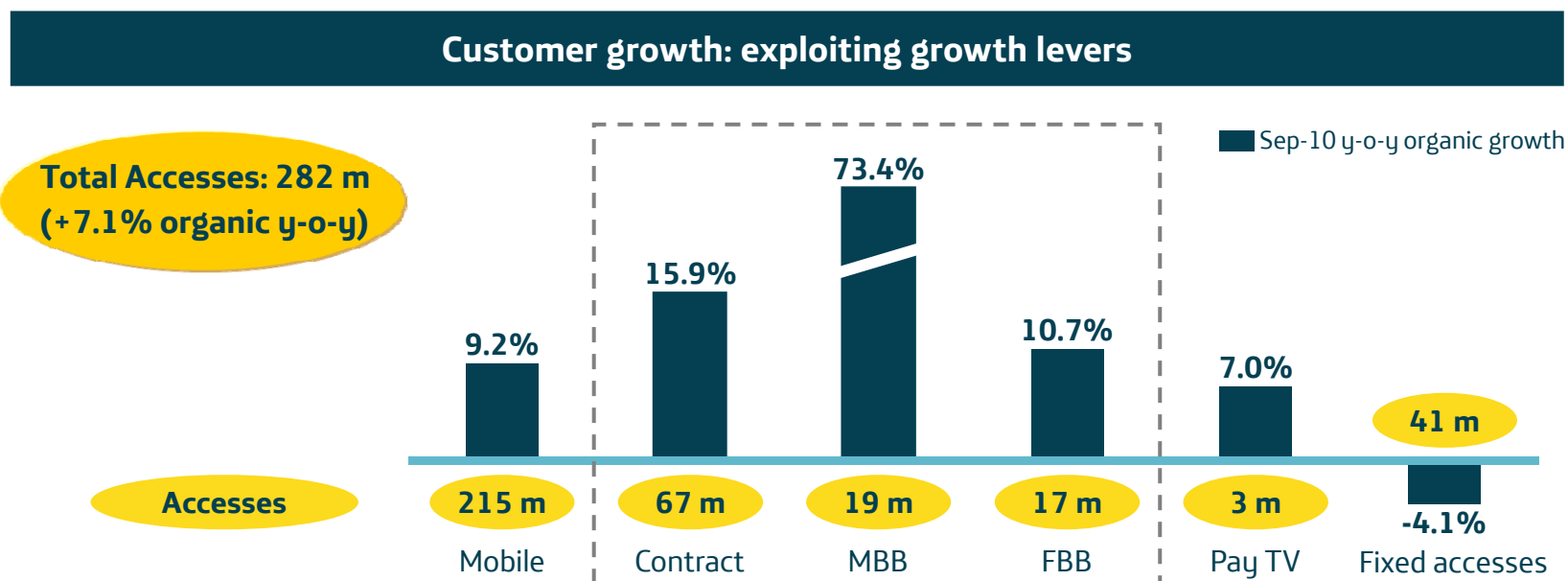
€ in millions

(% change y-o-y)



9M 10 EPS €1.95 vs. €1.17 in 9M 09

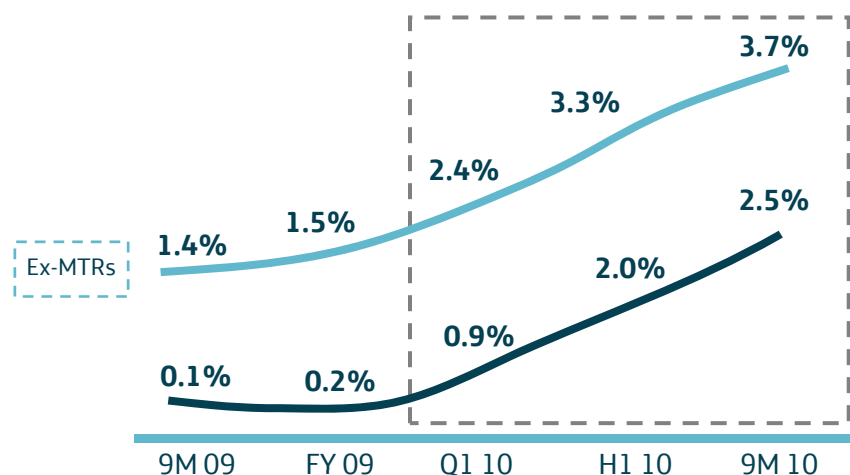
Sound commercial performance across the board



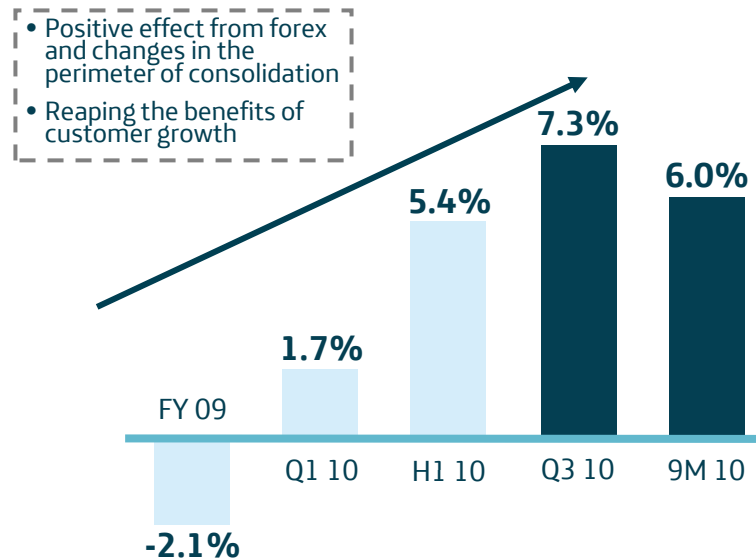
- **Healthy gross adds** to September up 15.3% y-o-y despite commercial push in Spain from Q3 09
- **Continued churn contention** at 2.3% in 9M 10 (flat y-o-y)
- **Robust organic net adds** at 13.5 m, up 71.5% vs. 9M 09
- **Focus on contract**, driving 58% of organic mobile net adds in 9M 10 (64% in Q3 10), to 31% of the base
- **Outstanding MBB** increase on rapid adoption of smartphones
- **Sustained momentum in FBB**: Q3 10 organic net adds 2.4x Q3 09
- **Improved trends in fixed line in all regions**, halving net line losses (-54.5% y-o-y organic in Q3 10)

Strong sales, ramp up in growth rates

Organic revenue (y-o-y growth)

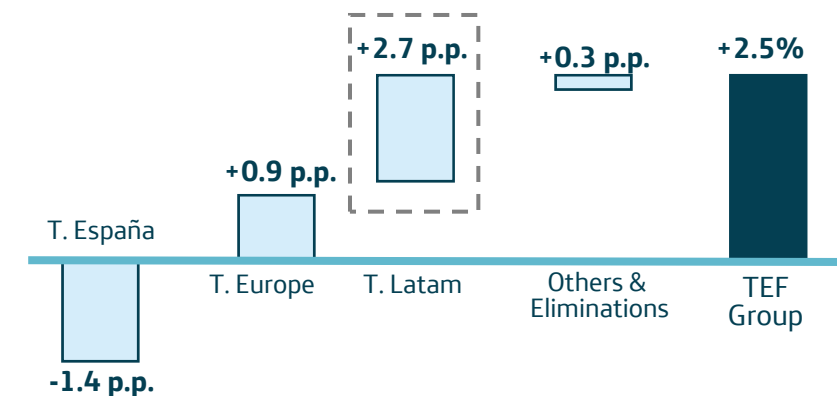


Reported revenue (y-o-y growth)



- Positive effect from forex and changes in the perimeter of consolidation
- Reaping the benefits of customer growth

Contribution to organic revenue growth (9M 10)

