



Results

January-December / 2010

Telefonica

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2010 reinforces our track record as a highly predictable & reliable company

Solid set of results

- **Strong top line growth backed by our high-class diversification:**
 - Latin America now 43% of Group sales
 - Mobile data revenue up 19% (y-o-y organic); non-P2P SMS up 32% y-o-y organic
- **Fast customer expansion**, consolidating the basis for future growth (+7.2% y-o-y organic)
- **Accelerating restructuring efforts** to further enhance efficiency
- **Benchmark profitability and cash generation**



Completed key strategic transactions

- **Acquisition of 50% of Brasilcel**
- **Spectrum investment in Germany, Mexico & Brazil to secure future growth**
- **Increased stake in China Unicom (2011)**

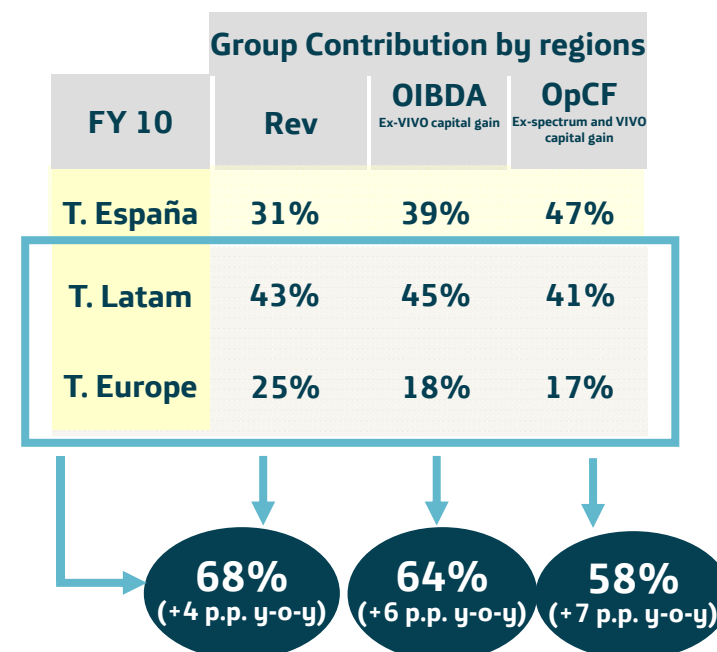


Delivering on our commitments

- **Meeting guidance for 8 years in a row**
- **Robust financial position: leverage ratio within target range**
- **€1.40 DPS in 2010; 2011 dividend proposal of €1.60 (+14.3% y-o-y)**

Crystallizing the value of our diversification

€ in millions	Jan-Dec 2010	Chg 2010/2009	Organic chg 2010/2009
Revenues	60,737	+7.1%	+2.4%
Operating Income before D&A (OIBDA)	25,777	+14.0%	+0.8%
OIBDA Margin	42.4%	+2.6 p.p.	-0.6 p.p.
Operating Income (OI)	16,474	+20.7%	+4.5%
Net income	10,167	+30.8%	
OpCF (OIBDA-CapEx)	14,933	-2.7%	-1.7%



- Positive impact in OIBDA from the revaluation¹ of our stake in Vivo partially offset by non-recurrent restructuring costs
- Positive effect of forex across the P&L despite Venezuelan Bolivar devaluation
- Full consolidation of Vivo from Q4 10

¹ IFRS 3 Revised – Business combinations

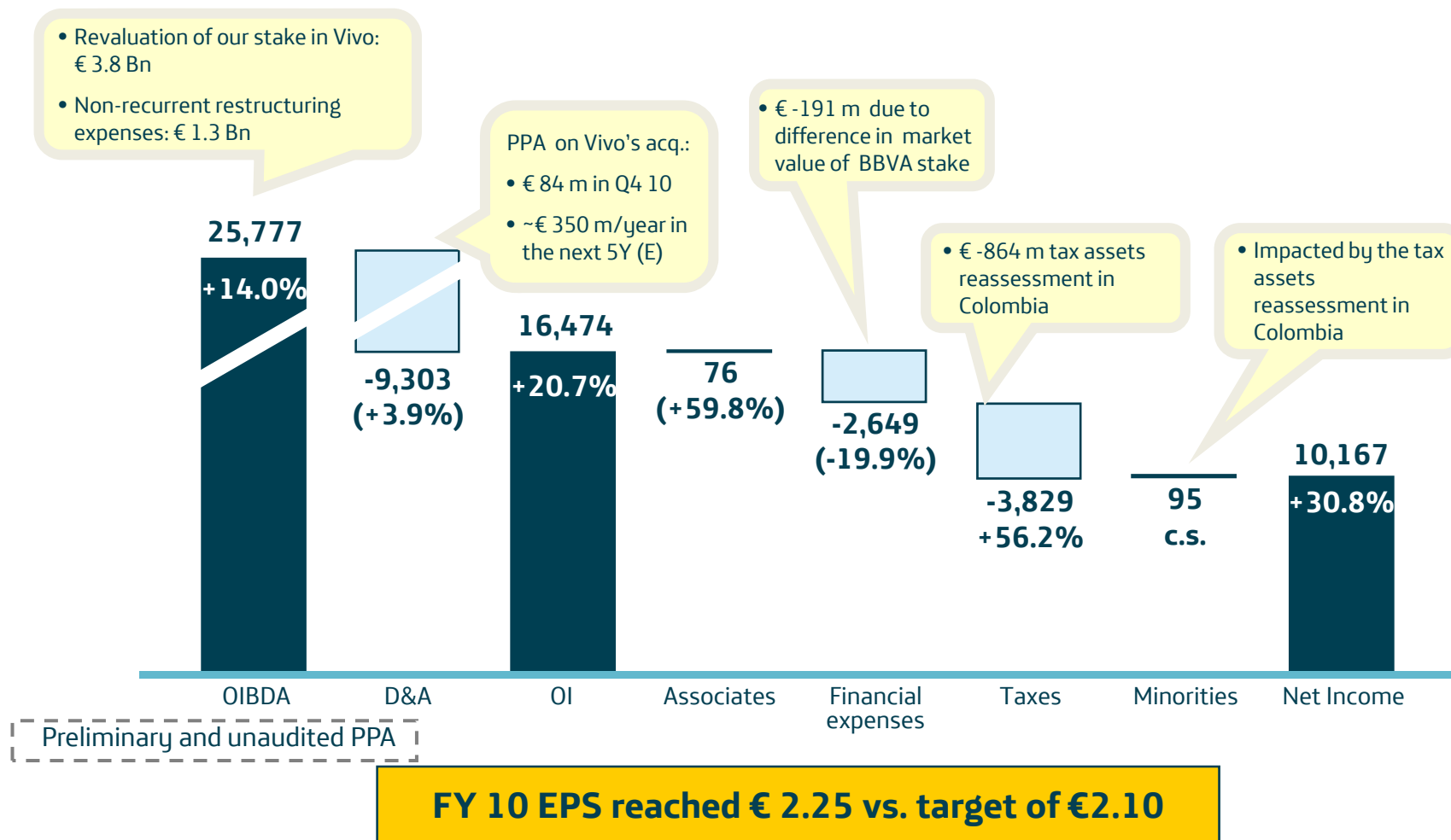
Organic growth assumes constant exchange rates as of 2009 (average fx) and excludes changes in the perimeter of consolidation: HanseNet since mid Feb10, Jajah in Jan-Dec 10, Telyco Marruecos in Jan-Dec 09 and Manx Telecom in Jul-Dec 09. It includes 100% of Vivo from Q4 09 and Q4 10 and Tuenti in Aug-Dec 09. OIBDA and OI figures do not include the impact of capital gains (Manx Telecom in Q2 10, Medi Telecom in Q4 09 and the revaluation of our pre-existing stake in VIVO in Q3 10), non-recurrent restructuring expenses, booked in H2 10, mainly related to personnel reorganization and firm commitments relating to the Telefónica Foundation's social activities. CapEx excludes the spectrum acquisition in Germany in Q2 10 and in Mexico in H2 10. Figures exclude hyperinflationary accounting in Venezuela in both years.

