

Telefónica: Delivering sustainable growth

TELEFÓNICA, S.A.

New York-Boston, April 8th-9th, 2010



Disclaimer

This document does not constitute or form part of any offer for sale or solicitation of any offer to buy any securities in the United States or elsewhere nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment to purchase shares. Securities may not be offered or sold in the United States absent registration or an exemption from registration under the US Securities Act of 1933, as amended.

This document contains statements that constitute forward looking statements in its general meaning and within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this document and include statements regarding the intent, belief or current expectations of the customer base, estimates regarding future growth in the different business lines and the global business, market share, financial results and other aspects of the activity and situation relating to the Company. The forward-looking statements in this document can be identified, in some instances, by the use of words such as "expects", "anticipates", "intends", "believes", and similar language or the negative thereof or by forward-looking nature of discussions of strategy, plans or intentions.

Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and other important factors that could cause actual developments or results to differ materially from those expressed in our forward looking statements.

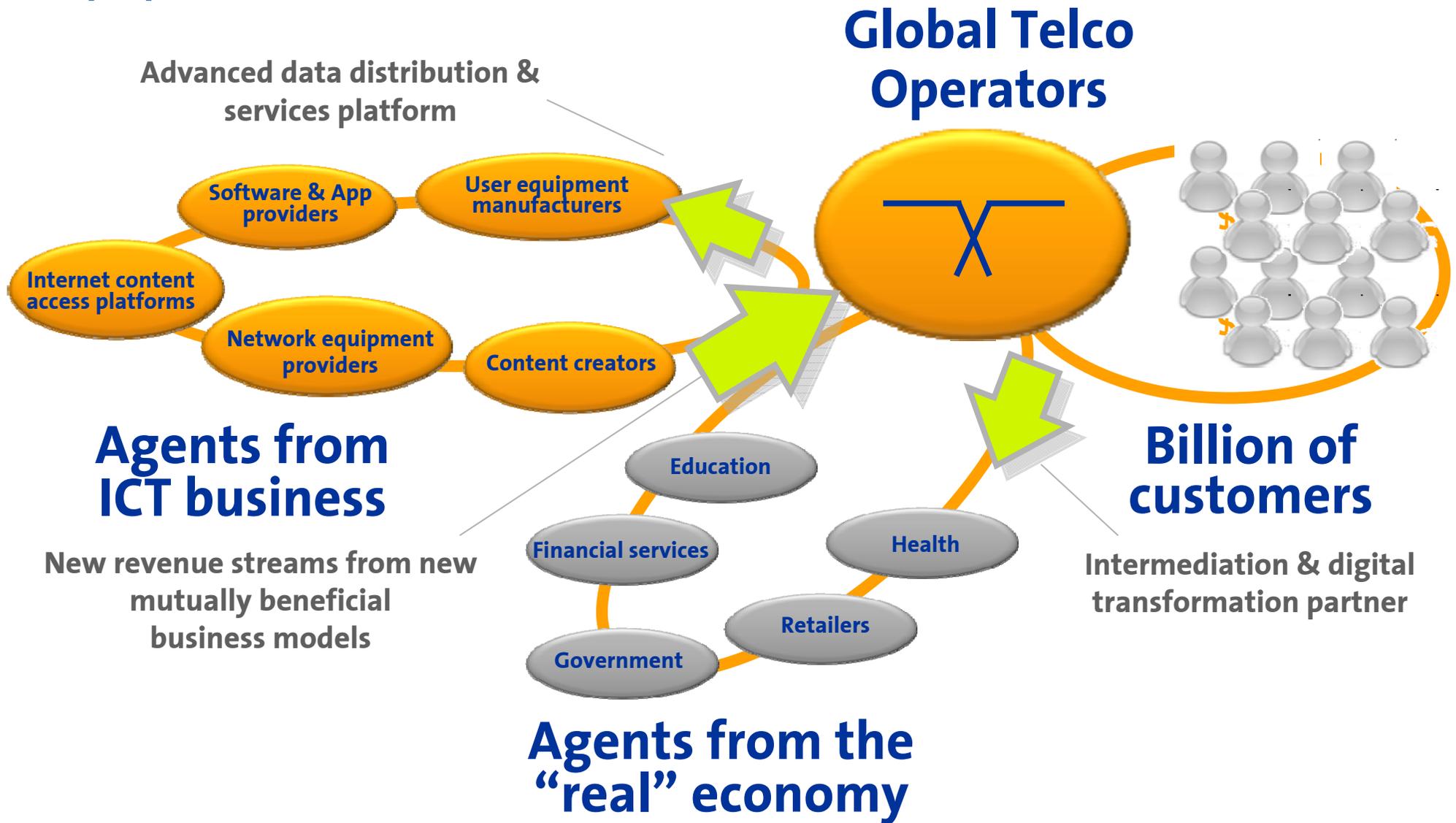
Analysts and investors are cautioned not to place undue reliance on those forward looking statements which speak only as of the date of this presentation. Telefónica undertakes no obligation to release publicly the results of any revisions to these forward looking statements which may be made to reflect events and circumstances after the date of this presentation, including, without limitation, changes in Telefónica's business or acquisition strategy or to reflect the occurrence of unanticipated events. Analysts and investors are encouraged to consult the Company's Annual Report on Form 20-F as well as periodic filings filed with the relevant Securities Markets Regulators, and in particular with the Spanish Market Regulator, for a discussion of some of the factors which could cause actual results or outcomes to differ materially from those indicated by such forward-looking statements.

This presentation includes certain non-GAAP (Generally Accepted Accounting Principles) financial measures which have not been subject to a financial audit for any period.

Index

- 1. Industry: Is there growth in the Telecoms sector?**
- 2. Telefónica Group:**
 - i. Will Telefónica maintain its differential growth profile?
 - ii. Is your dividend policy sustainable?
 - iii. What are your M&A ambitions?
- 3. T. España:**
 - i. Macroeconomic situation
 - ii. Revenue performance: is the worst over?
 - iii. Competitive environment: is there a price war in Spain?
 - iv. Commercial activity across businesses
 - v. Are you under investing?
- 4. T. Latam:**
 - i. Is the growth story in Latin America coming to its end?
 - ii. How is Telesp performing?
- 5. T. Europe:**
 - i. How are you going to deliver growth in UK and Germany?
- 6. Conclusions**

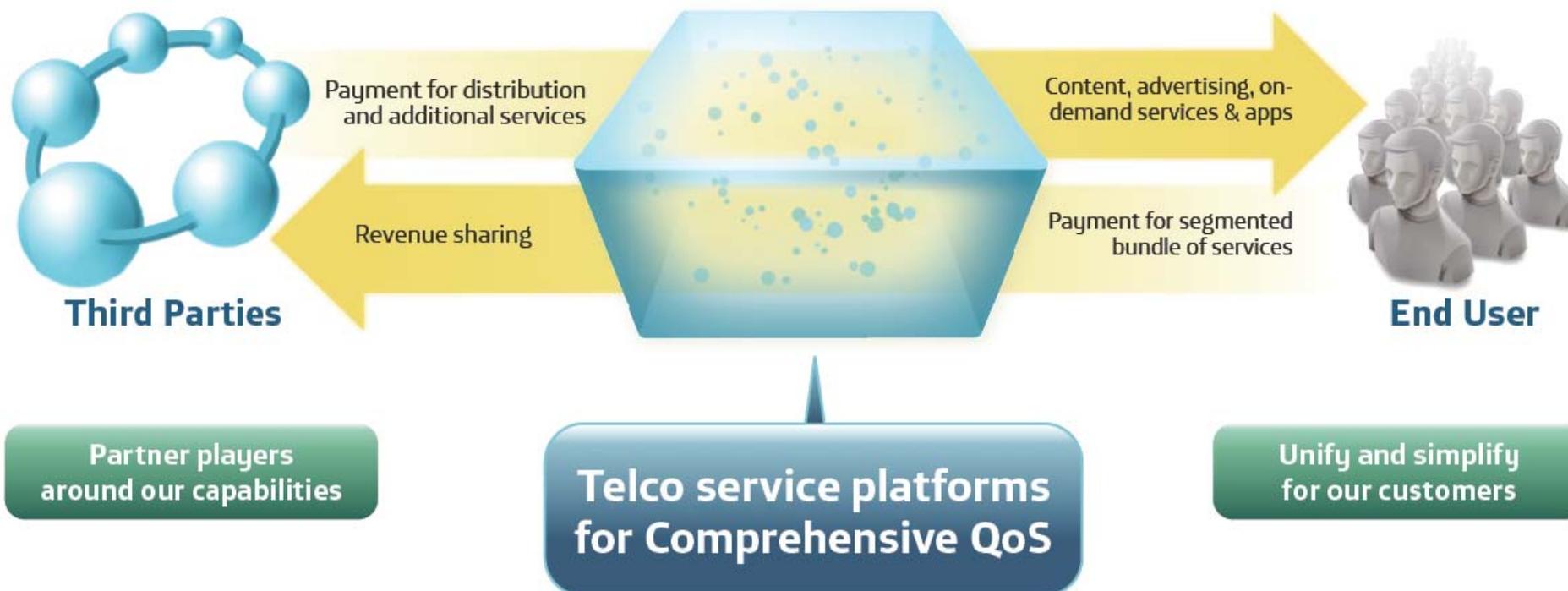
1 In the new digital world, advanced global operators are key to build new value proposals