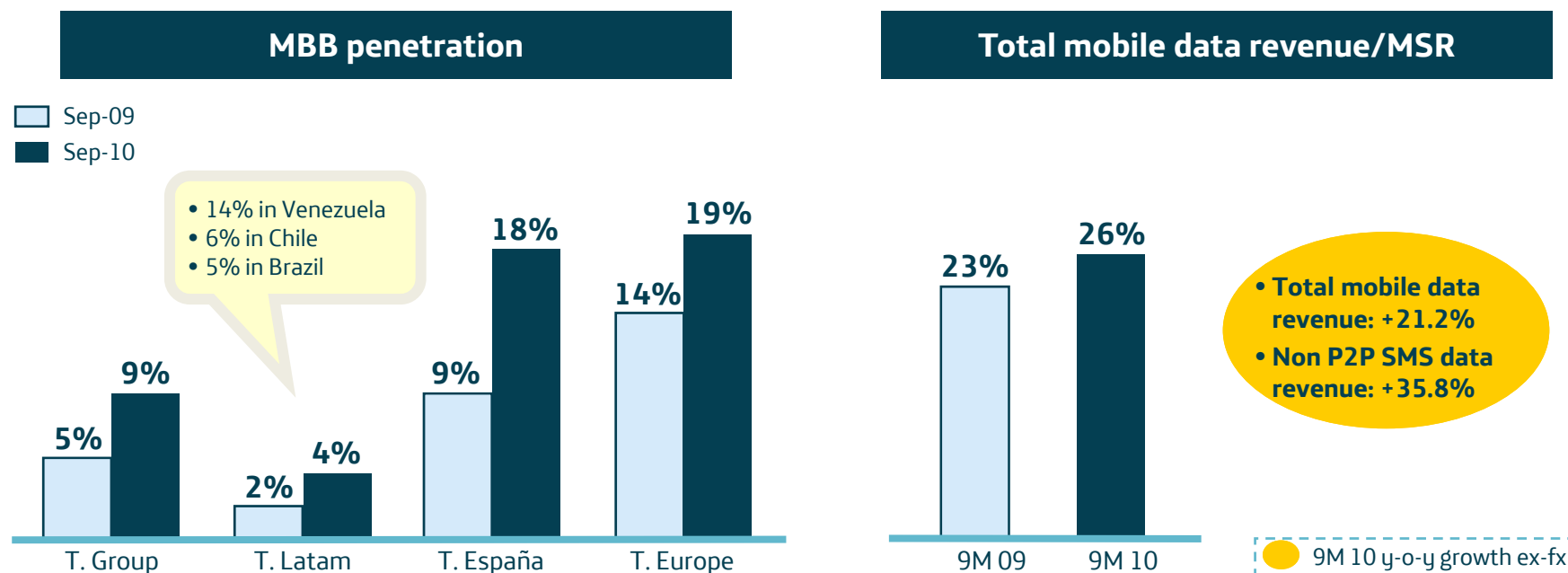


Reported revenue (y-o-y growth)

	Q1 10	H1 10	9M 10
T. España	-5.7%	-4.5%	-4.2%
T. Latam	+4.2%	+10.2%	+10.7%
T. Europe	+7.4%	+10.8%	+11.8%

Enhanced growth across all regions along the year

Booming mobile data revenue on increased MBB adoption

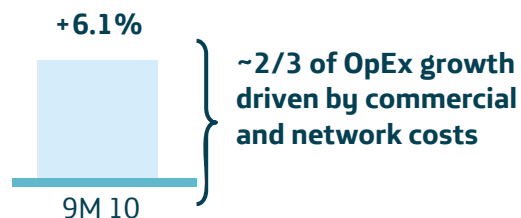


- **Rapid adoption of MBB**, boosted by growing penetration of smartphones and high-end devices
- **Strong commercial push across markets**
- **Attractive commercial offers to monetize the growth opportunity through segmentation/tiered pricing** based on offers with data control
- **Enlarging portfolio of devices** through collaboration with suppliers & new operating systems to further boost MBB revenues

Healthy profitability driven by costs discipline & scale benefits

OpEx

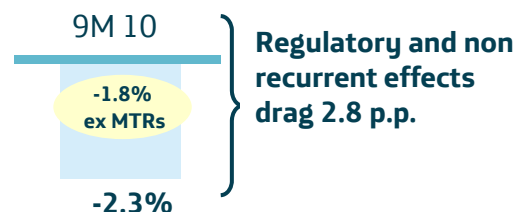
Organic y-o-y growth



- **Lower interconnection expenses** (-0.3% y-o-y organic) on MTRs cuts
- **Higher commercial costs** (+8.3% y-o-y organic) on increased volumes, focus on contract and retention
- **Growth** in other expenses mainly driven by **network costs in T. Latam**
- Non recurrent impact from restructuring in Germany

OIBDA

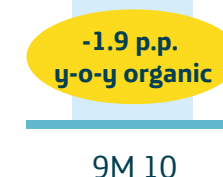
Organic y-o-y growth



- **Continued progress in organic OIBDA annual decline, in line with Company forecasted trends** (-1.1% in 9M 10 excluding personnel restructuring in Germany vs. -2.3% in H1 10)
- **Reaping the benefits from revenue rebound**
- **Further benefits from Group integrated management model & scale** (€ 153 m in OIBDA from centralization of processes)

OIBDA margin

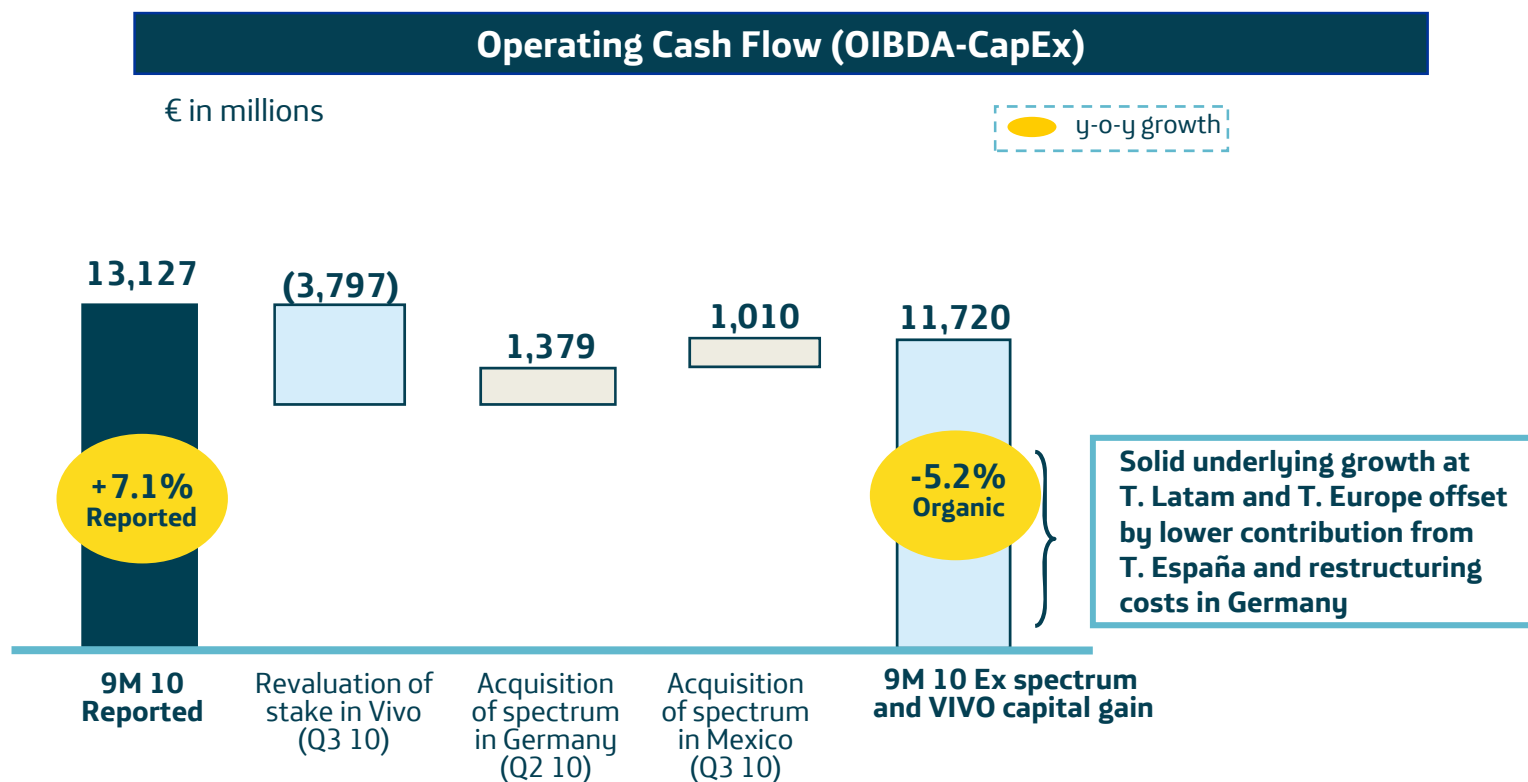
37.4% → Ex revaluation of stake in Vivo



- **Stable consolidated OIBDA margin vs. H1 10** driven by sequential improvement in revenue trends and cost discipline
- **Contained margin erosion y-o-y** despite push in commercial activity. Lower y-o-y decline in 9M vs. H1 ex restructuring in Germany