Solid growth in EPS, up 31.6% y-o-y

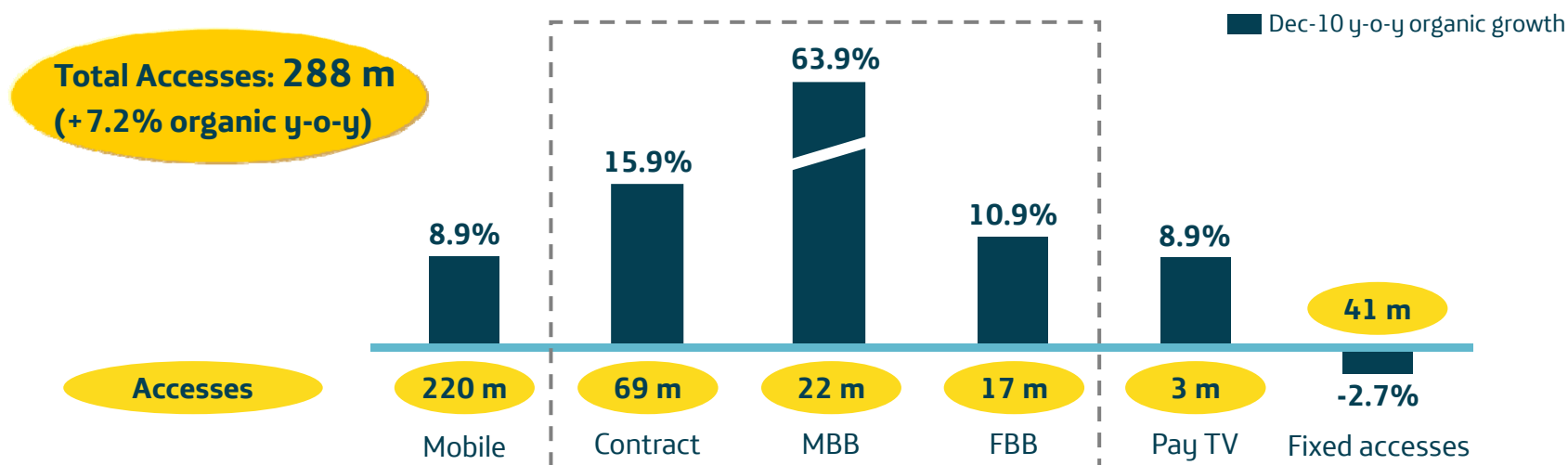
January-December 2010

€ in millions

(% change y-o-y)



Very high commercial activity focused on growth levers



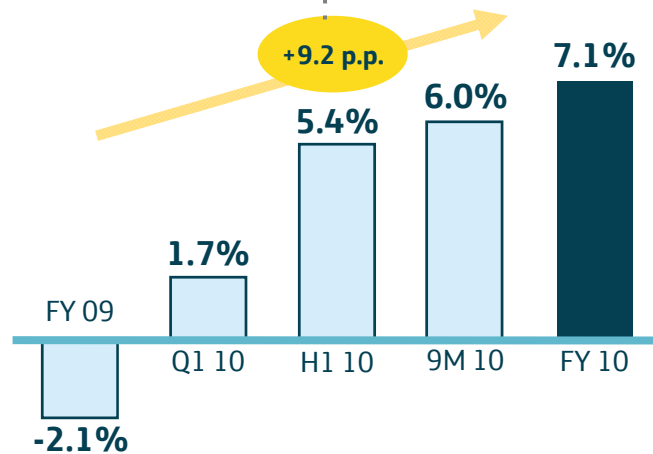
Capturing quality growth

- **Total net adds x1.5** vs. 2009 organically, backed by higher gross adds and churn control
 - Q4 10 net adds improved q-o-q and y-o-y
- **Strong boost in Mobile Contract to 31%** of the mobile base (+3 p.p. y-o-y organic)
- **Positive MBB momentum**, reaching the **22 m** mark (1.6x vs. last year)
- **Robust growth in FBB net adds: +44%** organic vs. 2009, driven by improved quality

Strong sales performance along the year

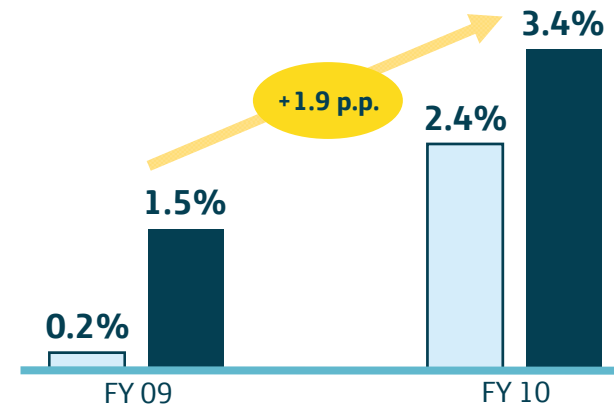
FY 10 Reported revenue (y-o-y growth)

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



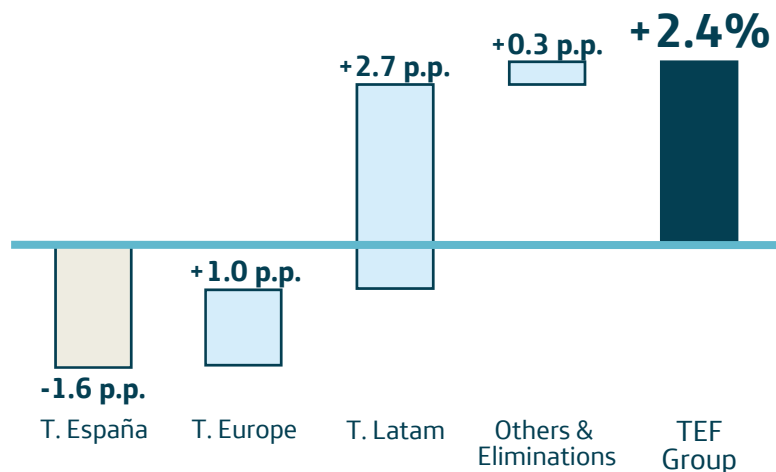
Organic revenue (y-o-y growth)

- Organic
- Organic ex-MTR cuts

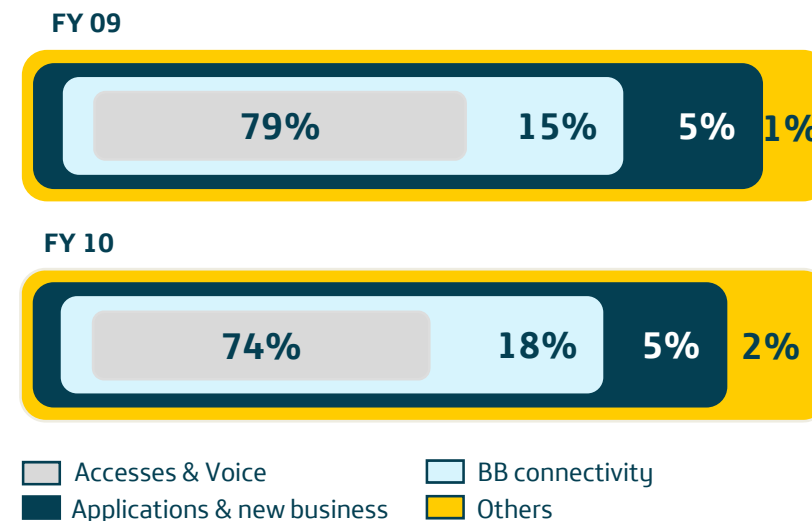


Improved revenue profile

Regional contribution to organic revenue growth



Revenue mix by service

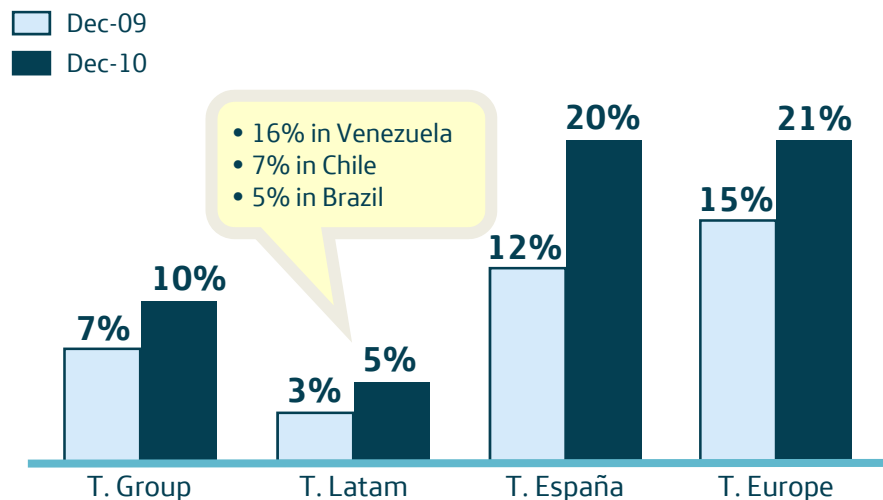


Solid growth across strategic areas

- **Mobile data: +19%** organic y-o-y
- **FBB: +5%** organic y-o-y
- **Applications & new services: +12%** organic y-o-y

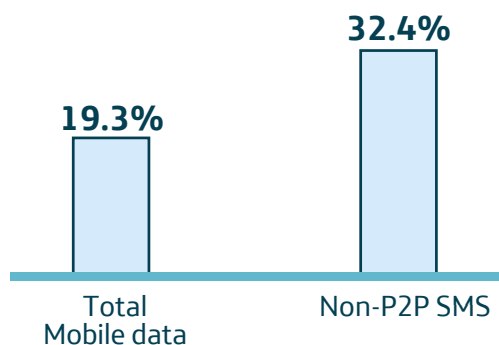
Driving fast adoption of MBB to further boost revenue

MBB penetration in our mobile base



- Customers with MBB devices + attached data rates now 10% of our total mobile base, ~20% in Europe
- Wider portfolio of devices
- Leveraging scale to further reduce device costs
- Tiered pricing in our markets
- Mobile data already 27% of MSR (+3 p.p. y-o-y)