1 Service platforms enable a new wave of revenues

Beyond applications: Advanced platforms for quality service delivery

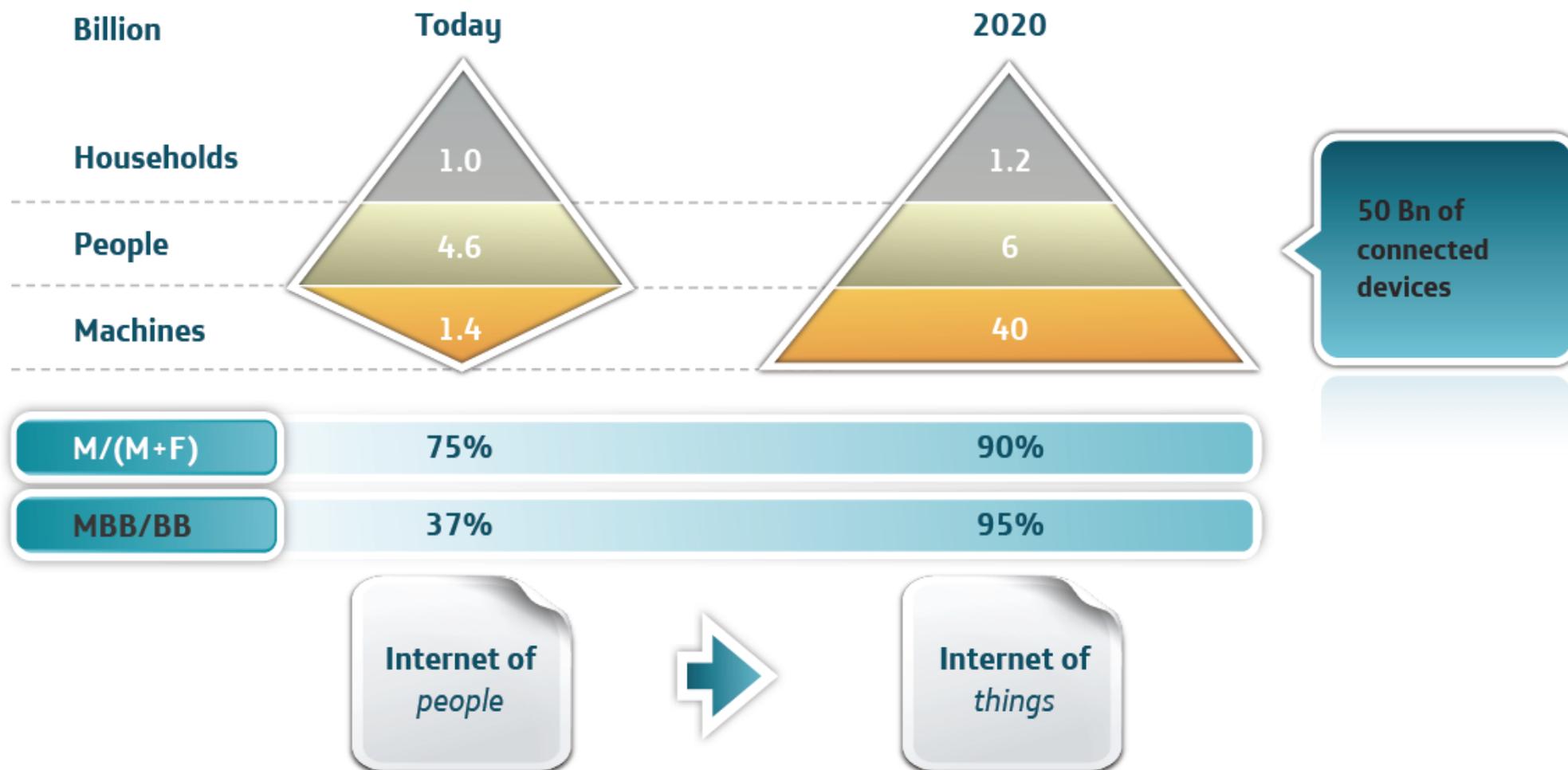
Adding comprehensive connectivity & service management



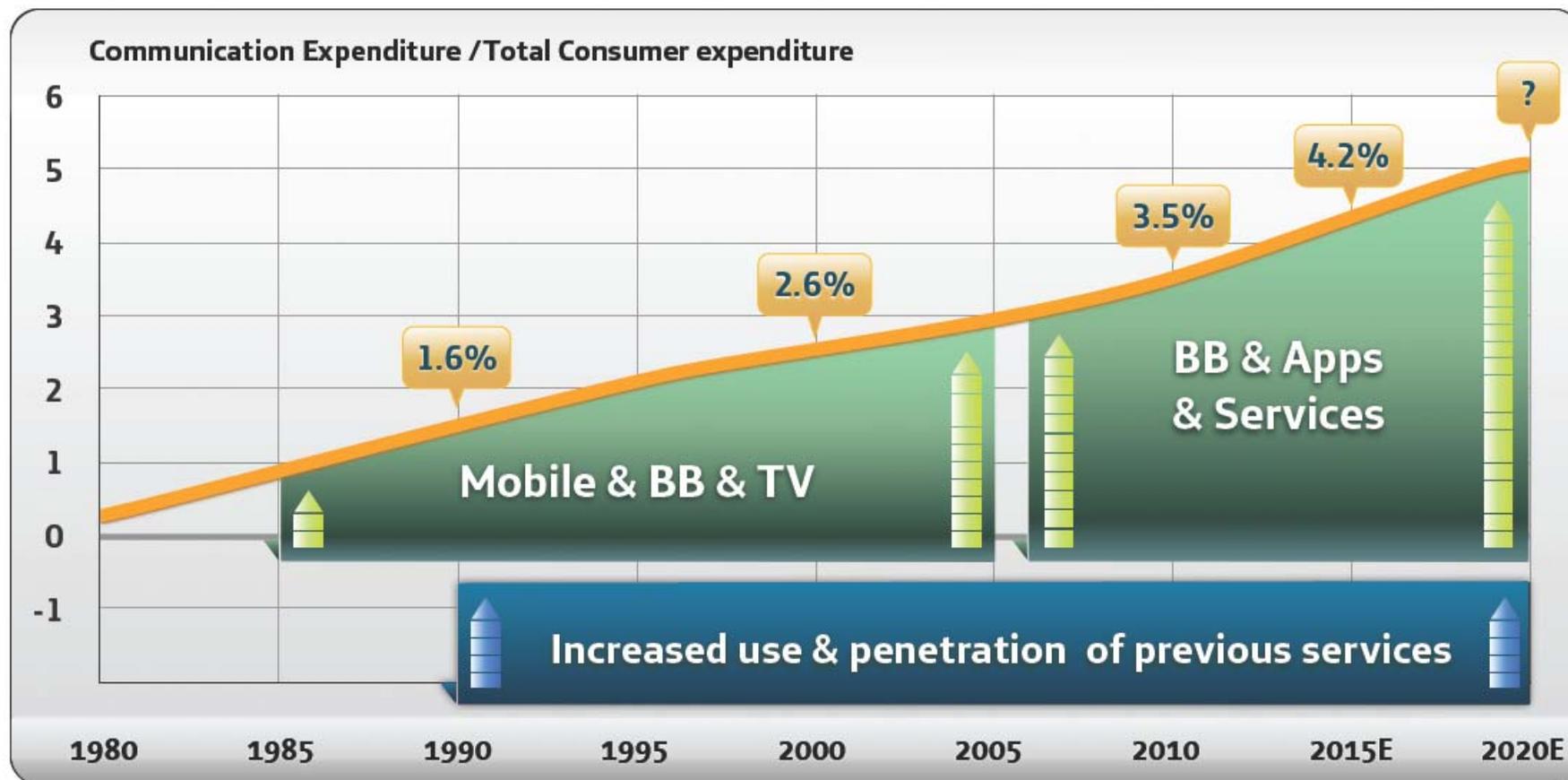
1 Our scale and value chain positioning places us as the partner choice in the new digital ecosystem to build high potential intersectorial alliances with every sector



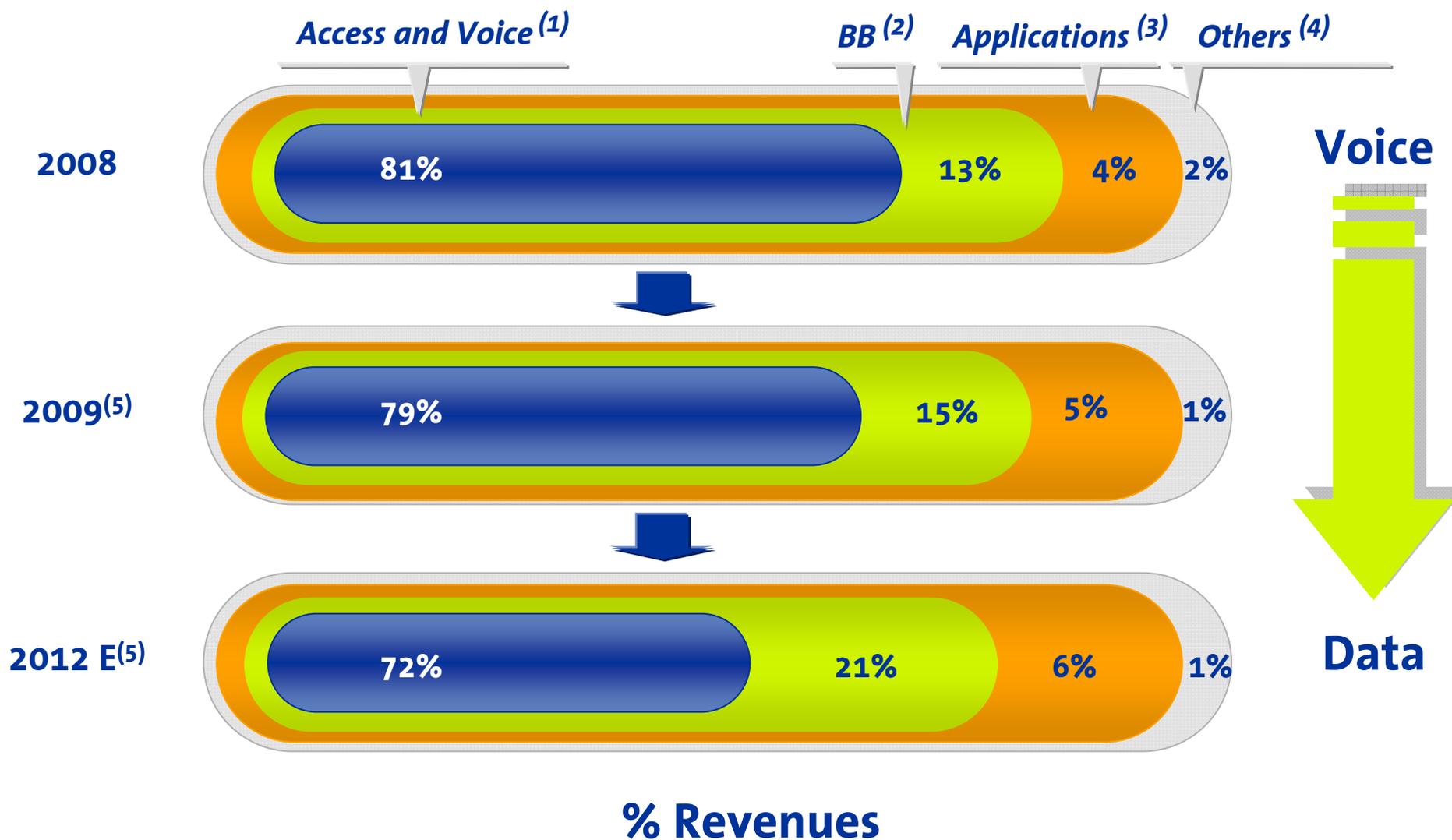
1 Communication demand will keep growing



1 New digital applications and services will accelerate this trend, increasing ICT share in consumer's wallet



1 We see a larger business with a change of mix in Telefónica



(1) Access & Voice: Fixed and mobile access and voice (SMS included), fixed and mobile equipment, narrowband Internet and M2M revenue.