Organic growth assumes constant exchange rates as of 9M 09 (average fx) and excludes changes in the perimeter of consolidation. Therefore, it excludes the consolidation of HanseNet (since mid February 2010), Jajah (January-September 2010), Telyco Marruecos in January-September 2009, and Manx Telecom in July-September 2009 and includes Tuenti (August-September 2009). OIBDA and OI figures do not include the impact of capital gain registered in the second quarter of 2010 from Manx Telecom disposal and in the third quarter from the revaluation of our pre-existing stake in VIVO. Figures exclude hyperinflationary accounting in Venezuela in both years.

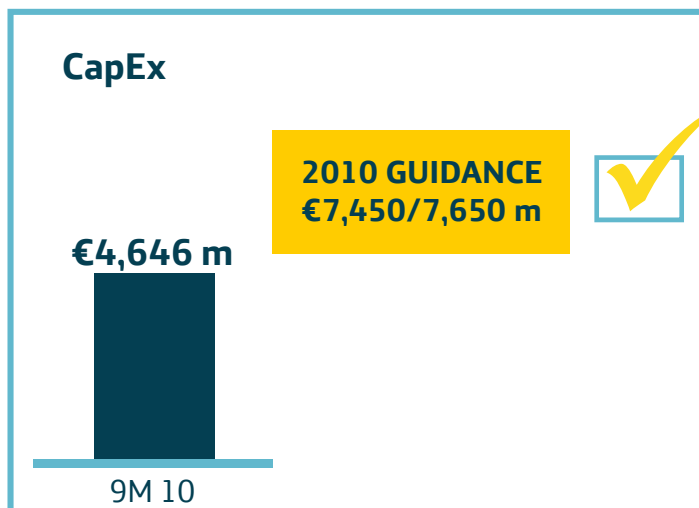
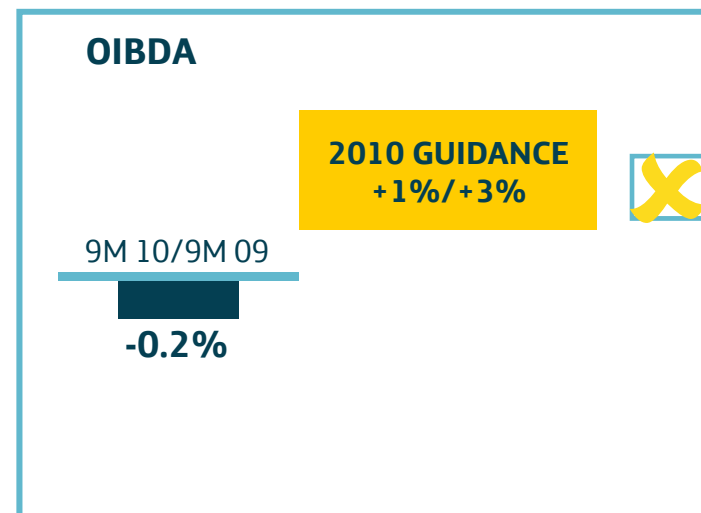
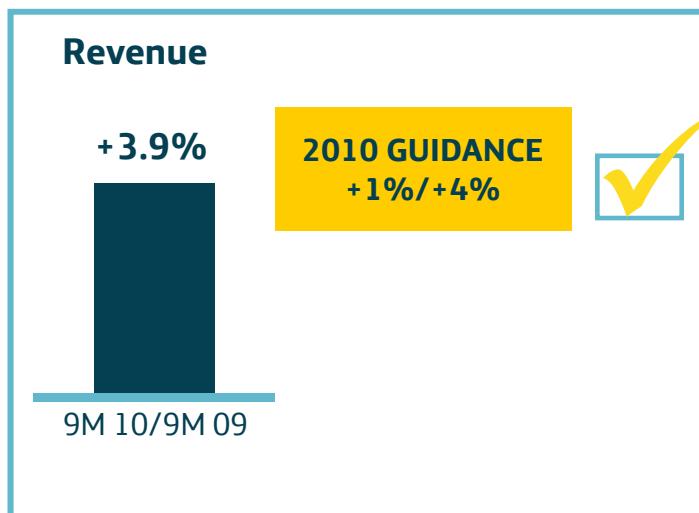
High cash flow generation despite increased CapEx



■ **Investing for future growth:**

- CapEx focus in growth & transformation (76% of total in 9M10)
- Organic CapEx up 5.9% y-o-y in 9M 10

2010 guidance confirmed



OIBDA growth to accelerate in Q4 as:

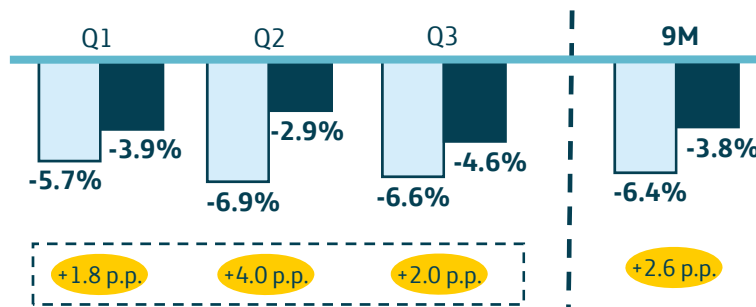
- Ramp up in commercial activity from Q3 09
- Easier y-o-y comps in Telesp and Colombia wireline operation

2010 EPS target confirmed (€ 2.1)

T. España: Gradual improvement continues y-o-y

Revenues (comparable y-o-y change)

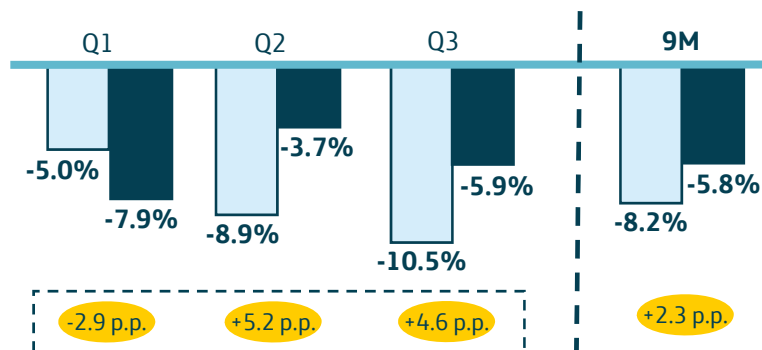
■ 2009
■ 2010
● Gap y-o-y variation



- Sustained slowdown in top line y-o-y decline compared with 2009
- Q3 10 performance impacted by weaker consumption in a difficult trading environment

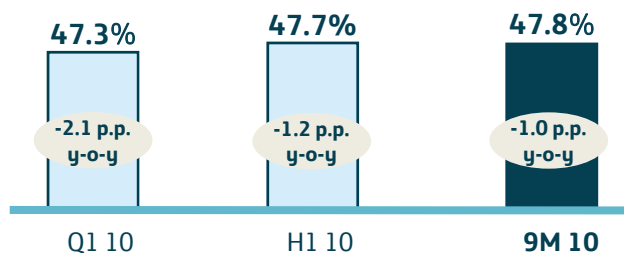
OIBDA (comparable y-o-y change)