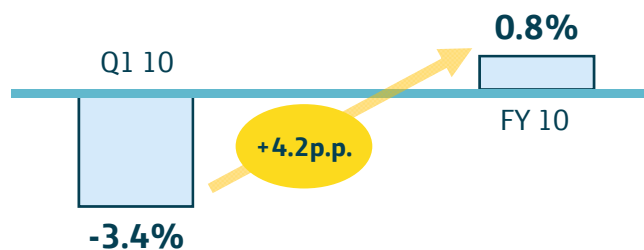
FY 10 Mobile data revenue growth (organic y-o-y)



Benchmark underlying profitability

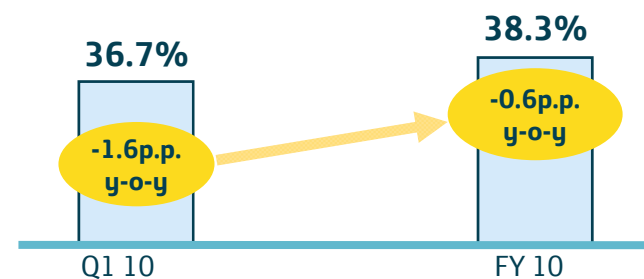
OIBDA

Organic y-o-y growth



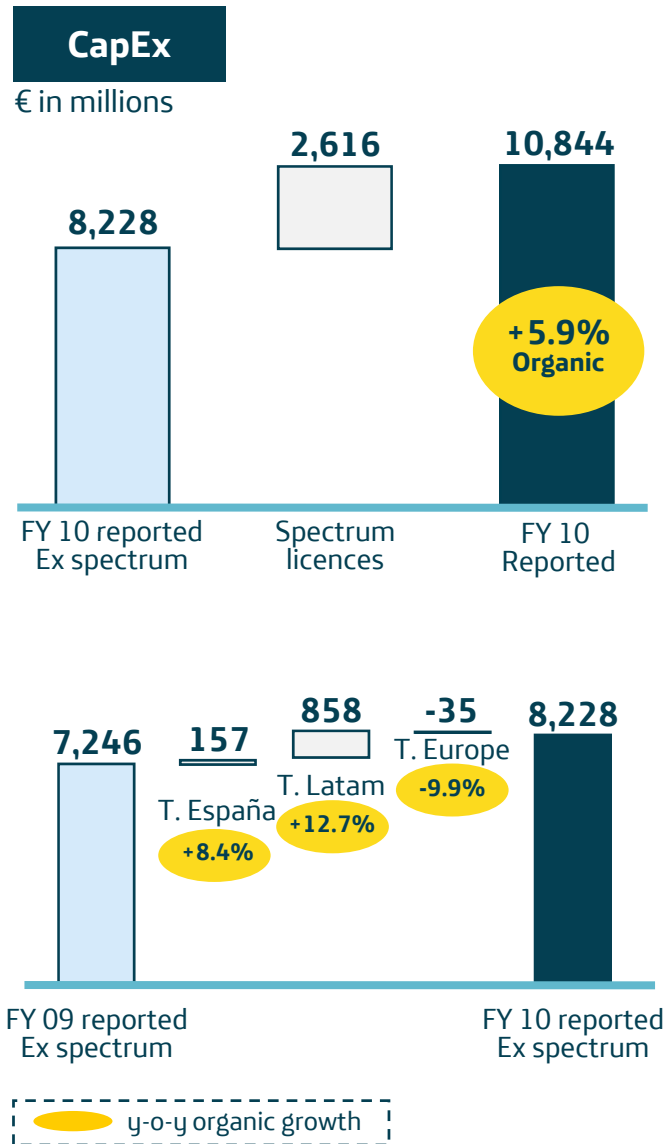
OIBDA margin

Organic y-o-y growth



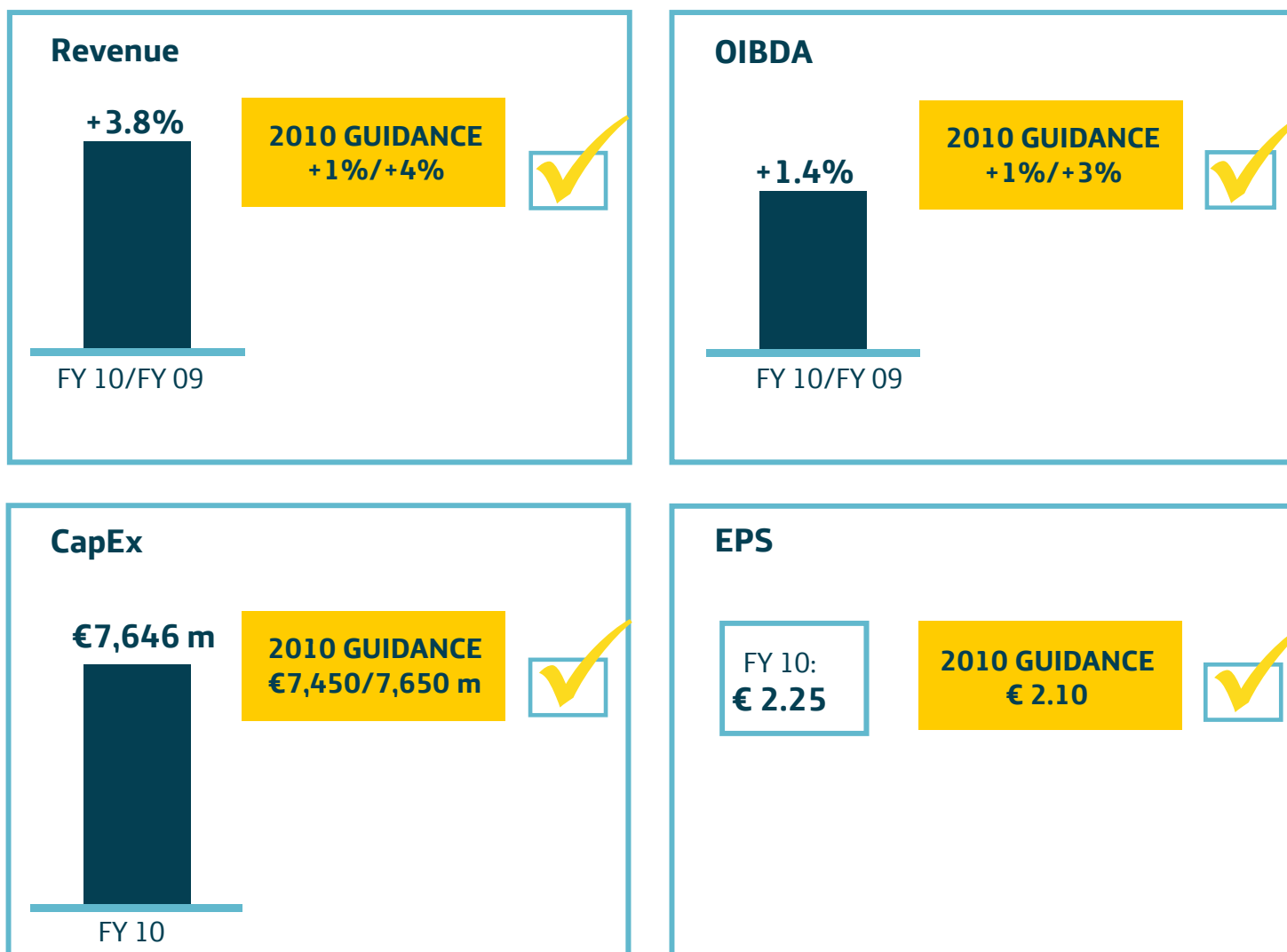
- Improved OIBDA trends along the year
- Cost reduction initiatives on track
- Maximizing benefits from global projects: € 200 m in 2010
- Limited erosion in underlying profitability y-o-y despite higher commercial efforts:
 - Reinvesting efficiencies to foster sales expansion: Commercial expenses up 6.9% organic y-o-y
 - Interconnection costs down 0.8% organic vs. FY 09 on lower MTRs

Higher CapEx to support growth in customers & volumes



- **Strengthening our networks to foster top line growth:**
 - Focused CapEx: 77% oriented to growth and transformation
 - 3G CapEx up 30% y-o-y in organic terms
- **Spectrum acquisition in Germany (€ 1.4 Bn) & Mexico (€ 1.2 Bn)**

Meeting our year-end targets for 8 years in a row

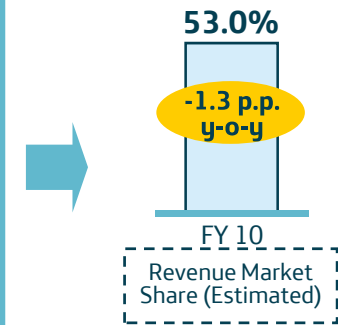


Figures according to guidance criteria.