(2) BB connectivity (MBB & FBB). FFB connectivity: (DSL, FO, cable modem, ...), fixed data services, retail and wholesale and equipment. MBB connectivity: Big & Small Screen, mobile e-mail, and WAP browsing revenue.

(3) Apps and New Business: 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.

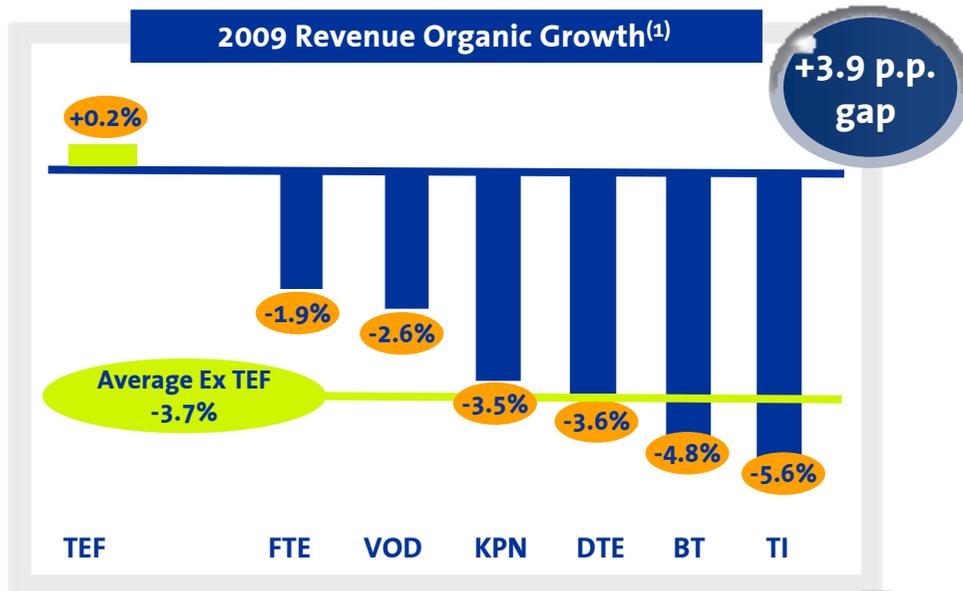
(4) Revenues from subsidiaries and other companies.

(5) Assuming constant exchange rates as of 2008 (average FX 08) and excludes changes in consolidation.

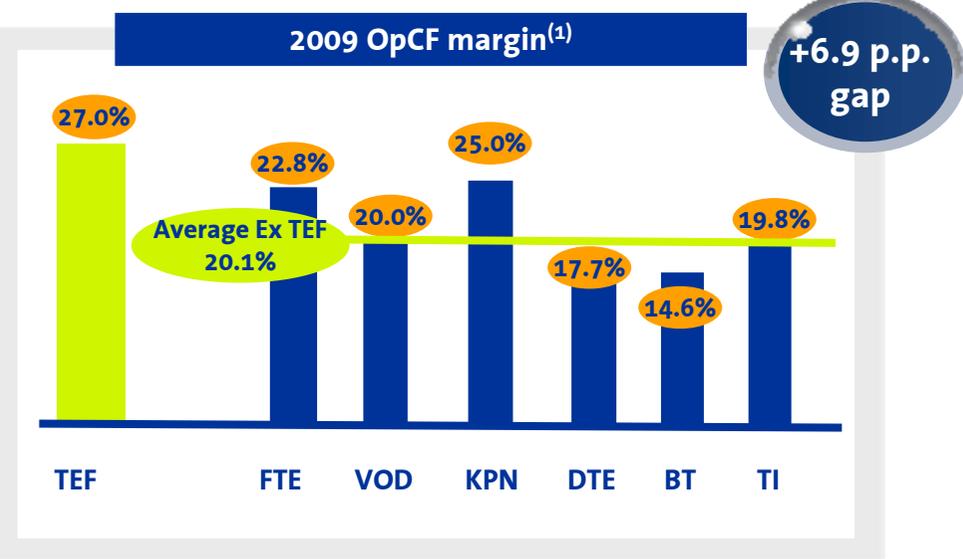
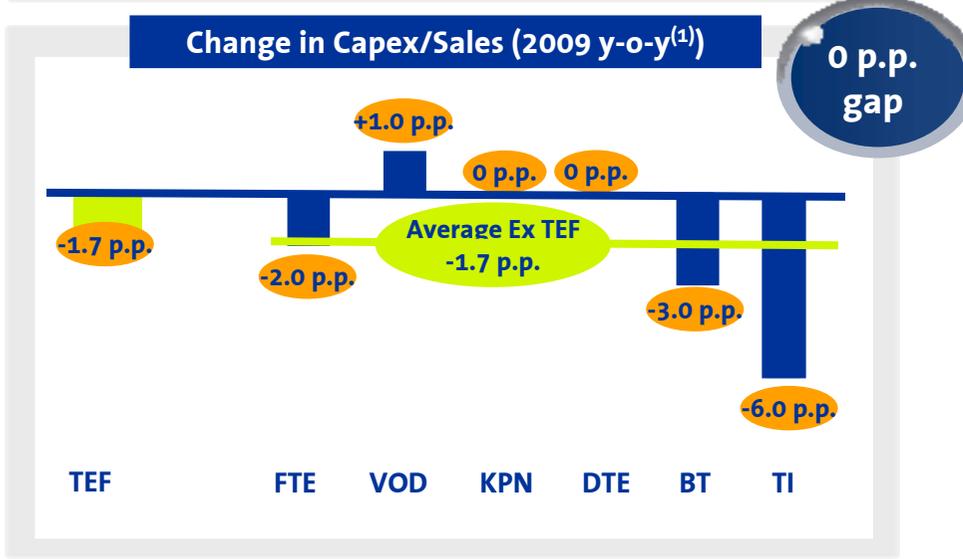
Index

- 1. Industry: Is there growth in the Telecoms sector?**
- 2. Telefónica Group:**
 - i. Will Telefónica maintain its differential growth profile?
 - ii. Is your dividend policy sustainable?
 - iii. What are your M&A ambitions?
- 3. T. España:**
 - i. Macroeconomic situation
 - ii. Revenue performance: is the worst over?
 - iii. Competitive environment: is there a price war in Spain?
 - iv. Commercial activity across businesses
 - v. Are you under investing?
- 4. T. Latam:**
 - i. Is the growth story in Latin America coming to its end?
 - ii. How is Telesp performing?
- 5. T. Europe:**
 - i. How are you going to deliver growth in UK and Germany?
- 6. Conclusions**

02 We have maintained our superior performance despite a very challenging environment



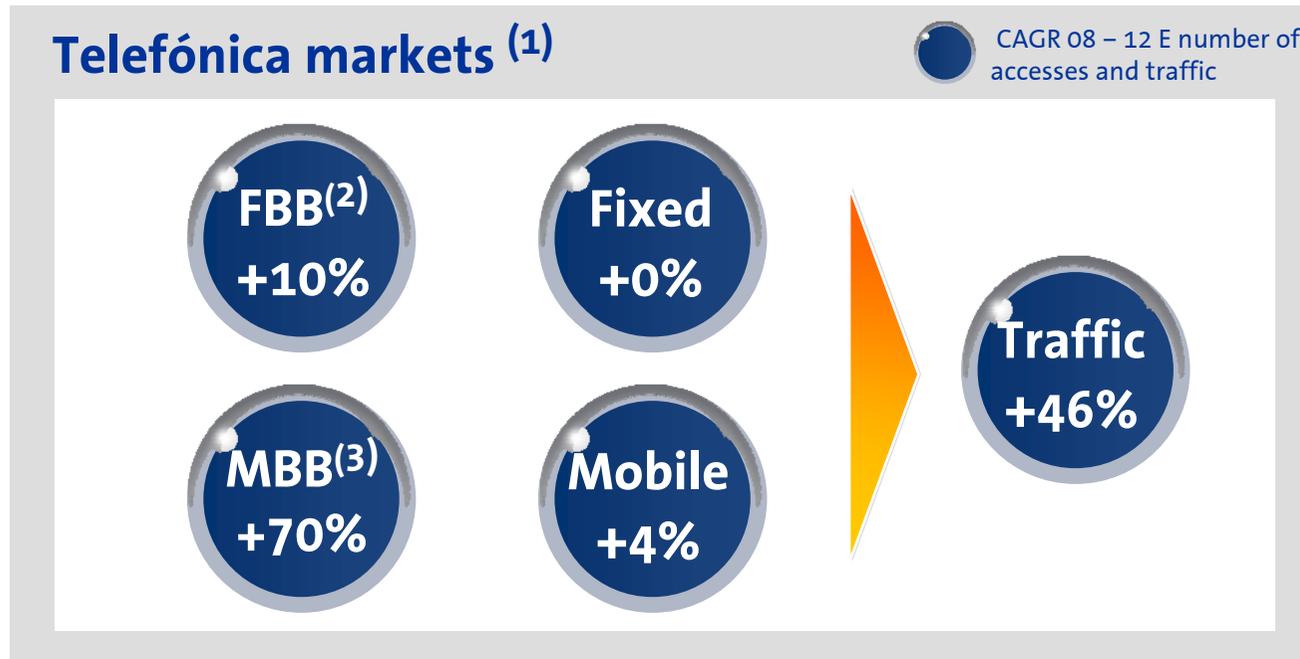
- Despite the adverse economic environment in Spain, we have maintained our growth gap vs. the sector...
- ... while maintaining our benchmark cash flow generation and keeping investment in future growth



(1) Source: Telefónica and Deutsche Bank (European Telecom Services. Incumbent operator trend analysis Q4 09, March 2010).