■ 2009
■ 2010
● Gap y-o-y variation



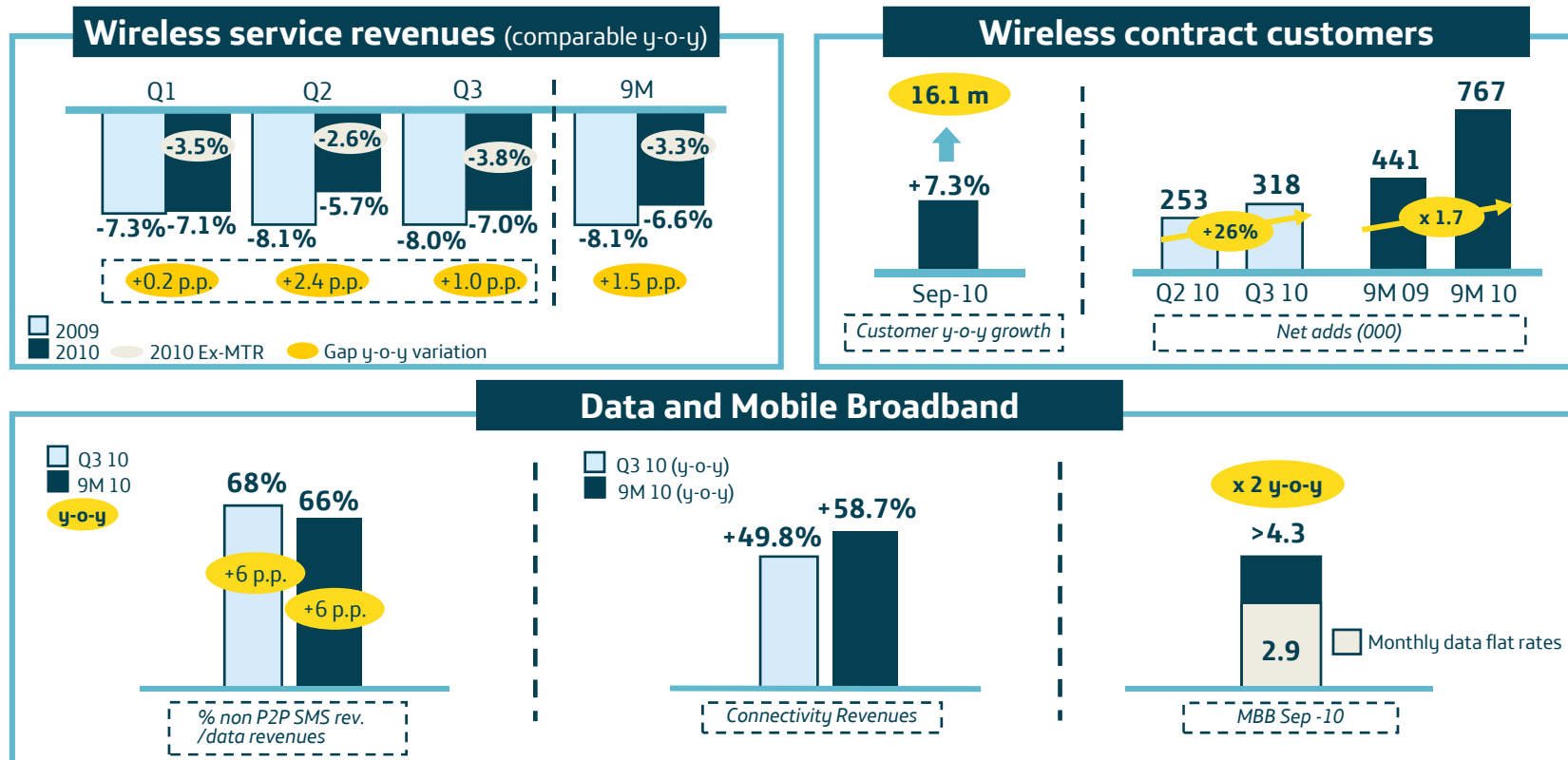
- 9M 10 y-o-y OIBDA evolution impacted by higher commercial activity, partially offset by cost discipline (-1.2% y-o-y)

OIBDA margin (comparable; y-o-y change)



- Sustained benchmark profitability
- Contained y-o-y margin erosion in a very competitive market, driven by further efficiencies

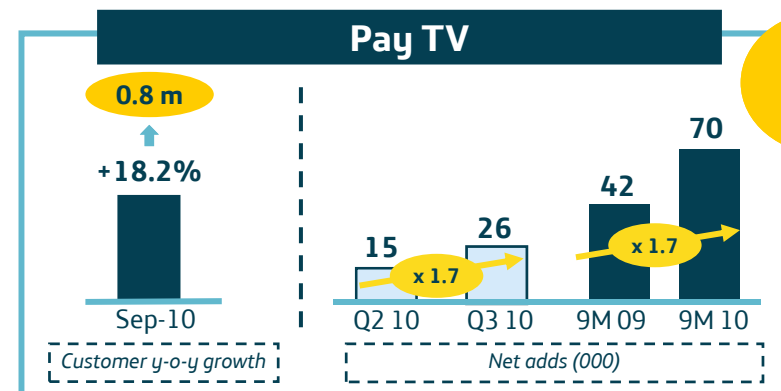
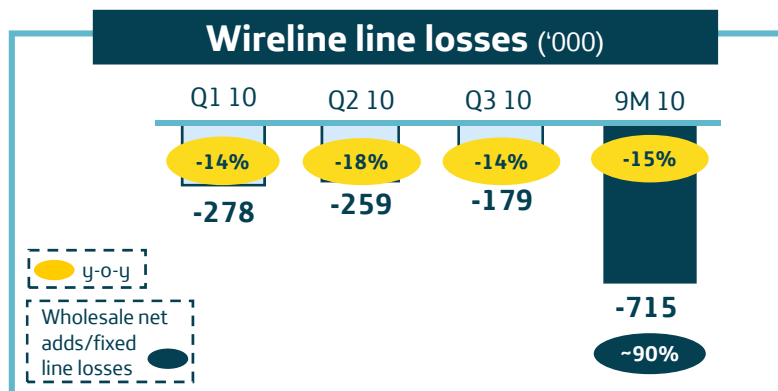
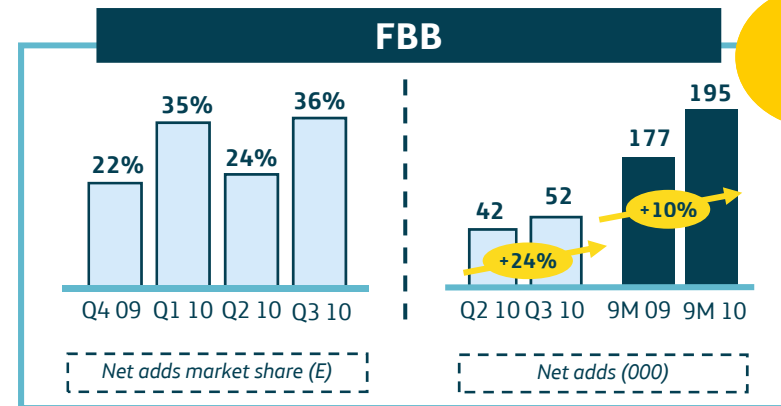
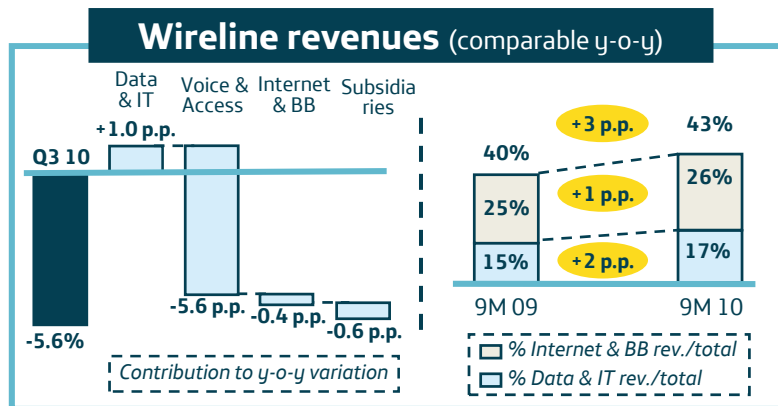
Continued strength in contract and MBB