T. España: Delivering on 2010 priorities

Maintain a strong commercial momentum (FBB & MBB) and market leadership to capture market recovery

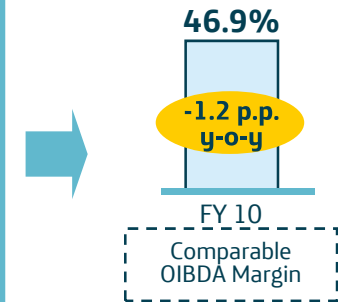
- **Sound commercial activity:** +10.5% y-o-y, focused on value
- **MBB accesses:** x1.7 y-o-y to 20% of total mobile accesses
- **FBB net adds:** + 6.6% y-o-y, solid market share at 53%
- **Contract mobile gross adds:** +24.5% y-o-y
- **Fixed line losses:** 18.3% lower than in 2009
- **Pay TV accesses:** +12.1% y-o-y, gaining market share



Reinvest efficiency gains in the short term to ensure business growth prospects

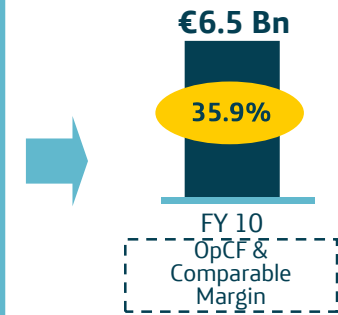
FY 10 OpEx (comparable y-o-y change)

Subcontracts	Supplies	Bad debt	Taxes	Personnel	Total OpEx
-1.1 p.p.	-0.6 p.p.	-0.6 p.p.	-0.1 p.p.	+0.9 p.p.	-1.5% y-o-y
					+3.7% y-o-y
					-3.0% y-o-y



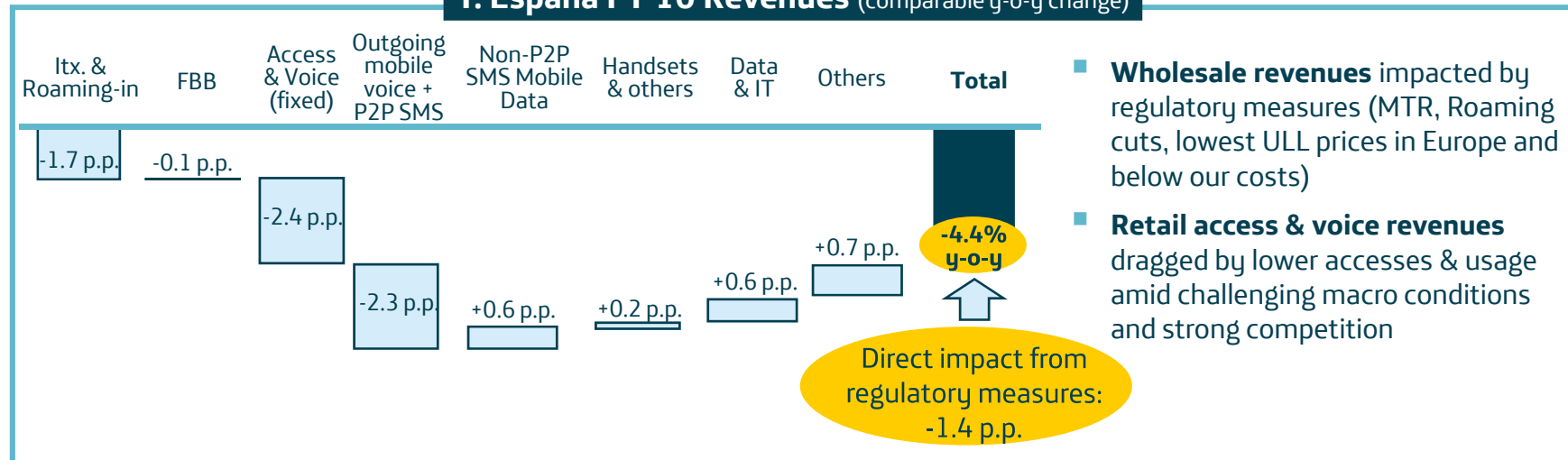
Deliver a strong cash-flow generation

- **Limited erosion in OpCF after working capital (-5.5% y-o-y), leveraging an efficient management of WC**
- **Benchmark profitability despite increased CapEx (+8.4% y-o-y) focused on growth:**
 - 70% devoted to **growth and transformation**
 - **3G** to capture the **MBB opportunity**
 - **FBB & Pay TV** to enhance our offer

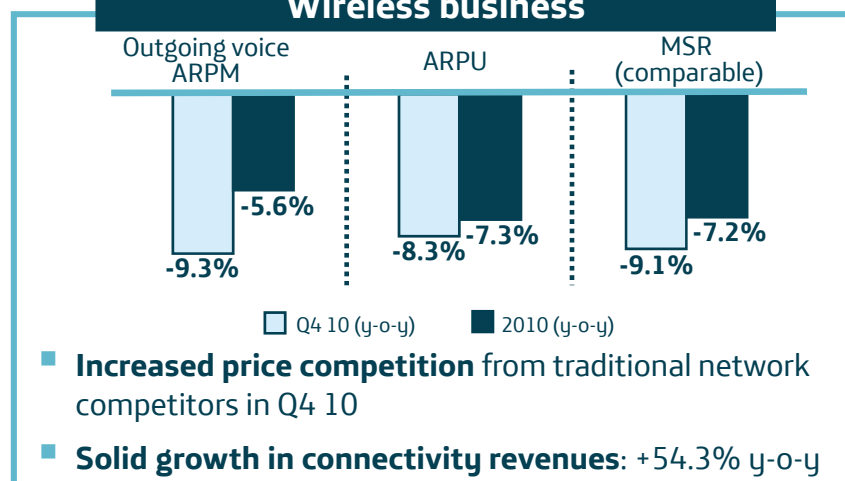


Top line impacted by regulation and increased competition in a difficult economic environment

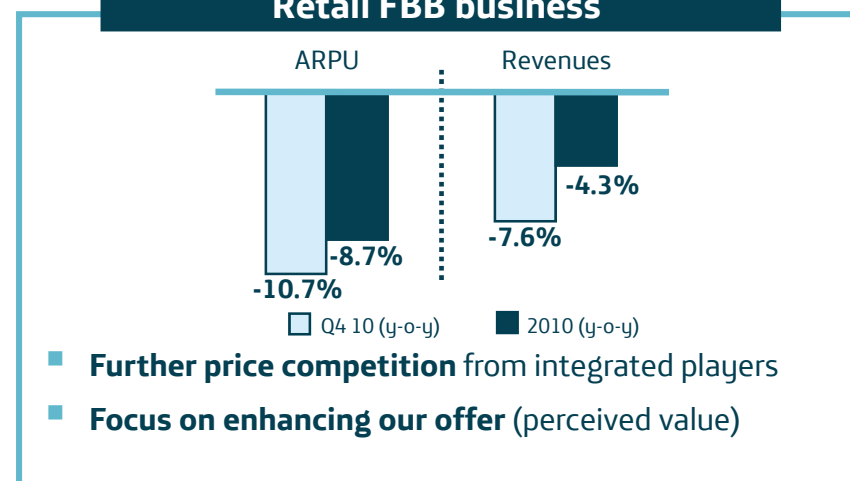
T. España FY 10 Revenues (comparable y-o-y change)



Wireless business



Retail FBB business



There is still ample room to further increase our efficiency

We are working to reshape our labour costs ...

- **Less overhead:** 6% reduction of manager positions
- **Potential outsourcing of operations** to service providers
- **Further workforce restructuring processes**
- **New pay and benefits agreement with** pay revisions not linked to CPI

... optimizing our commercial costs...

- Reduction of Smartphone unit costs
- Value-based policy on handset subsidies

... further leveraging on global Group scale...

- Advancing towards Global Operations (e.g. European Datacenter)
- Global purchasing benefits

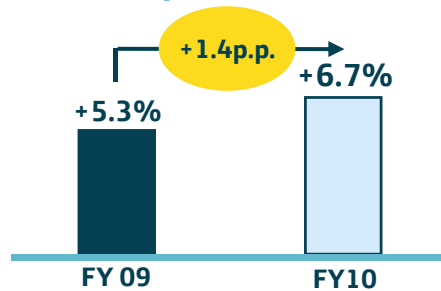
... and we will continue actively managing our portfolio of assets

- Network sharing
- Divestitures of non strategic activities

T.Latam: Sound profitable growth

Revenue

(Organic y-o-y growth)

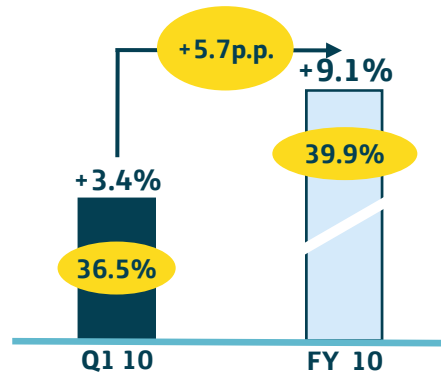


Robust organic revenue growth leveraging fast customer expansion:

- Double digit growth in MSR
- Sound Internet & Pay TV sales

OIBDA

(Organic y-o-y growth)