2 We have already set the bases for future growth

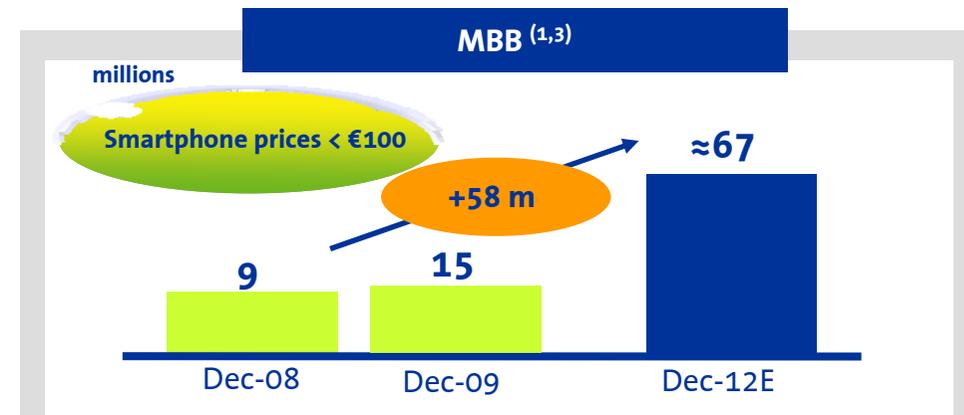
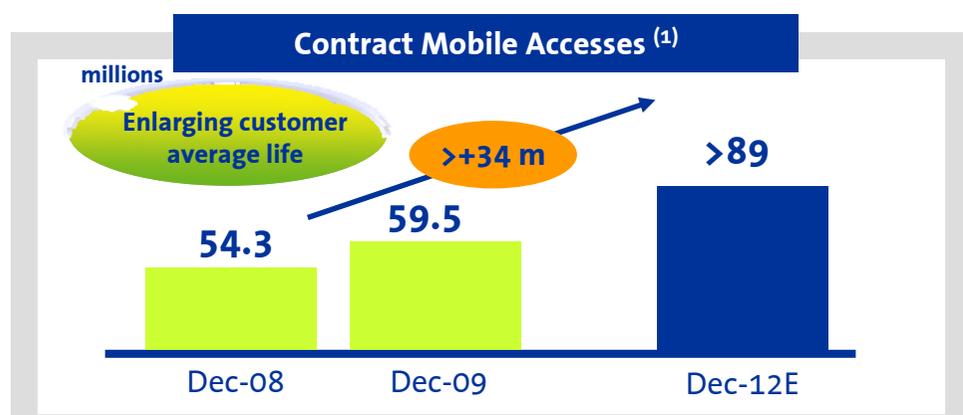
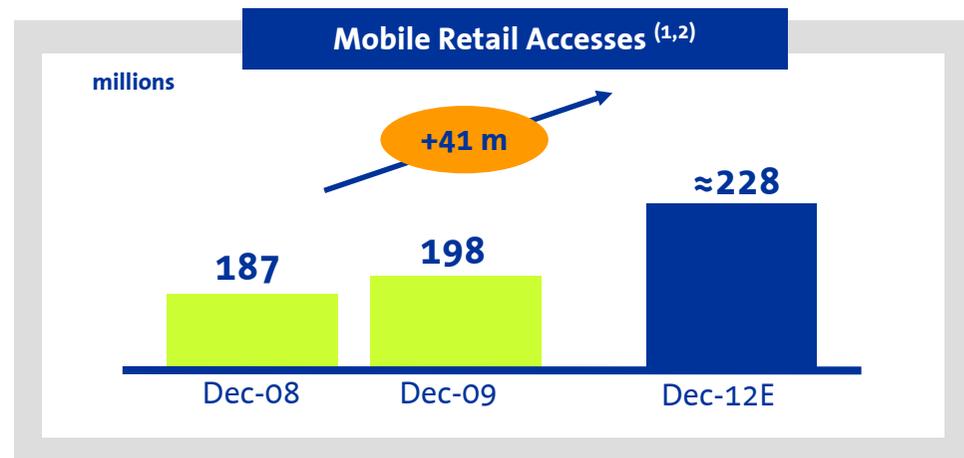
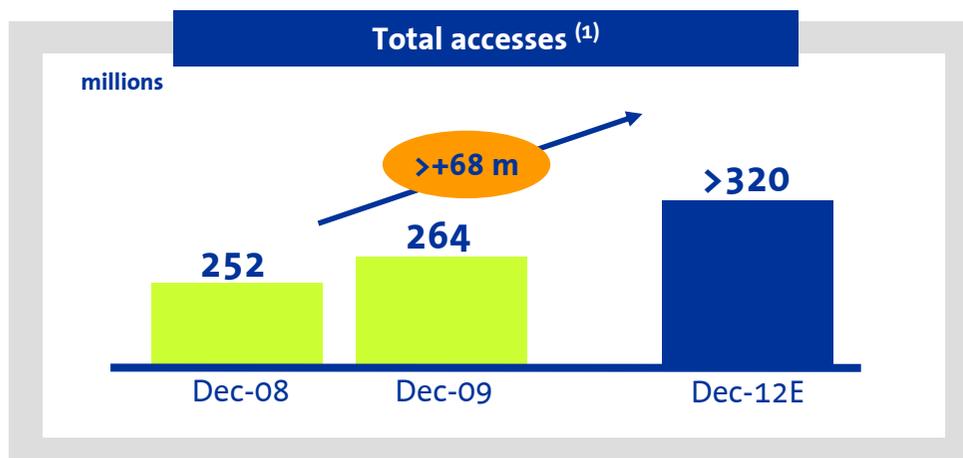
- Geographical & Business **DIVERSIFICATION**
- Strong **GROWTH POTENTIAL** in our markets



Broadband everywhere
Access to support broadband
Traffic explosion

2

Growing our customer base & improving its quality



- +10 p.p. growth in the weight of contract customers by Dec-12E vs. Dec-08 (Telefónica Group)
- Contract ARPU⁽⁴⁾ 4.5x prepay one in 2009, with better y-o-y evolution (Telefónica Group)

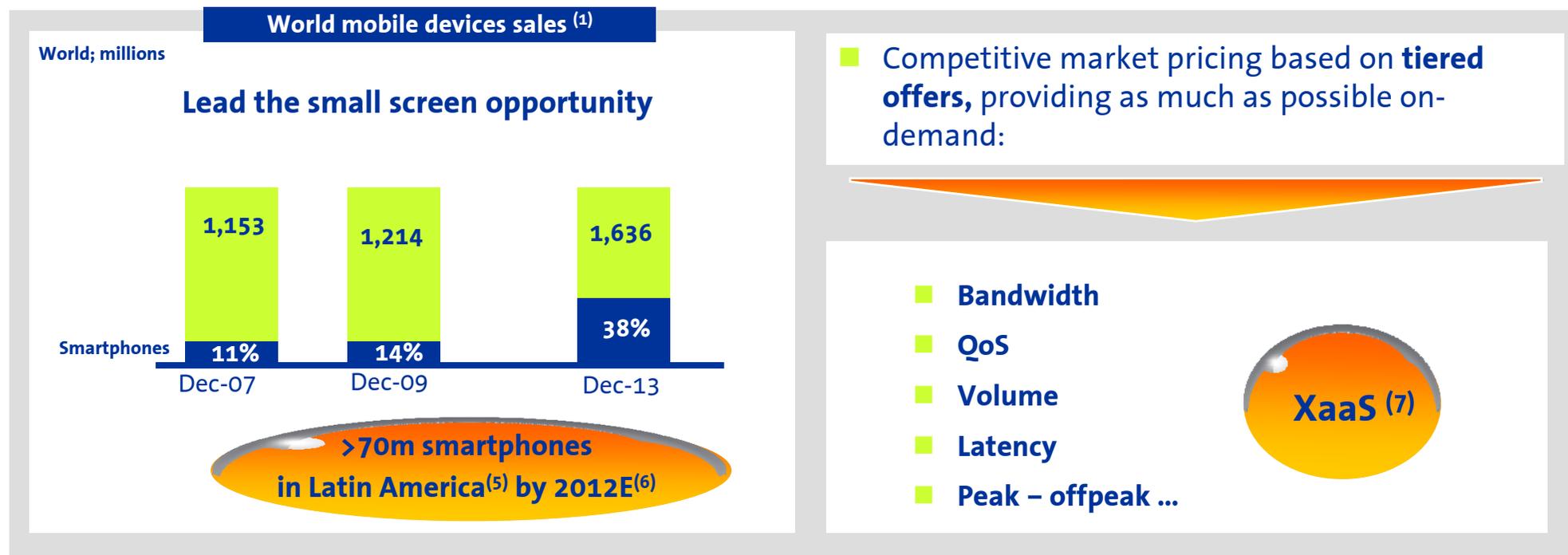
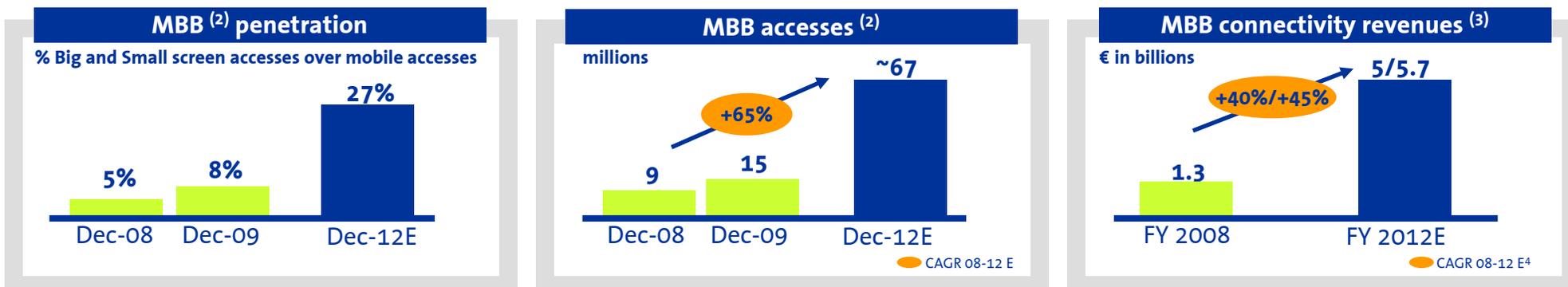
- MBB growth mainly driven by Smartphones
- ARPU of Smartphones in Spain 1.7x contract ARPU⁽⁴⁾ in 2009

Variation 08-12E

TELEFONICA S.A.
Investor Relations

(1) Morocco accesses excluded in 2008 for comparison reasons.
 (2) Mobile Retail accesses: Mobile voice accesses, M2M and Small Screen are included.
 (3) MBB accesses: Including Big and Small Screen.
 (4) Contract ARPU excluding M2M.