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

- Net adds boosted by contract gross adds (+29.5% y-o-y) and benchmark churn rate in the market (q-o-q reduction)
- Contract accounting for 67% of total base with stable churn at 1.4%
- Difficult trading conditions & different summer promotions impacting traffic (-3.0% y-o-y) and outgoing voice ARPM (-2.3% y-o-y) in Q3 10
- Enhanced data revenue trends, boosted by wireless connectivity revenues offsetting lower premium SMS due to regulation
- Further MBB adoption, doubling customer base

Enhanced commercial activity across portfolio



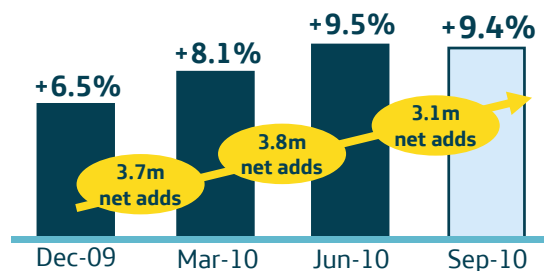
- Top line evolution in Q3 10 impacted by weaker traffic & lower contribution from subsidiaries amid challenging trading conditions
- Sustained leadership in FBB on the back of premium quality offer and best-in class churn (y-o-y decline):
 - Share of net adds in Q3 10 increased to its best level since Q3 09 at 36%
 - ARPU erosion (-8.0% y-o-y up in 9M 10) in a very competitive market
- Further y-o-y reduction in retail line losses on improved value offering, despite lowest wholesale ULL prices in Europe
- Stabilization of total wireline accesses (-0.6% y-o-y) as wholesale net adds offset nearly 90% of retail line losses
- Strengthened competitive position in Pay TV driving ARPU and churn improvement

Comparable terms exclude the following effects: USO in Q1 09 and Q3 10, application sales in Q3 10 and Telyco Morocco in Q1 09, Q2 09 and Q3 09. Total fixed accesses include: Retail wireline telephony accesses, wholesale line rental, fully unbundled loops and naked wholesale ADSL.

T.Latam: Revenue and OIBDA growth acceleration

Accesses growth

(y-o-y growth)

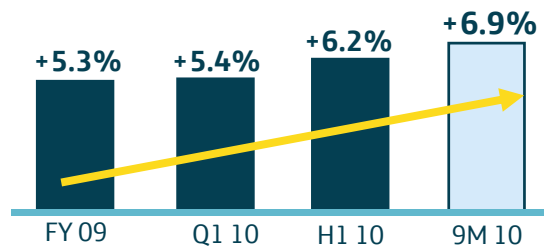


■ Sustaining positive trends from previous quarter:

- 179.2 m accesses
- 10.6 m net adds in 9M 10: 1.9x y-o-y
- Churn contention across services

Revenue

(Organic y-o-y growth)

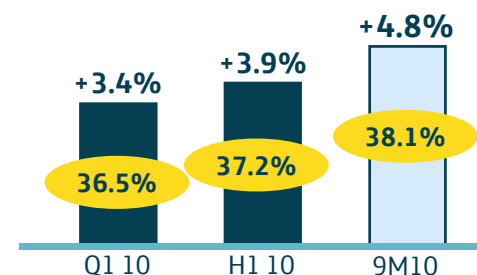


■ Ramp up in organic revenue growth (+0.7 p.p. vs H1 10):

- Continued acceleration for 3rd consecutive quarter
- Double digit growth in mobile service and Internet & Pay TV revenue
- Revenue acceleration in businesses accounting for more than 70% of sales

OIBDA

(Organic y-o-y growth)



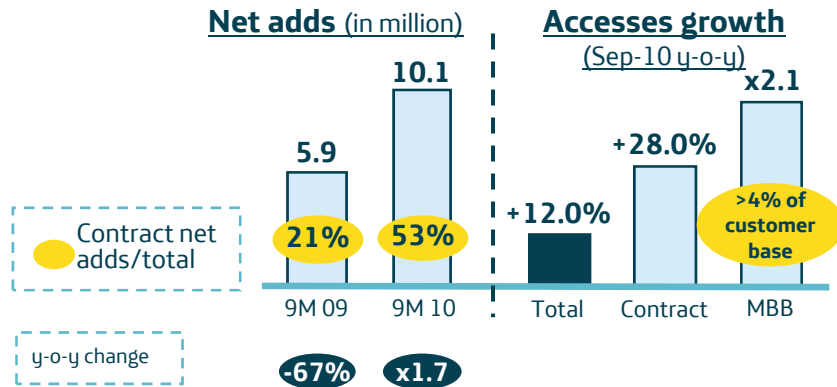
● OIBDA margin

■ Sequential organic OIBDA improvement (+0.9 p.p. vs. H1 10), ahead of revenue acceleration

- Limited organic OIBDA margin y-o-y erosion (-0.8 p.p. in 9M 10) despite higher commercial activity and lower profitability in Venezuela
- Growing OpCF in euro terms y-o-y despite the Bolivar's devaluation

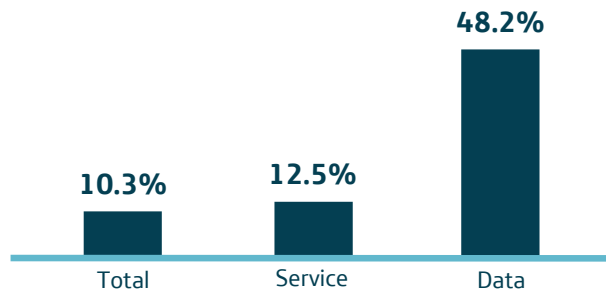
Wireless: growth in voice & data fuel double digit top line

Mobile KPIs



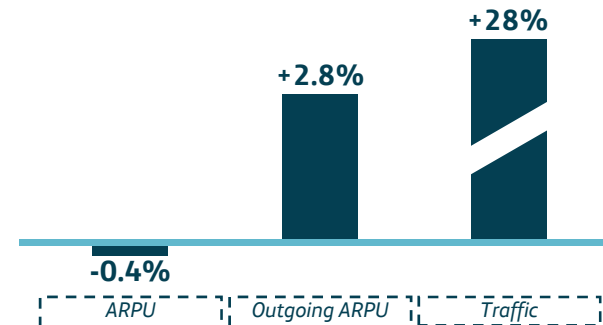
- Gross adds up **20.6% y-o-y** in 9M 10 (+34.5% in contract)
- Flat churn at 2.5% in 9M 10, down in contract
- Intensified focus on contract: +4.7 p.p. vs. Jun-10 growth rate, leveraging migrations (~2.5 m net)
 - 60% of Q3 10 net adds on contract (17% in Q3 09)
 - 20% of the base on contract (+2.5 p.p. y-o-y)

Revenue growth (9M 10 y-o-y organic change)



- Sustained top line across all services
- +5.7 p.p. organic y-o-y ramp up in data/service revenues to >21%

ARPU & Traffic (9M 10 y-o-y organic change)



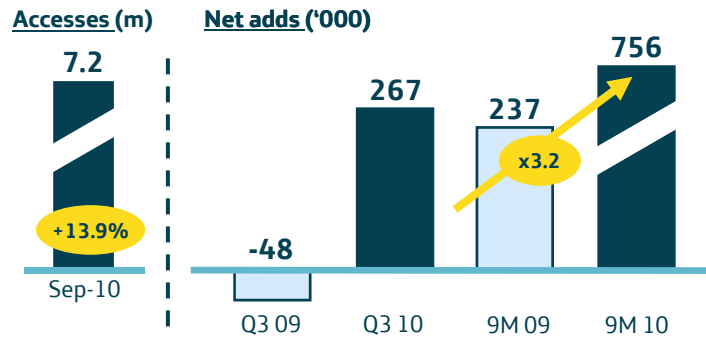
- Stable ARPU y-o-y despite fast accesses growth
- Positive outgoing ARPU driven by strong traffic and data

Organic growth assume constant exchange rates and excludes hyperinflation accounting in both years.