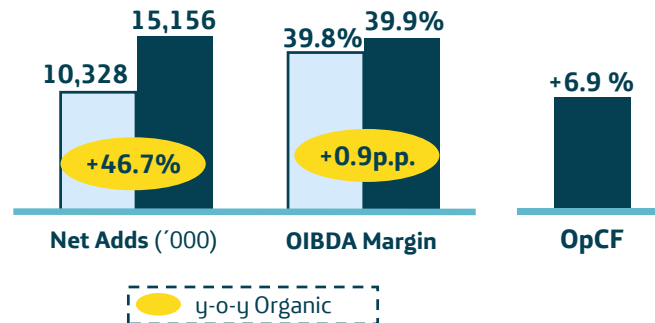


OIBDA margin

- **Solid profitability** leveraging scale & regional integrated model
- **Strong OIBDA margin** despite increased commercial efforts
- **OpCF organic growth exceeding revenue growth**

Profitability

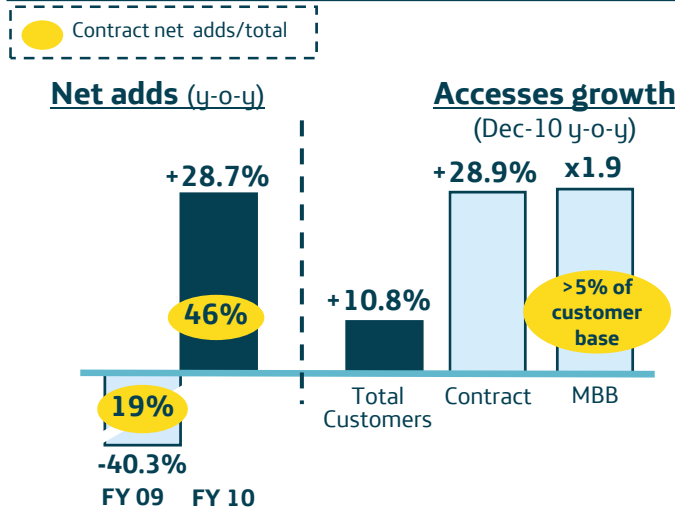
(Organic y-o-y growth)



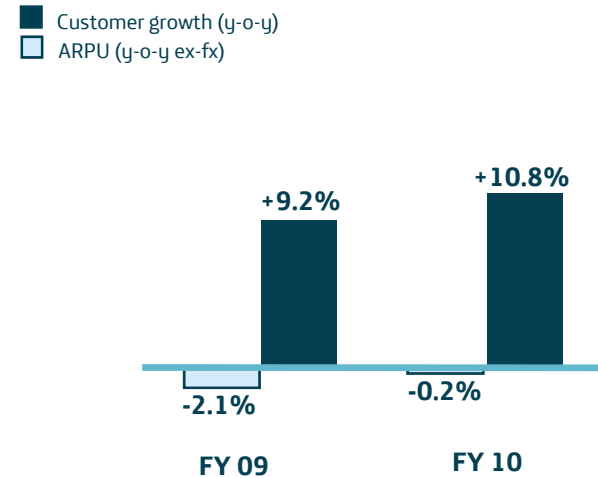
FY 09
FY 10

Wireless: A perfect combination of voice and data growth

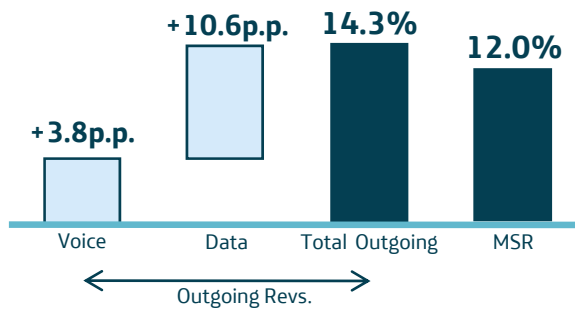
Robust Commercial Activity



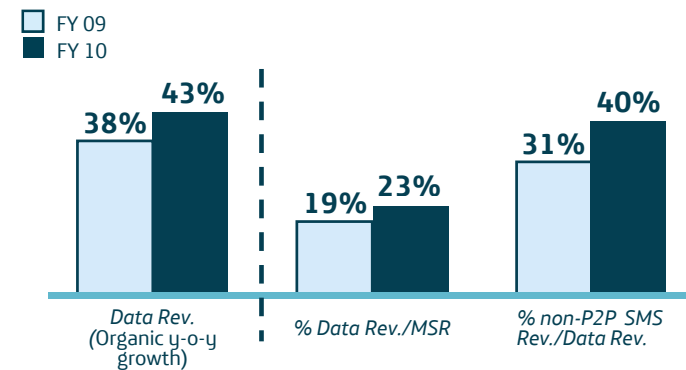
Improving customer value



Organic Revenue growth (FY 10 y-o-y)



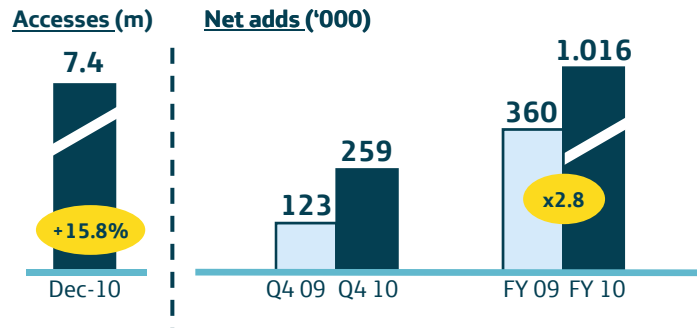
Mobile Data



Wireline: Enhanced quality fuelling commercial activity

Latam Retail FBB

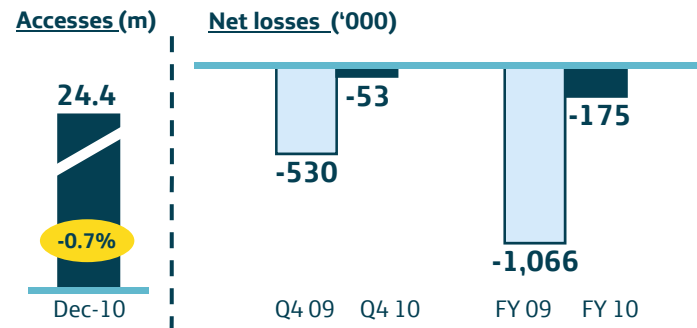
y-o-y growth



- **FBB growth acceleration** for 5th quarter in a row
- **Churn contention** across services
- **Successful bundling strategy**; 86% of total FBB

Latam Retail Fixed Accesses

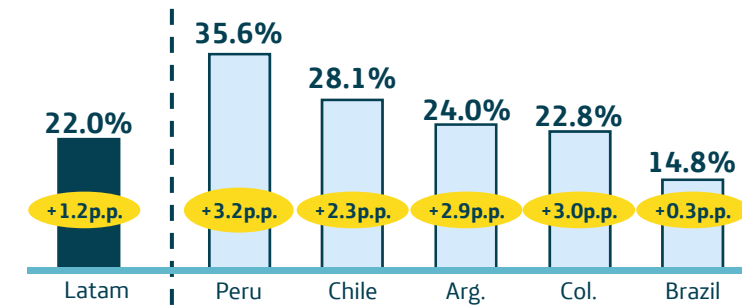
y-o-y growth



- **Slowdown of accesses y-o-y decline** (-0.7% vs -2.6% in September)
- **Churn improvement** based on bundled offer and enhanced quality
- **66% of fixed accesses on bundles**

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

y-o-y growth



- **Higher contribution from Internet & Pay TV revenue**
 - Sequential organic growth acceleration: +7.2% FY 10 vs. +6.4% 9M 10

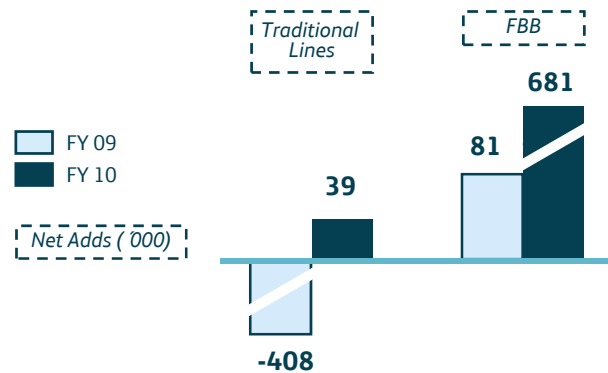
Brazil: Sound momentum across business

TELESP

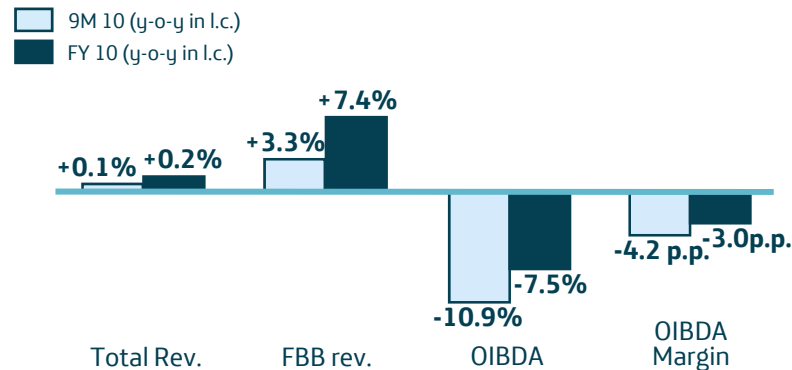
On track on synergies generation

VIVO

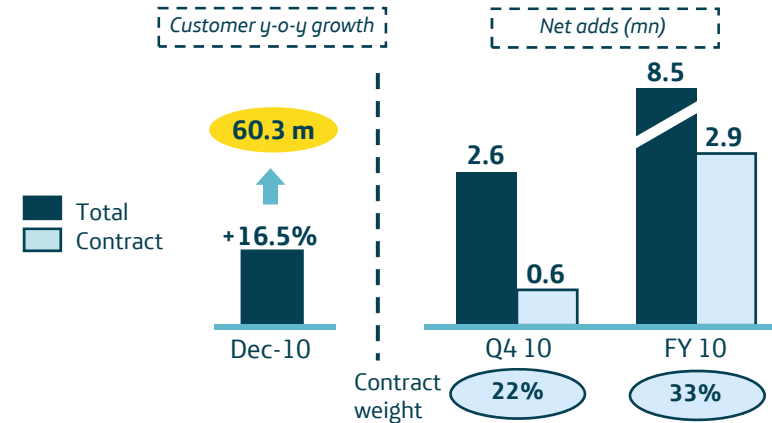
- Sustained improvement in commercial activity driven by enhanced quality
- Record FBB net adds in Telesp's history