2 Massive MBB development (i)



(1) Source: Gartner, "Forecast Mobile Devices World 2003-2013".
 (2) MBB accesses: Including Big and Small Screen.
 (3) MBB connectivity revenue: including Big and Small Screen, mobile email and WAP browsing revenues.
 (4) Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation.
 (5) Smartphones includes High Tech.
 (6) Telefónica estimates.
 (7) XaaS: Everything as a service.

2 Massive MBB development (ii)

- A reality even in a difficult environment: T. España 2009



- Tiered pricing in our markets: different customer needs, avoiding “all you can eat” tariffs

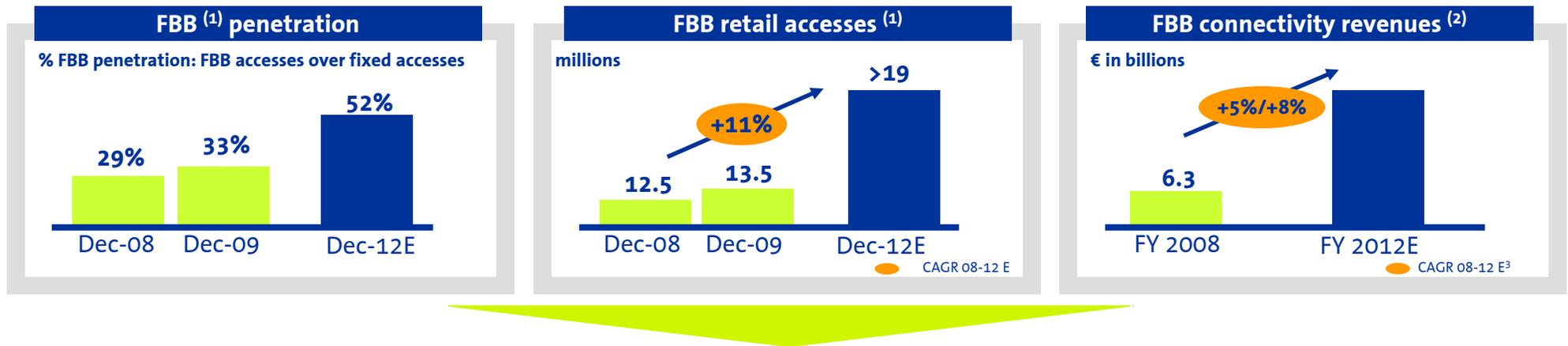
MEXICO (volume based)		
Profiles	Allowance *	Price
Conecta	300 Mb	x
Navega	800 Mb	1.5 x
Descarga	5 Gb	2.2 x

**Fair usage policy rules applied. Additional modules are charged.*

SPAIN (Smartphone - traffic based profiles)			
Profiles	Max. down speed	Allowance*	Price
Int. Móvil (IM)	1 Mbps	100 Mb	x
IM Plus	3 Mbps	200 Mb	1.5 x
IM Premium	3 Mbps	1 Gb	2.5 x

**Unlimited volume. Download speed reduces to 64 Kbps when allowance volume reached. IM Plus and Premium includes unlimited access to Telefónica WiFi hotspots*

2 Further FBB expansion through DSL upgrade and selective FO deployment

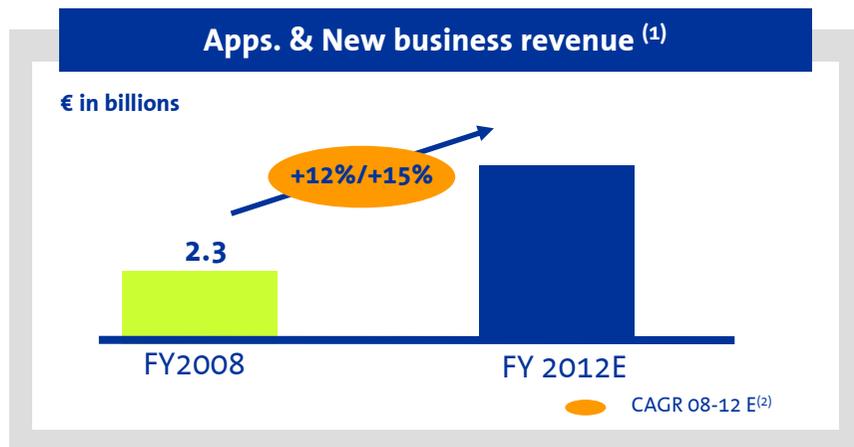


DSL:

- Expand BB markets; low coverage areas and low income segments
- Tiered offer including Premium at high speed (>10 Mbps)
- **Selective FO deployment (speed >25 Mbps)**
- **Bundles across segments**

**Lines passed with
> 25 Mbps in 2012
> x9 vs. 2008**

2 Development of applications and new business



Mobile Apps. Market
from €6 bn to €17.5 bn
in 2009-12⁽³⁾

- **Mobile applications:** >120m Mobile applications downloaded in 2012E
- **Pay TV:** >4.5m Customers by 2012E vs. 2.3 m in 2008
- **Digital Home services**
- **ICT solutions:** infrastructure alternatives, Cloud Computing, M2M,
- **New Business:** e-Finance, e-Health, e-Travel, e-Learning, e-Security, ...

WAC

Open platform

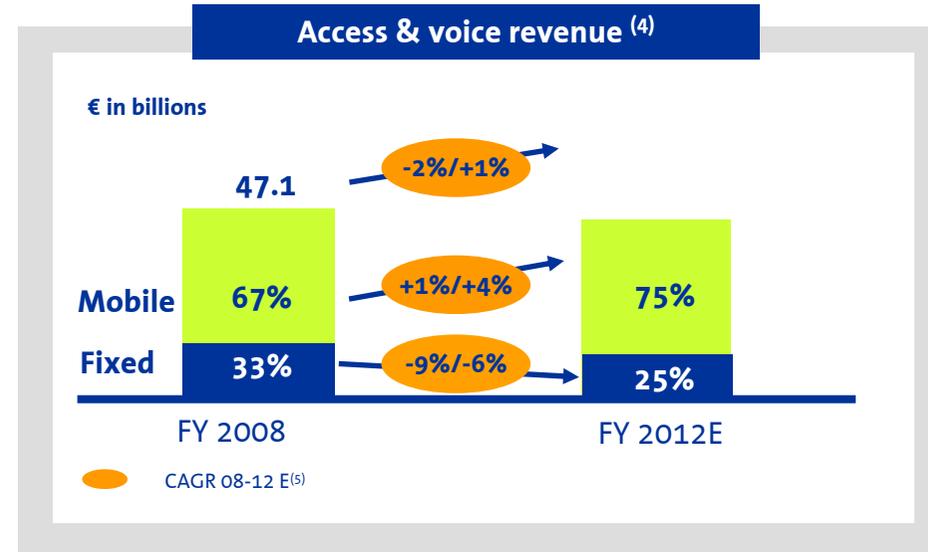
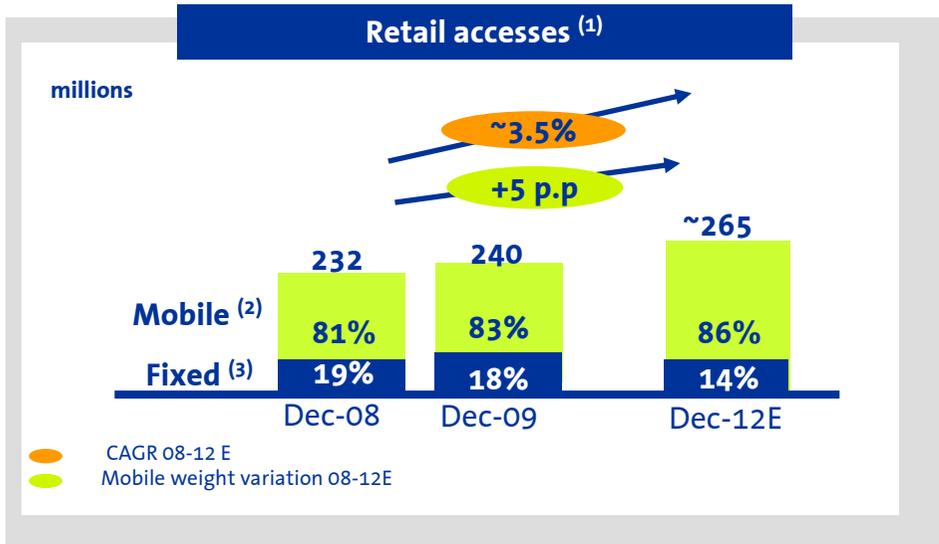
Over 30 telco players