Wireline: Strong commercial performance

Latam Retail FBB

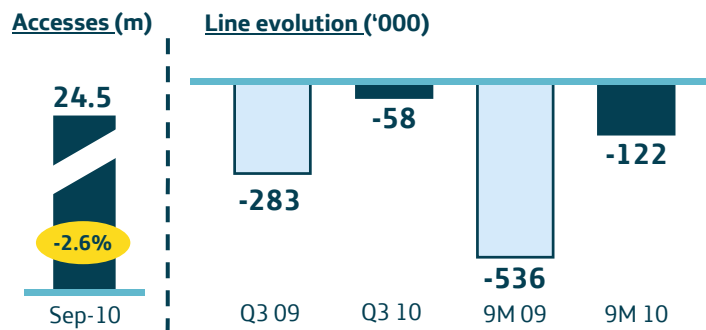
y-o-y growth



- **Strong growth ramp up in FBB** (+5 p.p. vs. Jun-10 growth rate):
 - Q3 10 net adds, exceeding 9M 09 volume
 - Lower churn across countries
 - BB/fixed lines: +4 p.p. y-o-y to 29%

Latam Retail Fixed Accesses

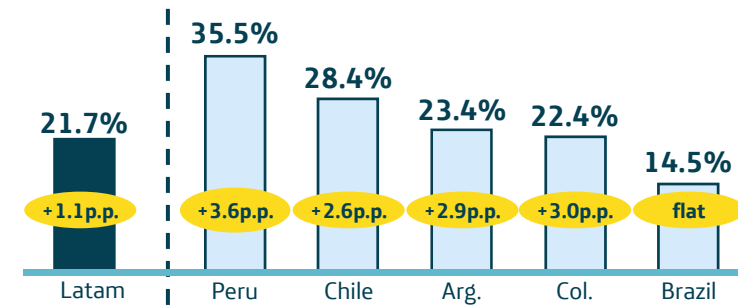
y-o-y growth



- **Retail fixed line accesses stabilization** driven by enhanced quality and focus on bundles:
 - Positive trend in traditional fixed accesses excluding fixed wireless performance
 - 66% of wireline accesses on bundles
 - Churn reduction on improved quality

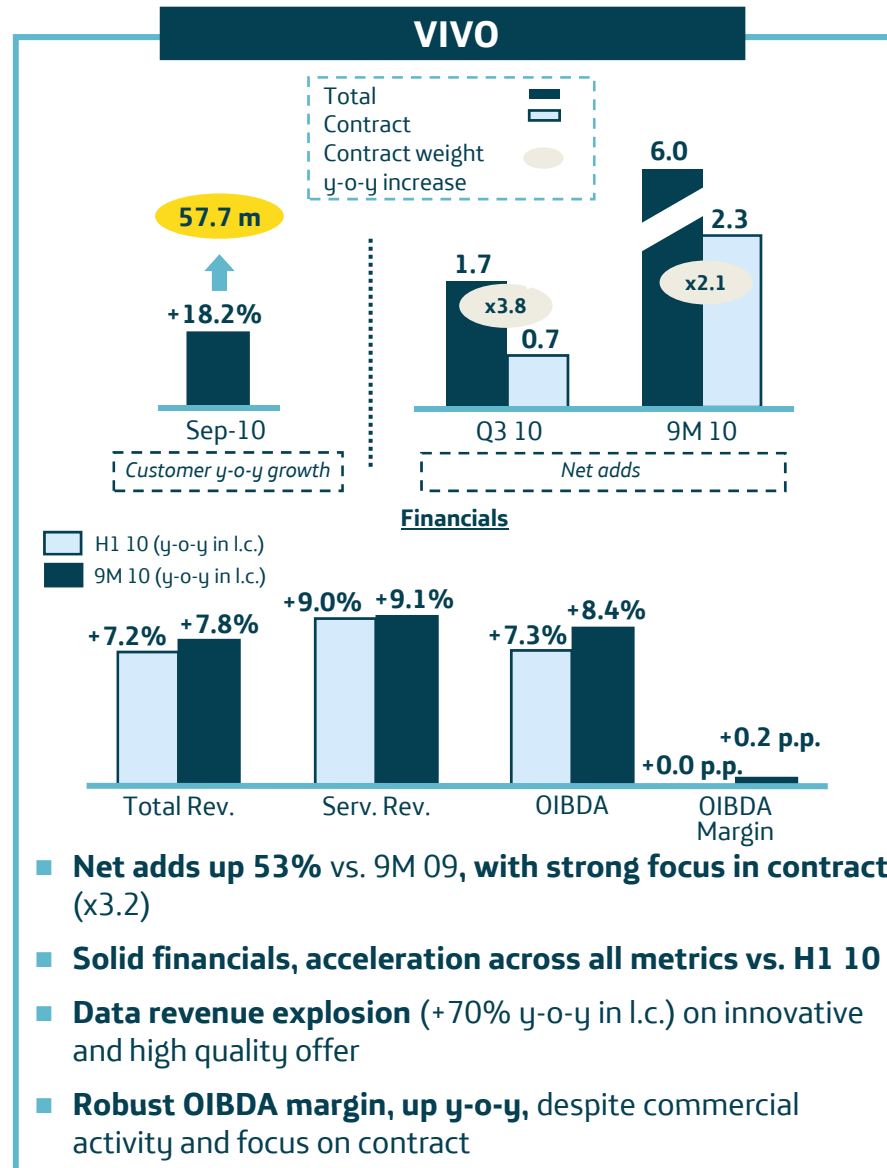
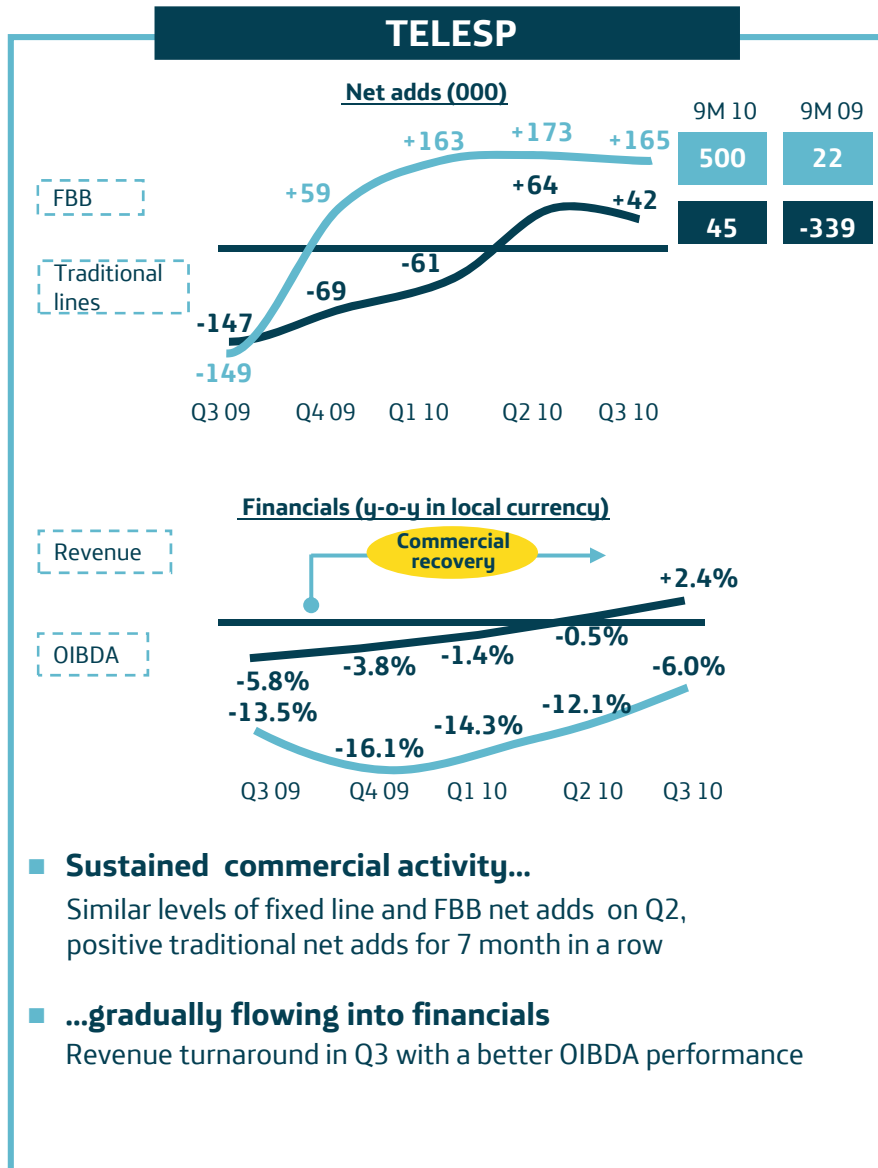
Internet & Pay TV rev/ Total rev (9M 10)

y-o-y growth



- **Increased contribution from Internet & Pay TV revenue:**
 - 2P&3P/BB: +2 p.p. y-o-y to 57%