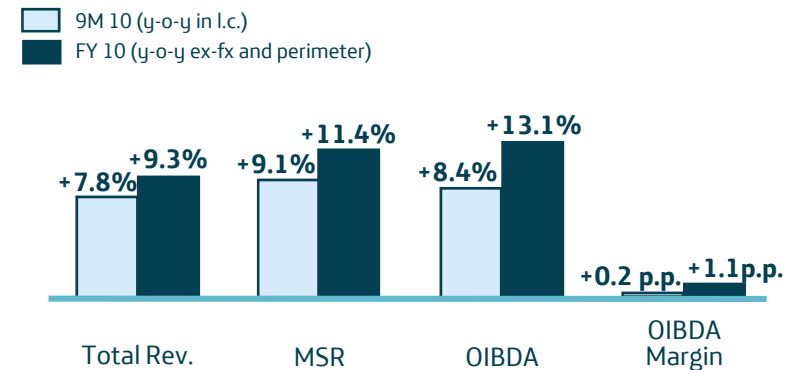
- Gradual improvement in financial metrics



- Solid customer growth leveraged on contract
- Sequential growth in ARPU for 3 quarters in a row



- Sequential ramp up in financial metrics



Brazil: Tender offer for Vivo's ONs and Corporate Restructuring

Tender offer for Vivo's ONs (11% free-float)

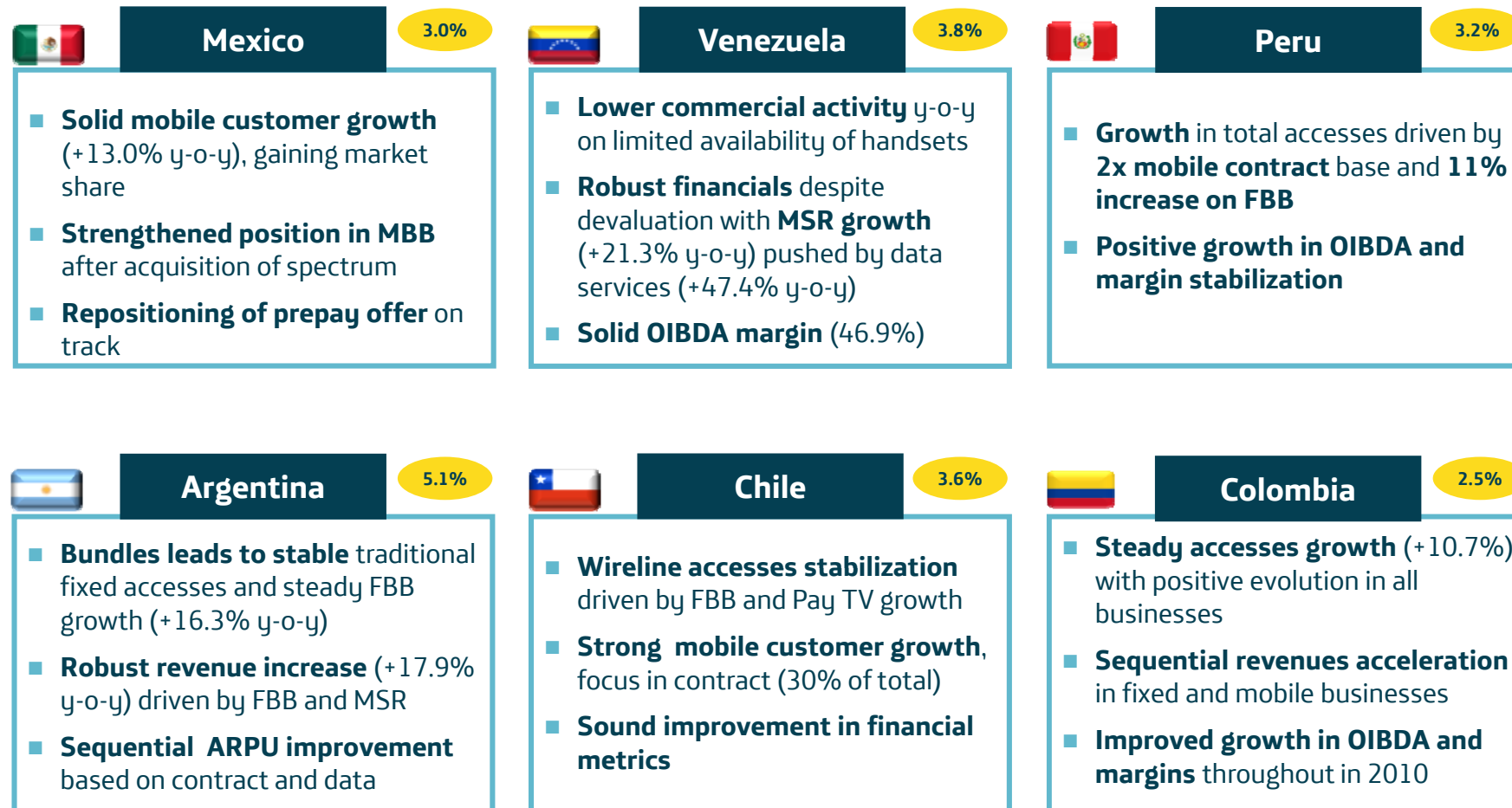
- CVM approval of the tender offer: February 11th
- Filing of "Edital" and launch of the tender offer: February 16th
- End of offer period & "leilao": March 18th
- Settlement: Lump sum option (March 22nd); 2 instalments options (March 22nd and July/Oct)
- Cash-outflows (E): below € 800 m

Telesp/ Vivo Corporate Restructuring

- BoDs Approvals: Expected end Q1/Beginning Q2 11
- TSP/VIVO GSMs Approvals (Assuming ANATEL approval) : Expected Q2 11
- Close of restructuring: Expected H1 11


 % Telefonica
Group Revenue
Contribution

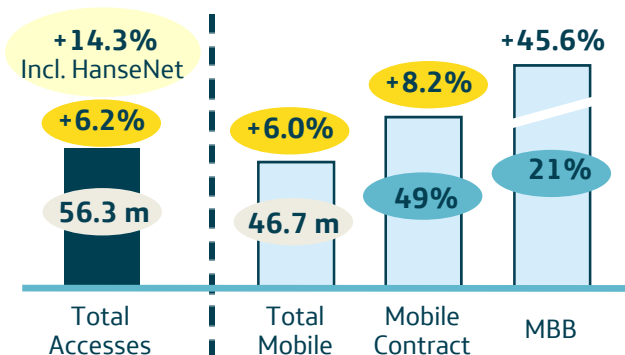
Good performance in key operations



T.Europe: Continuing strong performance

Accesses
(Dec-10; y-o-y growth)

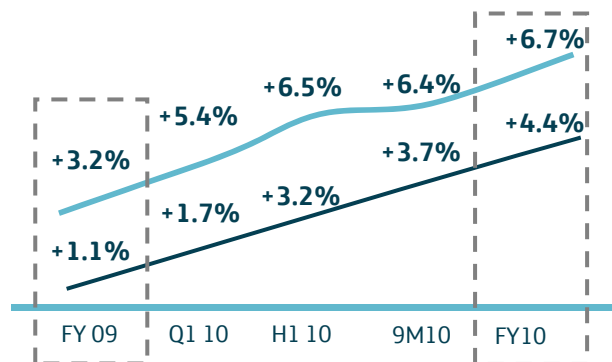
● Organic
● % over total mobile base



- **High commercial activity focused on value:**
 - 72% of mobile net adds in Q4 on contract; +1 p.p. in contract mix
 - Broader smartphone portfolio
 - Strong increase in MBB penetration (+6 p.p. y-o-y)
 - Stable churn in very competitive markets

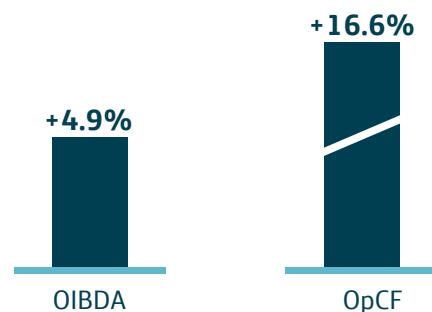
Revenue
(y-o-y growth)