4 global suppliers

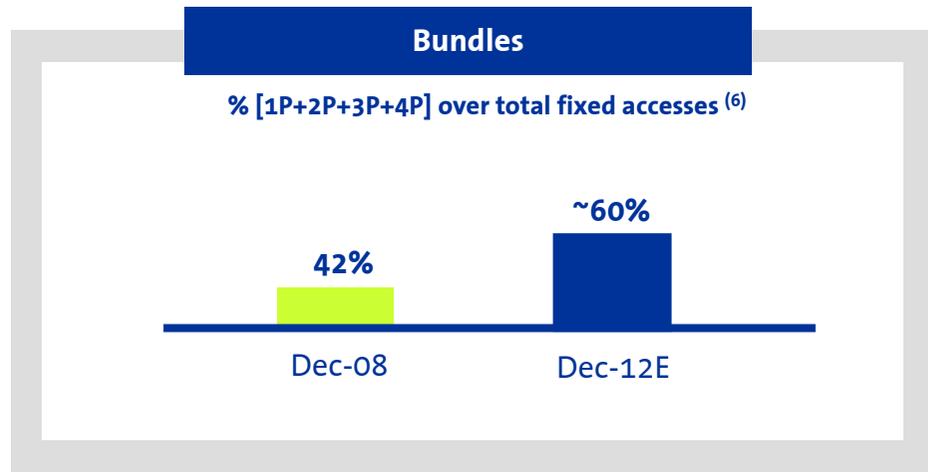
3 Bn mobile customers

2

Defense and growth of traditional business

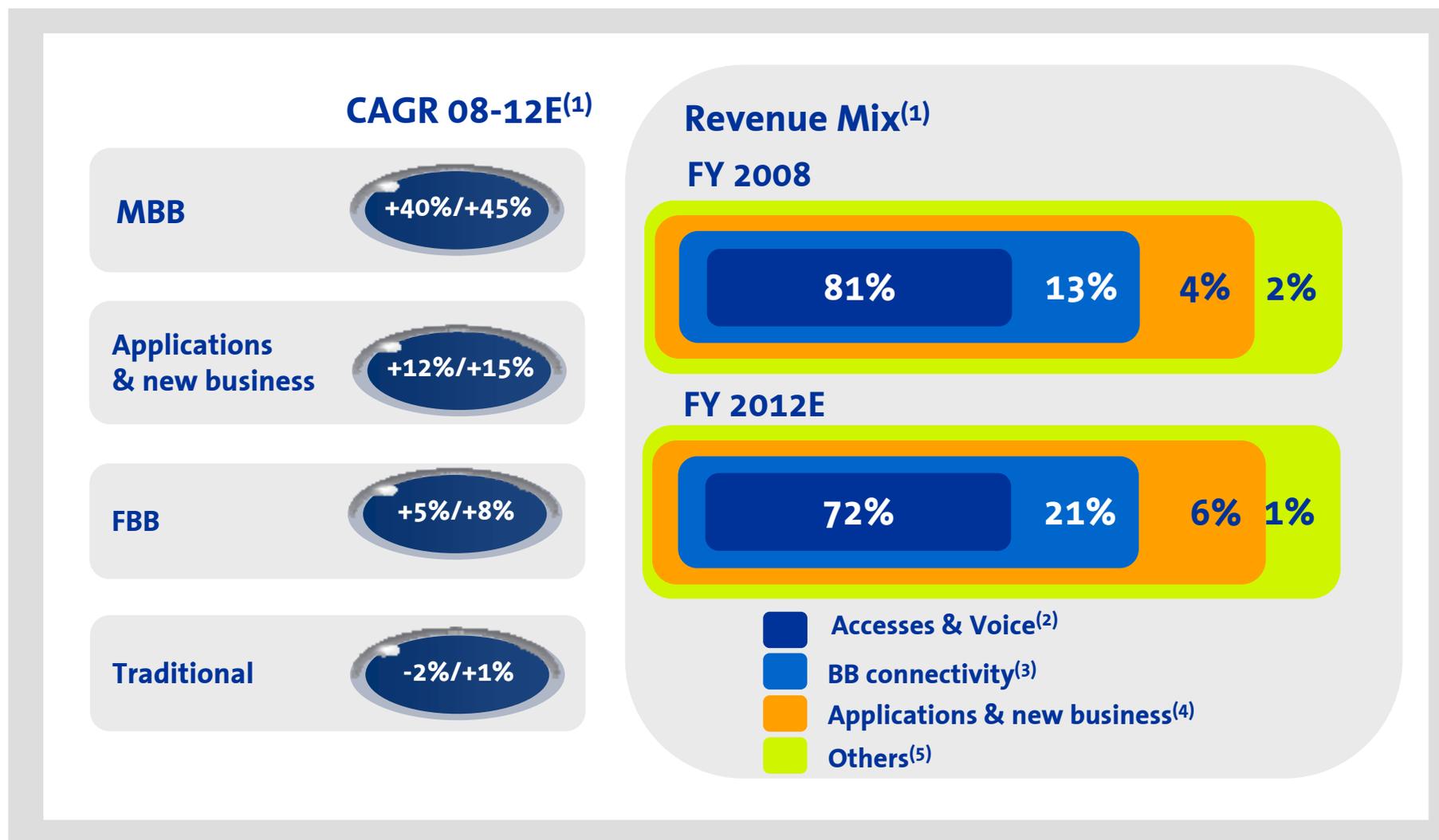


- **Bundle access** with fixed and mobile voice to retain fixed voice only customers
- Capture **mobile penetration growth** opportunities (LatAm)
- Foster **prepay to contract migration**
- Innovative **tiered price plans**
- Increasing **loyalty**



(1) Morocco excluded in 2008 for comparison reasons.
 (2) Mobile: Mobile voice accesses. M2M and small screen are included.
 (3) Fixed: PSTN, Public Use Telephony, ISDN, Fixed wireless lines, self consumption, test and social interest lines, naked DSL, VOIP lines and narrowband internet accesses.
 (4) Access & Voice: Fixed and mobile access & voice (SMS included), fixed & mobile equipment, narrowband internet and M2M revenue.
 (5) Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation.
 (6) Ex-Public Use Telephony.

2 We will fully capture revenue growth potential in our markets



(1) Figures for guidance assume 2008 constant FX (average FX08) and exclude changes in consolidation.

(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 whole sale equipment. MBB connectivity: big and small screen, mobile email, and WAP browsing revenue.

(4) Apps. & New business revenue: TV, ICT solutions, on line advertising (e-Commerce, Terra), MBB VAS (mobile content/ application downloaded), other FBB VAS, new growth sources and other digital content service revenue.

(5) Revenues from subsidiaries and other companies.

2 Medium term guidance will lead to a sustainable growth and an even lower risk profile

	2008 Adjusted ⁽²⁾	CAGR 08-12E ⁽²⁾
Accesses ⁽¹⁾ (millions)	252	>320
Revenues € in millions	57,946	+1%/+4%
OIBDA € in millions	22,602	+2%/+4%
OI € in millions	13,556	+4%/+7%
OpCF € in millions	14,201	+5%/+7.5% Cumulative 09-12E >€64 bn
CapEx € in millions		~ € 30 bn Cumulative 09-12E

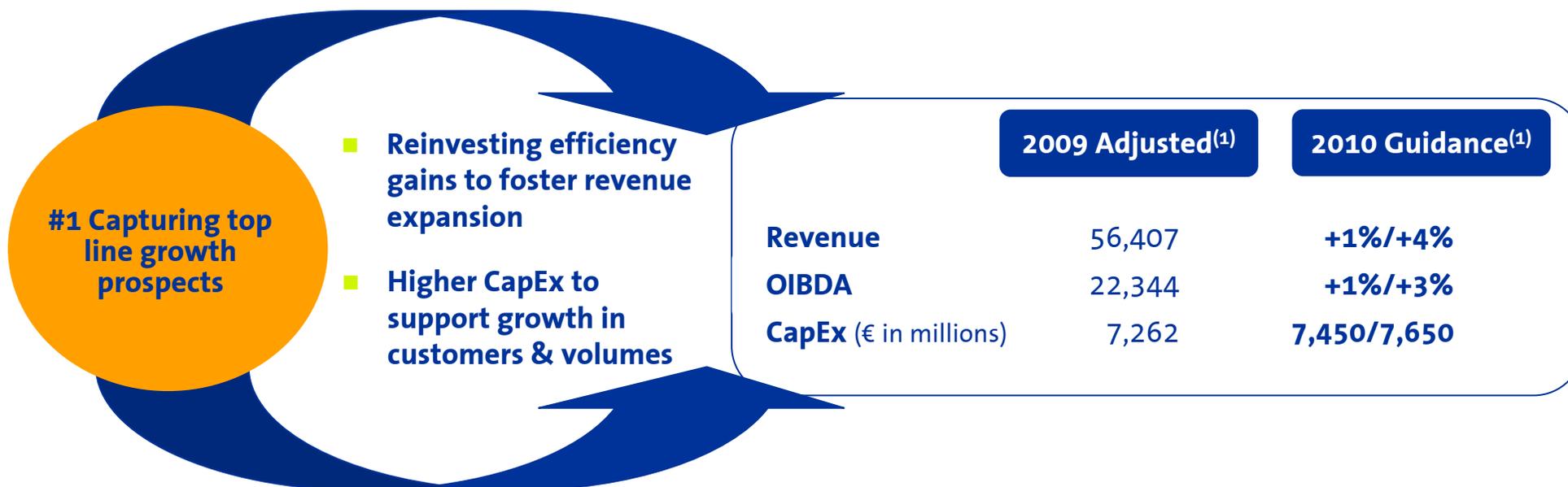
> € 40 bn
Cumulative FCF ⁽³⁾
FY 2009-2012E

(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.

(3) 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 We have clear priorities for 2010



€2.10 EPS target confirmed

- On the back of the operating guidance provided, further efficiencies in taxes and financial costs and potential assets sales:
 - Interest expenses for 2010 are expected to be around 5.5%-5.75% (<6% guided in October 2009)
 - 2010 accrued tax rate is estimated at 25%-27% (vs. previous guidance of 27%-28%)
 - Continue to analyze value creation opportunities maintaining an active management of our non core asset portfolio

2 We maintain our selective M&A approach

M&A Priorities

- **Spectrum auctions in current markets to foster growth:**
 - Germany & Mexico in H1 2010
 - Potential awarding process in Spain along 2010
- **In-market consolidation:**
 - Hansenet acquisition closed on February 16th
- **Increase shareholding in China Unicom to 10%**



Continue capturing synergies from our Strategic Alliances



€620 m cash synergies⁽¹⁾ since Mar-08



- >650 million combined customer base⁽¹⁾

2 Dividend commitments are supported by our FCF generation



- DPS targets reiterated
- Dividend is well covered
- No dependence on cash repatriation from any particular country in Latin America



Tactical share buybacks to be considered for FCF excesses

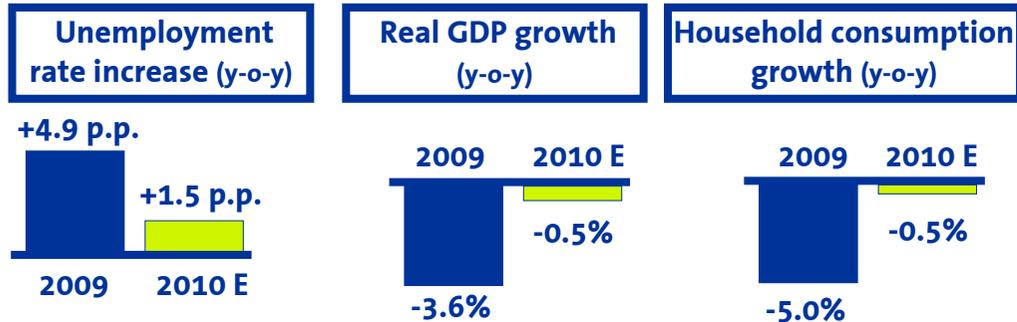
- 0.6% of capital held in treasury
- Derivatives on 150 m shares as of 31/12/09