Brazil: Gaining momentum across businesses



Good performance in key operations



Mexico

- **Robust customer growth** (+13.6% y-o-y) **driven by contract segment** (+53.0% y-o-y)
- **MSR grew 6.4% y-o-y in 9M 10 on strong contract performance** and despite a weaker evolution in prepay
- **Strengthened position in MBB after recent acquisition of spectrum**



Venezuela

- **Lower commercial activity** y-o-y on limited availability of handsets
- **Solid financials** despite devaluation
- **Robust service revenues** (+22.0% y-o-y) pushed by data services (+49.6% y-o-y)
- **Improved OIBDA margin** vs. H1 10: 46.8% vs. 45.1%



PERU

- **6% customer growth on FBB and mobile**
- **Top line acceleration** driven by sound performance in mobile
- **OIBDA y-o-y growth turning positive** in Q3 10 & 9M 10



Argentina

- **Stable traditional fixed accesses & strong growth in FBB** (+17.3% y-o-y)
- **Robust revenue increase** (+17.2% y-o-y) driven by the acceleration of MSR and FBB
- **Healthy OIBDA margin** at 35.3%, improving from H1 10



Chile

- **Flat accesses in wireline business** driven by FBB and Pay TV
- **Strong mobile customer growth**, focus in contract (30% of total)
- **Sequential improvement in revenue** for 3rd quarter in a row



COLOMBIA

- **Sequential growth in total accesses** for the 3rd consecutive quarter
- **Positive top line growth in Q3** in both businesses

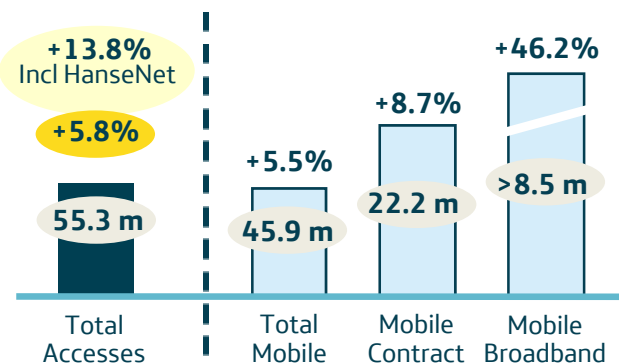
Financial variations in local currency

T.Europe: Sound financials driven by commercial momentum

Accesses

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

Organic



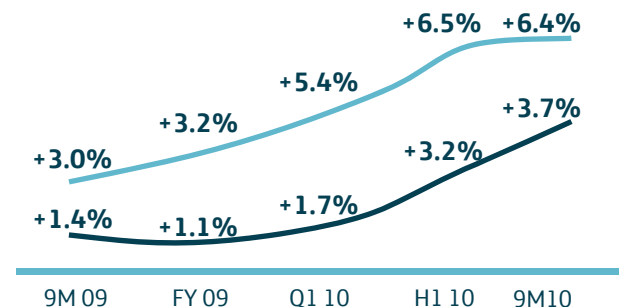
Continued focused customer growth:

- Maintained commercial push on targeted growth
- 48% of mobile base on contract (+1 p.p. y-o-y)
- Strong increase in MBB penetration to 19% of mobile base (+5 p.p. y-o-y)
- Best smartphone portfolio/selection

Revenue

(y-o-y growth)

Organic ex-MTR
Organic

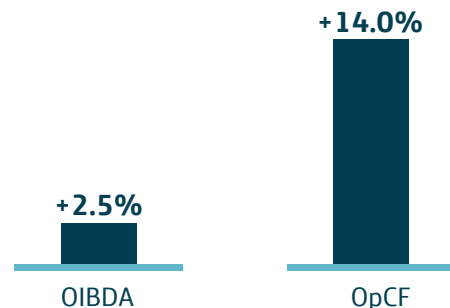


Sound organic revenue growth, delivered from our diversified portfolio:

- Robust non-P2P SMS revenues, up 28.4% y-o-y in 9M 10 in organic terms on increased smartphone and dongle adoption
- Handsets sales up 21.0% y-o-y organic in 9M 10

9M 10 Profitability

(y-o-y growth in comparable terms)

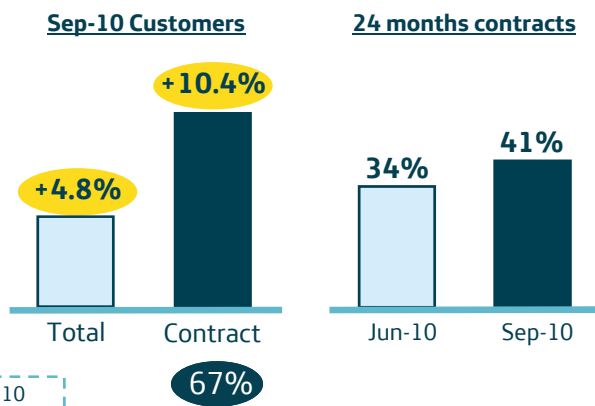


Stable margin and ramp up in OpCF:

- OIBDA margin at 26.1% in 9M 10 (0.4 p.p. lower y-o-y in comparable terms) despite increased commercial investment
- HanseNet integration ahead of schedule, accelerating restructuring plans (Q3 10 charge)

T.02 UK: Mobile Internet boosting customer lifetime value

Mobile customer KPIs

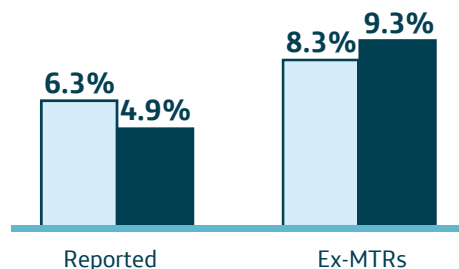


● y-o-y change

● Contract net adds/total Q3 10

Mobile service revenue

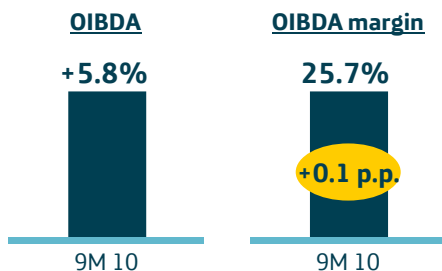
(local currency, y-o-y growth)



■ Q3 10
■ 9M 10

Profitability

(local currency; y-o-y comparable growth)



● comparable y-o-y change

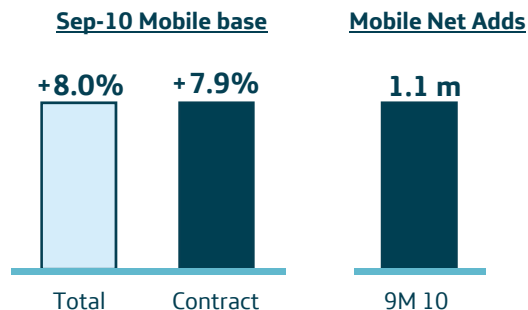
- Targeted investment in high value base:
 - Increased upgrading activity in Q3 10 (+19.3% y-o-y)
 - Market leading contract churn at 1.1% in 9M 10
 - 20% of mobile base in 9M 10 on MBB

- Total revenue growth acceleration to 5.6% y-o-y in 9M 10:
 - Ramp-up in MSR driven by growth in non-P2P SMS revenue: +35% y-o-y in l.c. to 33% of data revenues (+6 p.p. y-o-y)
 - Handset sales up 9.7% y-o-y in l.c. driven by higher demand for smartphones