■ Organic ex-MTR
■ Organic



- **Improving growth trends driven by data:**
 - Solid non-P2P SMS revenues, up 26.4% organic y-o-y in FY 10
 - Very strong performance of handsets sales (+22.5% y-o-y organic in FY 10)

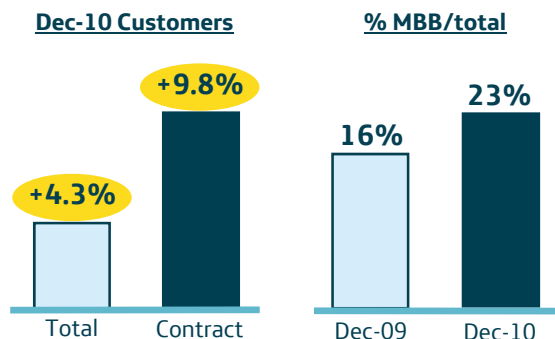
FY 2010 Profitability
(y-o-y growth in comparable terms)



- **Building profitability:**
 - FY 10 margin maintained in comparable terms despite increased commercial costs
- **Accelerated operating restructuring to enhance future efficiency**

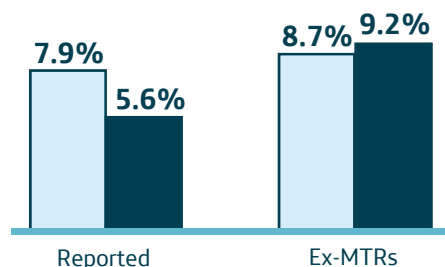
T.02 UK: Leading the wave of profitable data monetization

Mobile customer KPIs
 y-o-y change



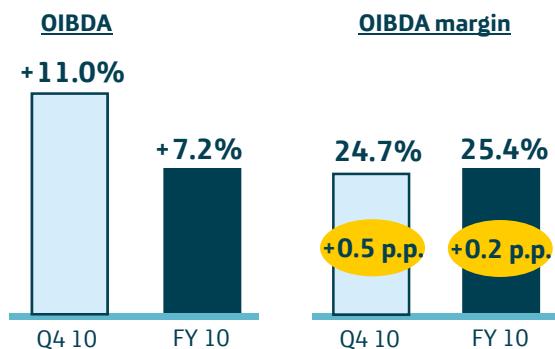
- Strong momentum in MBB, while excelling the core:**
 - New tiered tariffs taken by 36% of consumer contract data users
 - Market leading contract churn kept at 1.1%
 - Contract base is 47% over total (+2 p.p. y-o-y)

MSR (y-o-y growth)
 Q4 10
 FY 10



- Continued top line growth to 6.5% y-o-y in FY 10:**
 - ARPU increased 1.2% y-o-y ex MTRs
 - Non-P2P SMS revenue: +32% y-o-y
 - Handset sales up 9.2% y-o-y on growing demand for smartphones & lower subsidies

Profitability (y-o-y comparable growth)
 comparable y-o-y change

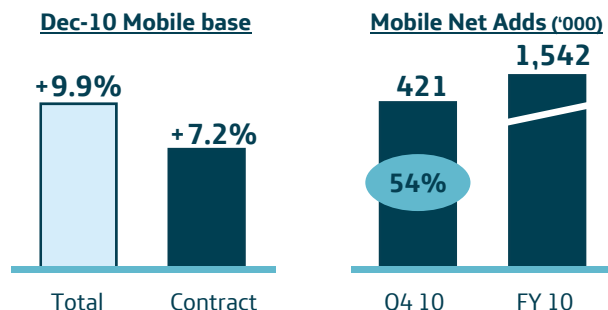


- Business reorganization to capture new opportunities and customer service enhancement:**
 - Continued efficiency offsets higher commercial costs
 - Restructuring costs of € 72 m booked in Q4 10
 - Increased CapEx to give best network quality

T.02 Germany: Maintaining strong momentum

Customer Base (y-o-y growth)

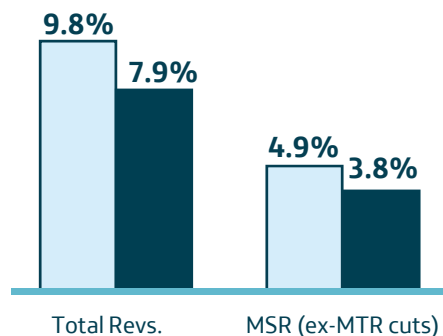
% Contract



- Leveraging our network and integrated approach:**
 - Building scale in core mobile (+18% y-o-y net adds)
 - iPhone and smartphone tariffs were 80% of commercial activity in Q4
 - Retail FBB net adds in Q4 (x2.6 q-o-q) driven by integrated distribution with HanseNet

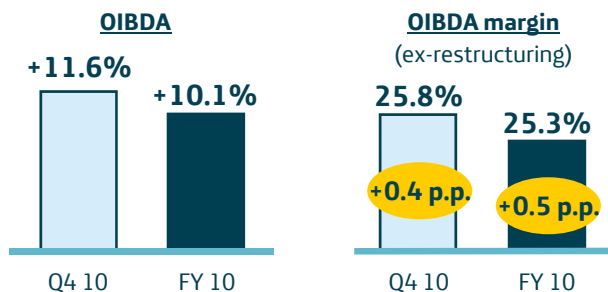
Revenue (y-o-y organic growth)

Q4 10
FY 10



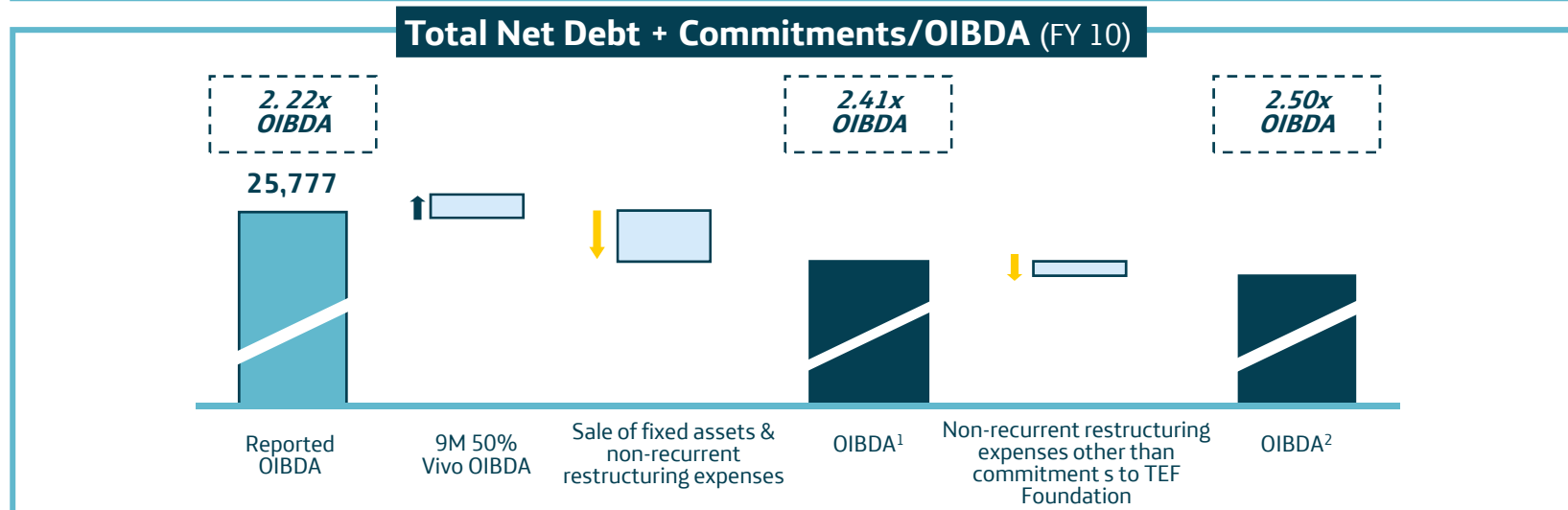
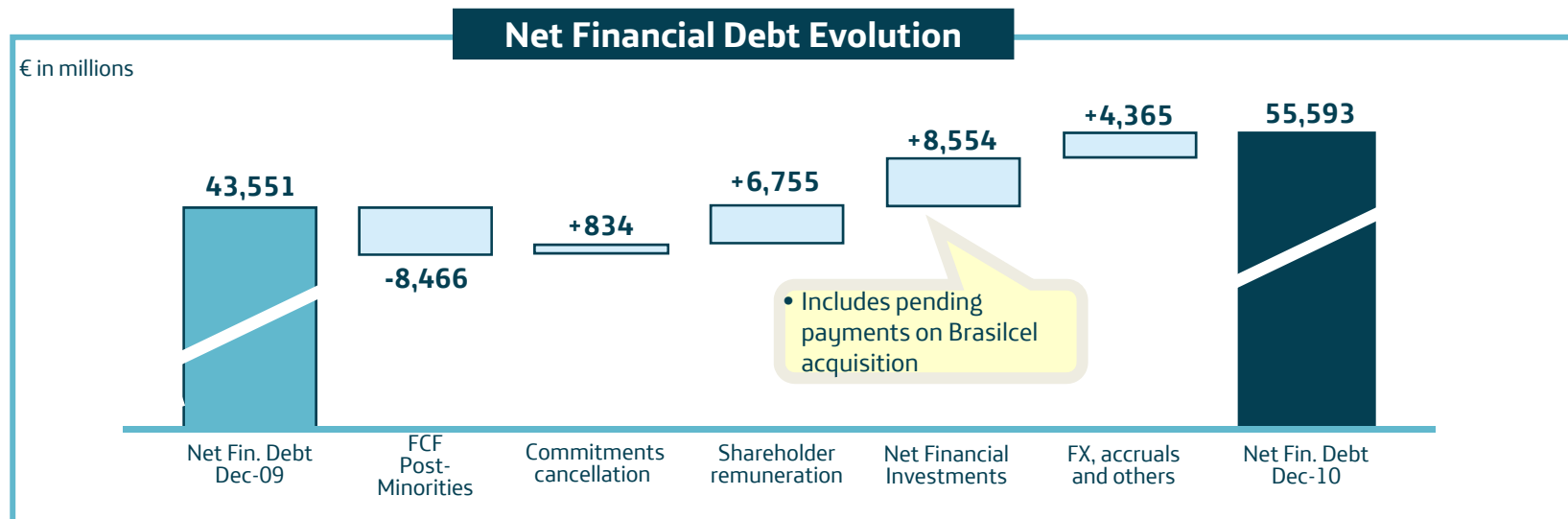
- Solid revenue growth on strong fundamentals:**
 - Sequential acceleration in MSR ex- MTR cuts
 - Non-P2P SMS revenue: +31% y-o-y to 42% of data revenues
 - Strong handset sales in Q4 from higher demand for smartphones through "My Handy"