Index

- 1. Industry: Is there growth in the Telecoms sector?**
- 2. Telefónica Group:**
 - i. Will Telefónica maintain its differential growth profile?
 - ii. Is your dividend policy sustainable?
 - iii. What are your M&A ambitions?
- 3. T. España:**
 - i. Macroeconomic situation
 - ii. Revenue performance: is the worst over?
 - iii. Competitive environment: is there a price war in Spain?
 - iv. Commercial activity across businesses
 - v. Are you under investing?
- 4. T. Latam:**
 - i. Is the growth story in Latin America coming to its end?
 - ii. How is Telesp performing?
- 5. T. Europe:**
 - i. How are you going to deliver growth in UK and Germany?
- 6. Conclusions**

3 Macroeconomic situation

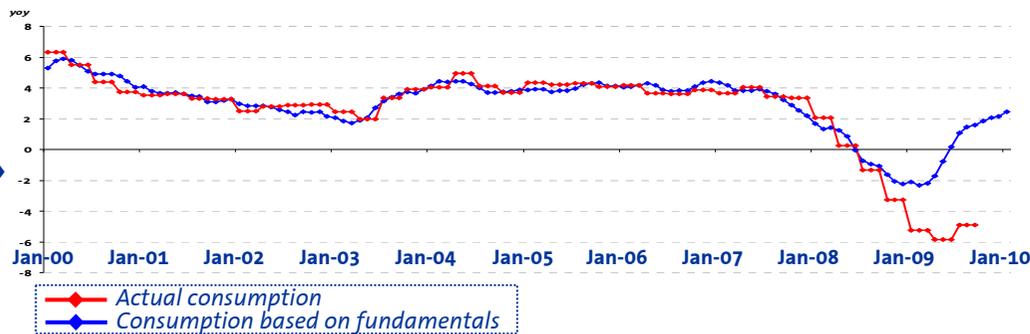
Economy indicators (1)



Gradual improvement

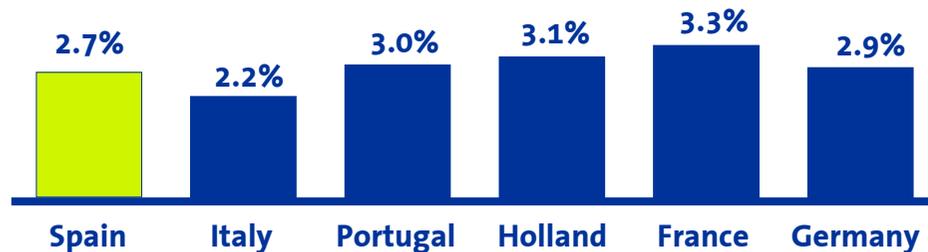
Number of households: +226K in 2009

Consumption growth (%)



Spain: consumption growth far from fundamentals

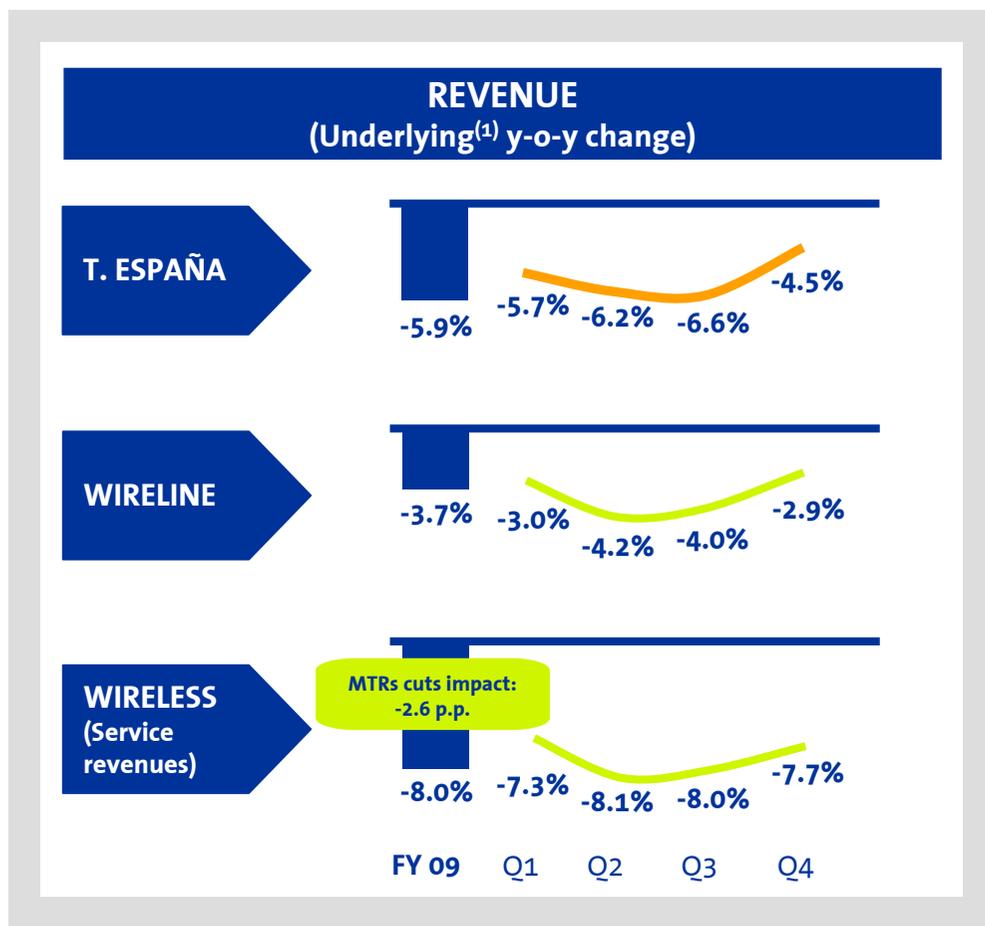
Household consumption in communications (% of total spending) (2)



Below the European average

TELEFONICA S.A. (1) Analysts' consensus for 2010 forecasts.
 Investor Relations (2) Eurostat's Home Budget Survey, 2005.

3 Revenue performance: is the worst over?



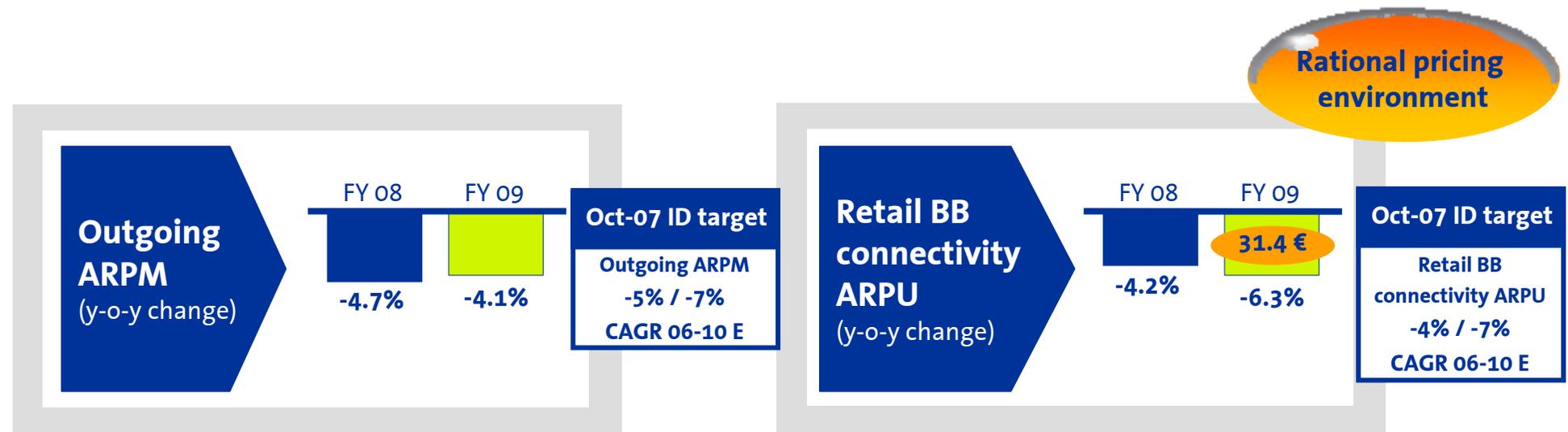
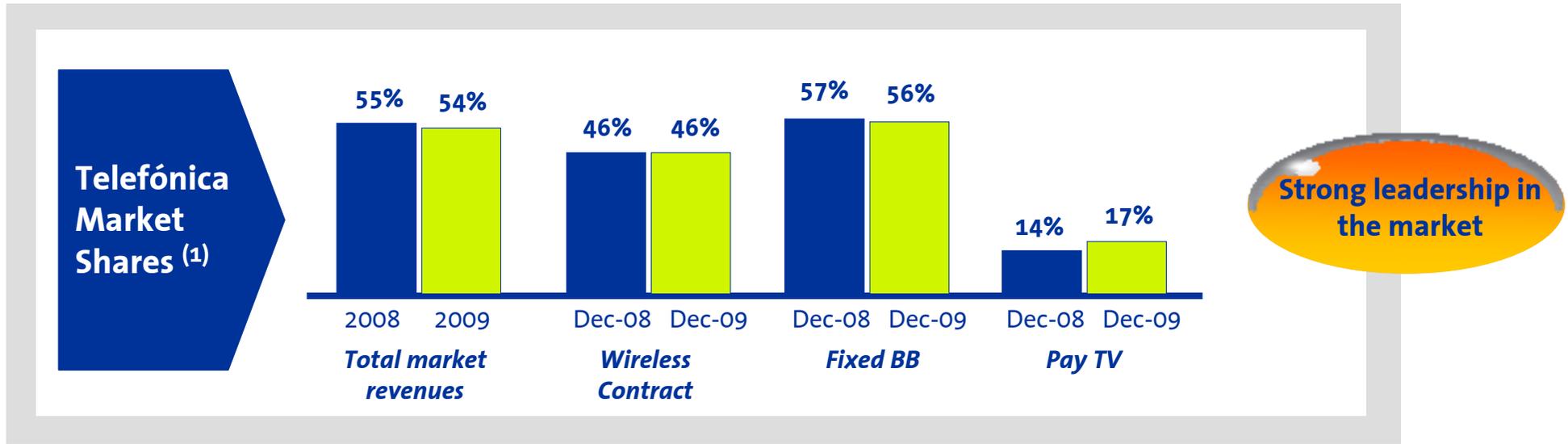
Revenue trends improving for the second consecutive quarter across businesses

The worst is behind us!