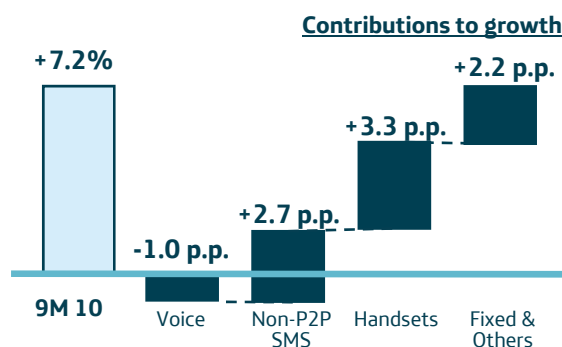
- Q3 10 OIBDA impacted by higher number of upgrades:
 - Higher commercial costs supporting MBB adoption to drive data revenue growth

T.02 Germany: Solid financials, acceleration of HanseNet integration

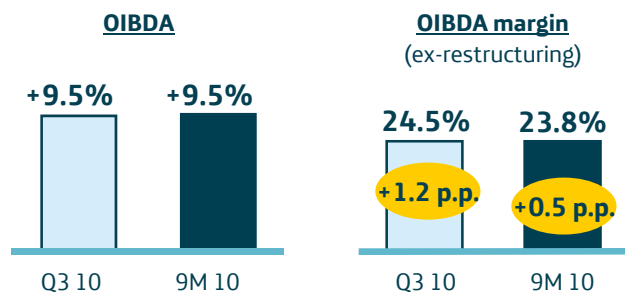
Customer Base (y-o-y growth)



Revenue (y-o-y organic growth)



Profitability (comparable y-o-y growth)



● Comparable y-o-y change

Enhanced commercial activity:

- Solid positioning in MBB
- 48% of customer base on contract, stable y-o-y
- Q3 10 prepay mobile net adds (+5.8% y-o-y)
- Strong push in FBB net adds y-o-y (+68.3% in Q3)

Solid organic revenue increase on the back of:

- Sustained ramp up in service revenue growth (+3.6% y-o-y in Q3 10: +0.9 p.p. q-o-q) driven by contract segment and data
- Non-P2P SMS revenue up 34% y-o-y in 9M 10 to 41% of data revenues (+6 p.p. y-o-y)
- Strong fixed line sales (+10.1% y-o-y organic in 9M 10)
- Handset sales growth deceleration in Q3 10 due to annualization of My Handy (Q2 09 introduction)

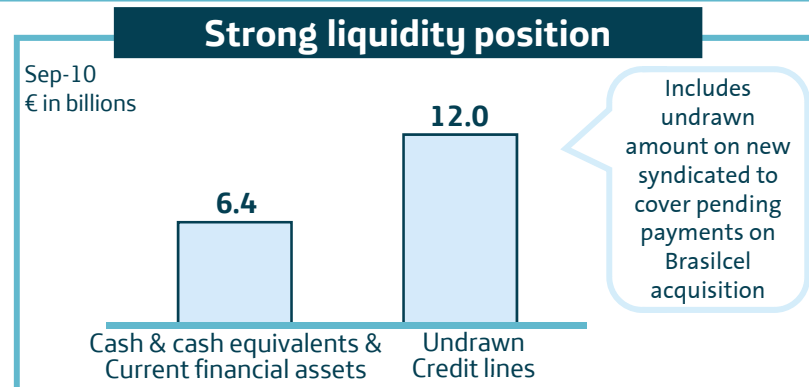
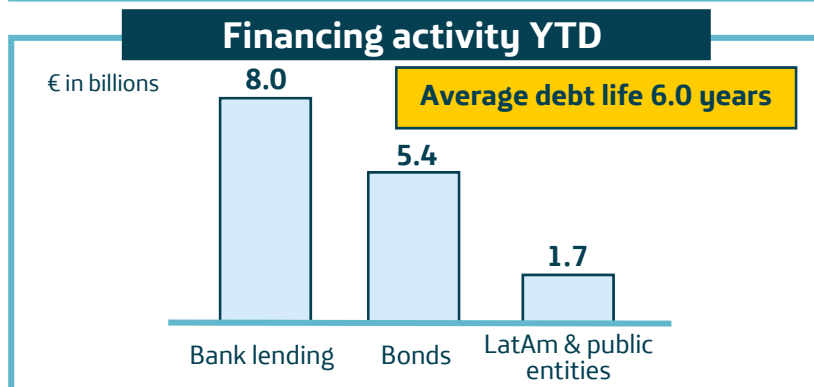
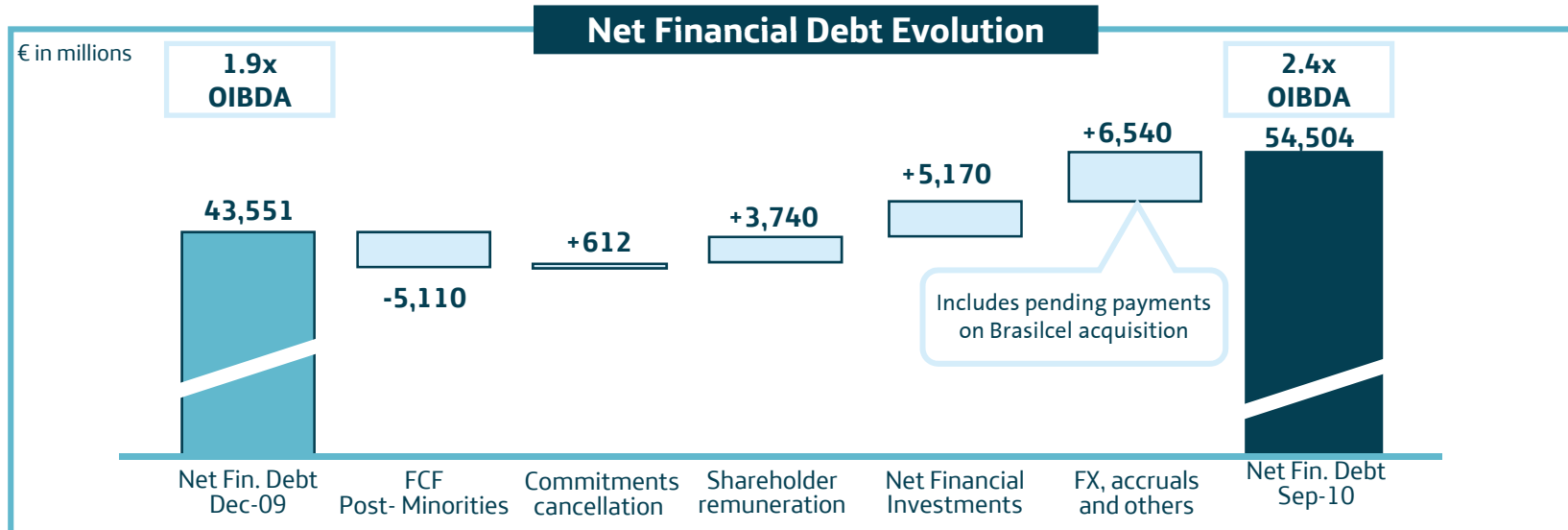
Profitable growth:

- HanseNet dragging 1.2 p.p. of 9M 10 OIBDA margin
- Cumulative OpCF close to 3x higher y-o-y in comparable terms

HanseNet integration ahead of schedule:

- Pay back of restructuring costs in 2 years

Leverage ratio within target range after Brasilcel acquisition



- Leverage target, including commitments, within target range (2.4x OIBDA)
- Good access to market: € 5 bn facility on Brasilcel acquisition & € 3 bn refinancing facility plus bond issues in €, \$ and £
 - Average debt life of our total debt standing at 6 years
- Contained financial expenses at 5% benefiting from floating exposure positioning

Summary

Solid earnings momentum

- Sound financial performance across the P&L leveraging our differentiated profile
- Continued strength in revenue growth capitalizing on our diversification
- Strong commercial push with profitability showing sequential stabilization
- Driving MBB adoption and investing in growth projects to further boost revenue growth
- Strong cash-flow generation
- Robust financial position, with leverage ratio in line with Company guidance
- 2010 and 2012 outlook reiterated
- Prioritizing shareholder returns, with DPS in line with previously outlined targets

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