Profitability (comparable y-o-y growth)



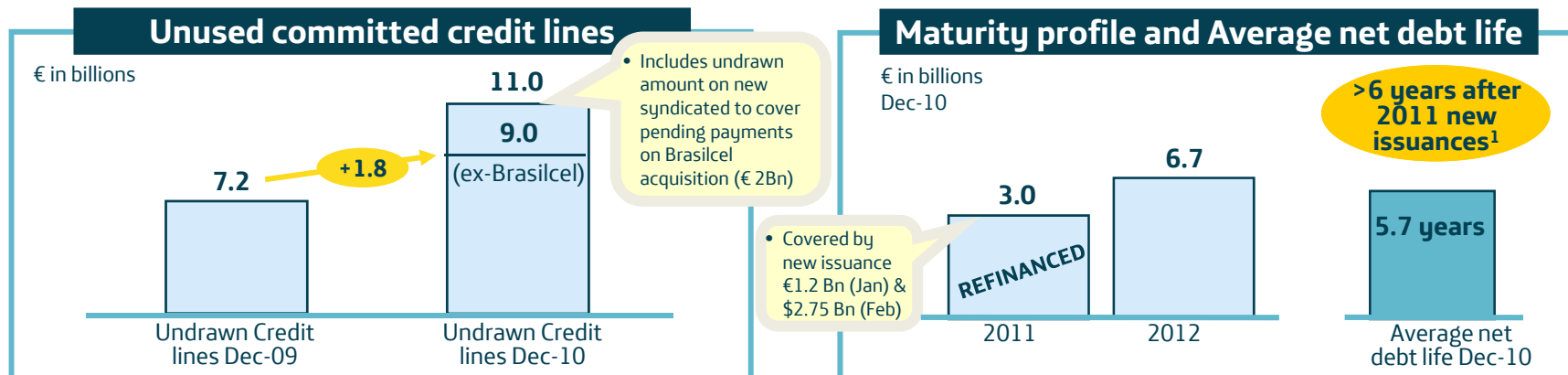
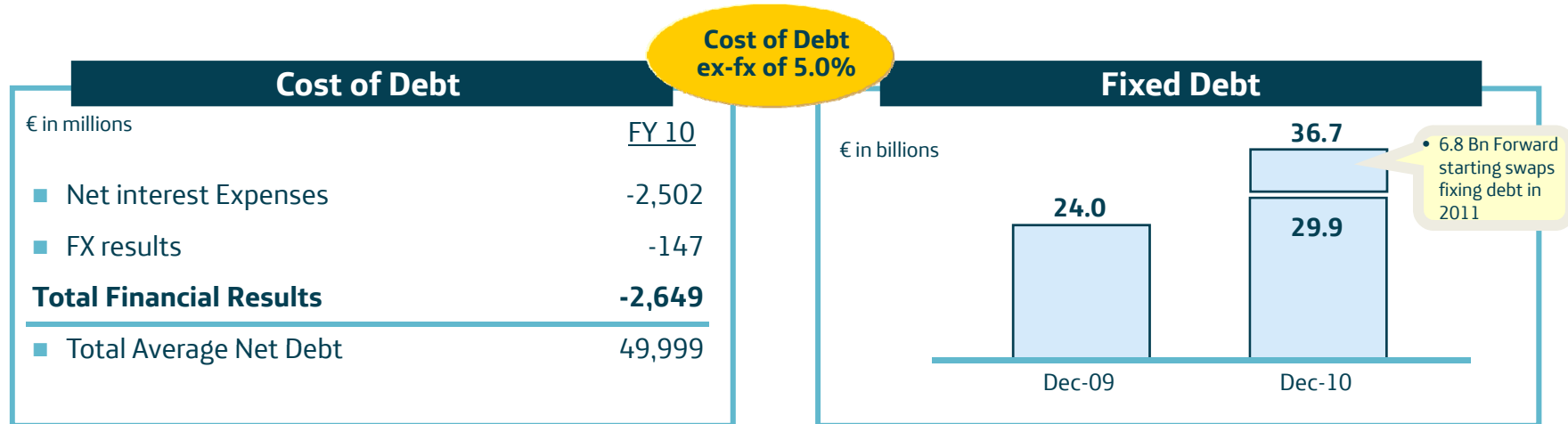
- Profitable growth on the right foundations:**
 - OpCF : 3.4x y-o-y comparable
 - Tangible synergies from HanseNet integration
- LTE rollout on track; 99% planned sites owned:**
 - CapEx down due to network rollout completion

Leverage ratio within target range after Brasilcel acquisition



- Leverage target (Total Net Debt + Commitments € 57.3 Bn) not exceeding the 2.5x OIBDA limit

Contained interest expense and strong liquidity position



- Contained interest expenses at 5% while increasing the amount of fixed debt in a low interest rate environment
- Reinforced liquidity position thanks to unused committed lines increased by €1.8bn in 2010
- Recent 2011 issuances cover full net maturities in the year while increasing average debt life above 6 years after new issuances

2011 guidance: continued focus on growth

Steady revenue growth

- **Strong momentum in LatAm & further outperformance of T. Europe to outpace decline in Spain:**
 - Fully exploiting mobile data opportunity in our markets
 - Capturing quality growth
 - Negative impact from severe regulation across European footprint

Industry leading profitability

- **Balancing profitability with higher commercial activity**
- **Setting the basis for a profitable MBB growth**
- **Continue to leverage Group scale opportunities and global initiatives**

Higher CapEx to deliver future growth

- **Improved networks capabilities to support growth in mobile data**
- **Further upgrades in FBB networks**
- **Continue to leverage Group scale opportunities and global initiatives**

€ in millions	Adjusted Base 2010	Guidance 2011
Revenues	63,144	Up to 2%
OIBDA Margin	38.0%	Upper 30s Limited erosion y-o-y
CapEx	8,541	~9,000

Maintaining premium returns on strong FCF generation

M&A focused on acquiring spectrum in current markets to secure future growth

Active management of our non-core asset portfolio

Leverage ratio within target range

Delivering on dividend policy (growing DPS)



Regional priorities

T. ESPAÑA

- **Defend revenue market leadership:**
 - Rational commercial approach focused on customer value
- **Capture growth opportunities leveraging our integrated offer:**
 - Total BB, Pay TV and ICT services (SMEs & corporates)
- **Disciplined CapEx, growth oriented**
- **Further reshaping of our cost structure**

T. LATAM

- **Speed up the capture of all the value of integration:**
 - Special focus on Brazil
- **Strengthen our bet in broadband, leveraging on a valuable fixed & mobile offer**
 - Reinforce our market position, focusing on customer value as the driver for growth
- **Further develop our unique infrastructure:**
 - Continue investing for growth

T. EUROPE

- **Increase value of customer base:**
 - Enhance contract share
 - Increase data usage providing basis for data monetization
- **Improve efficiency:**
 - Higher customer investment offset by delivery of restructuring programs and Group global initiatives
 - Optimizing CapEx through cost initiatives and partnerships

Closing remarks

- **Solid set of results in 2010**
- **Delivering on our commitments**
- **Completed key strategic transactions**
- **Continued focus on growth and maintaining premium returns in 2011**

Leveraging our integrated asset portfolio to fully capture the digital world opportunity

Telefónica