Market back to growth in 2011

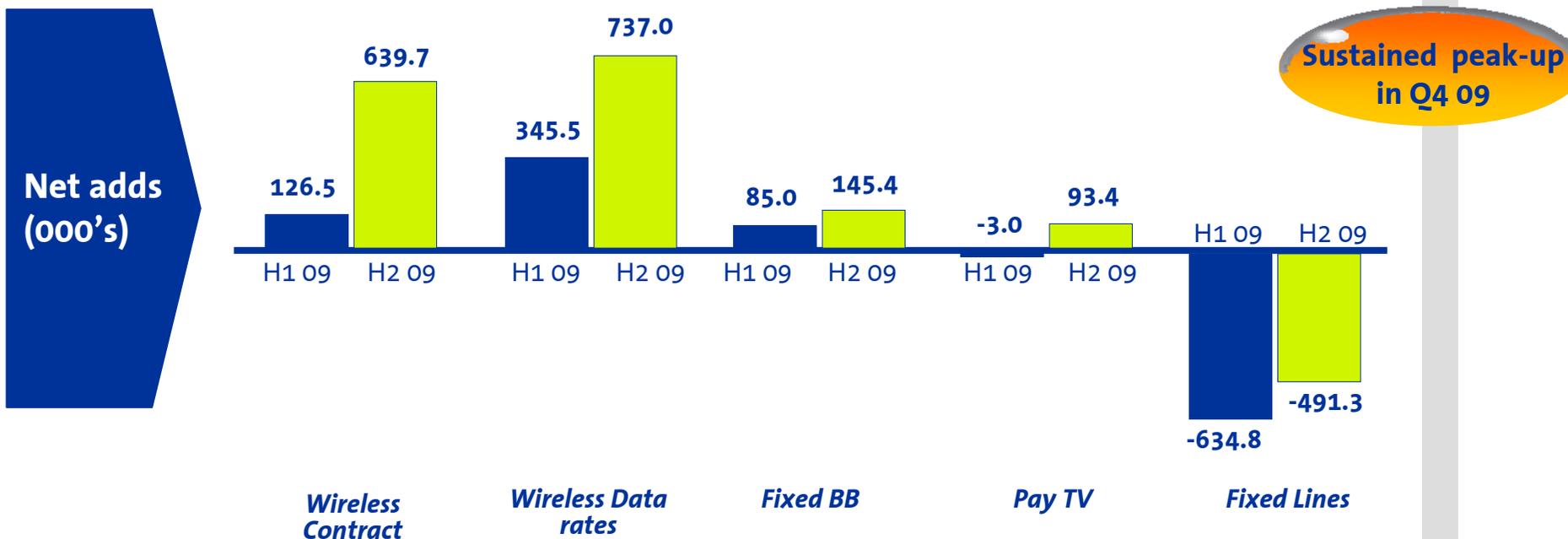
TELEFONICA S.A. (1) Excluding USO (Q4 09, Q1 09 and Q3 08), seasonality in Q2 09 and Application Sale in Q3 09.
Investor Relations

3 Competitive environment: is there a price war in Spain?



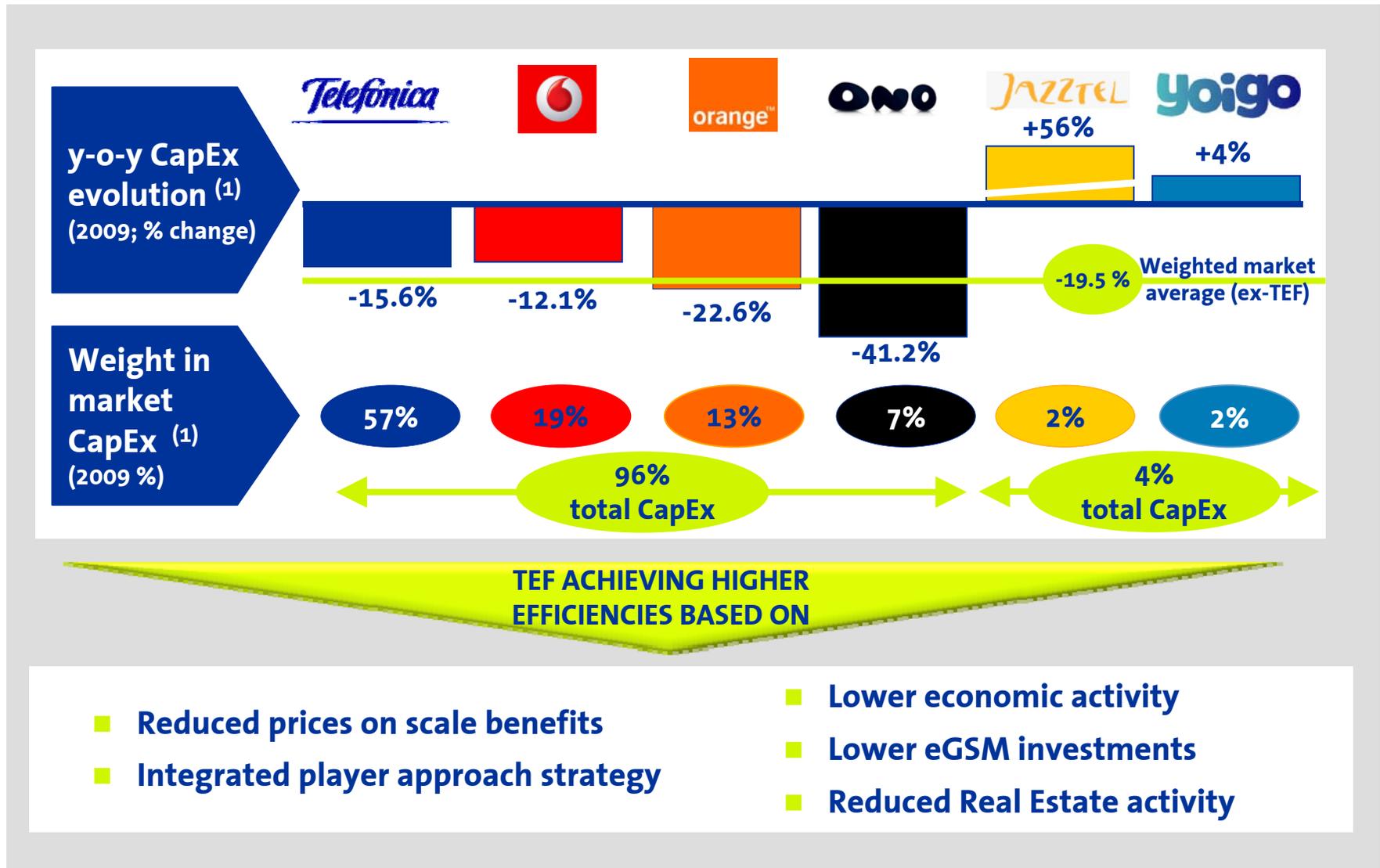
3 Commercial activity across businesses

Strong commercial activity in the last part of the year building foundations for 2010



- January 2010 FBB and Mobile customers net adds similar to full Q1 09
- Line losses peaked in 2009. Wireline market growing since Nov-09 ⁽¹⁾

3 Are you under investing?

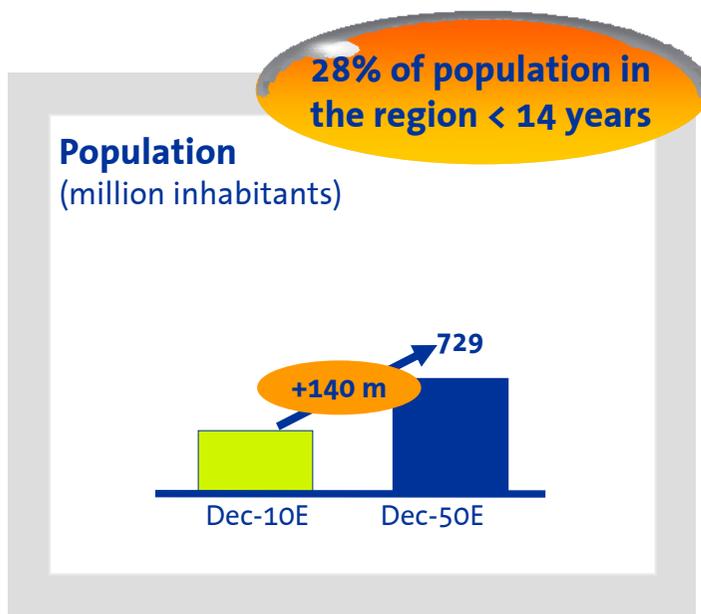


TELEFONICA S.A. (1) Expansión: March 10th, 2010 (Vodafone data 12 months to Sep-09 vs. 12 months to Sep-08 in local currency).
Investor Relations

Index

- 1. Industry: Is there growth in the Telecoms sector?**
- 2. Telefónica Group:**
 - i. Will Telefónica maintain its differential growth profile?
 - ii. Is your dividend policy sustainable?
 - iii. What are your M&A ambitions?
- 3. T. España:**
 - i. Macroeconomic situation
 - ii. Revenue performance: is the worst over?
 - iii. Competitive environment: is there a price war in Spain?
 - iv. Commercial activity across businesses
 - v. Are you under investing?
- 4. T. Latam:**
 - i. Is the growth story in Latin America coming to its end?
 - ii. How is Telesp performing?
- 5. T. Europe:**
 - i. How are you going to deliver growth in UK and Germany?
- 6. Conclusions**

4 Is LatAm growth potential exhausted?



■ Macroeconomic strength:

- >5% annual GDP growth in 2004-08, but -2.3% in 2009E
- >3.7% GDP growth in 2010E & 2011E

■ Structural social improvements in the growth period:

- **Unemployment reduced** from 11% to 7.5% since 2002
- **> 50 m people have left poverty** since 2000
- **Brazil: Middle & upper class ascent** even in the crisis period

■ Countries > US\$ 10 thousand GDP per capita PPP⁽¹⁾ represent 75% of total

- >US\$780 bn⁽²⁾ increase in Private Consumption from 90s to 2009E

■ 80% of Latam population is urban

- 5 of the biggest cities worldwide in Latam

HUGE POTENTIAL FOR CONSUMPTION

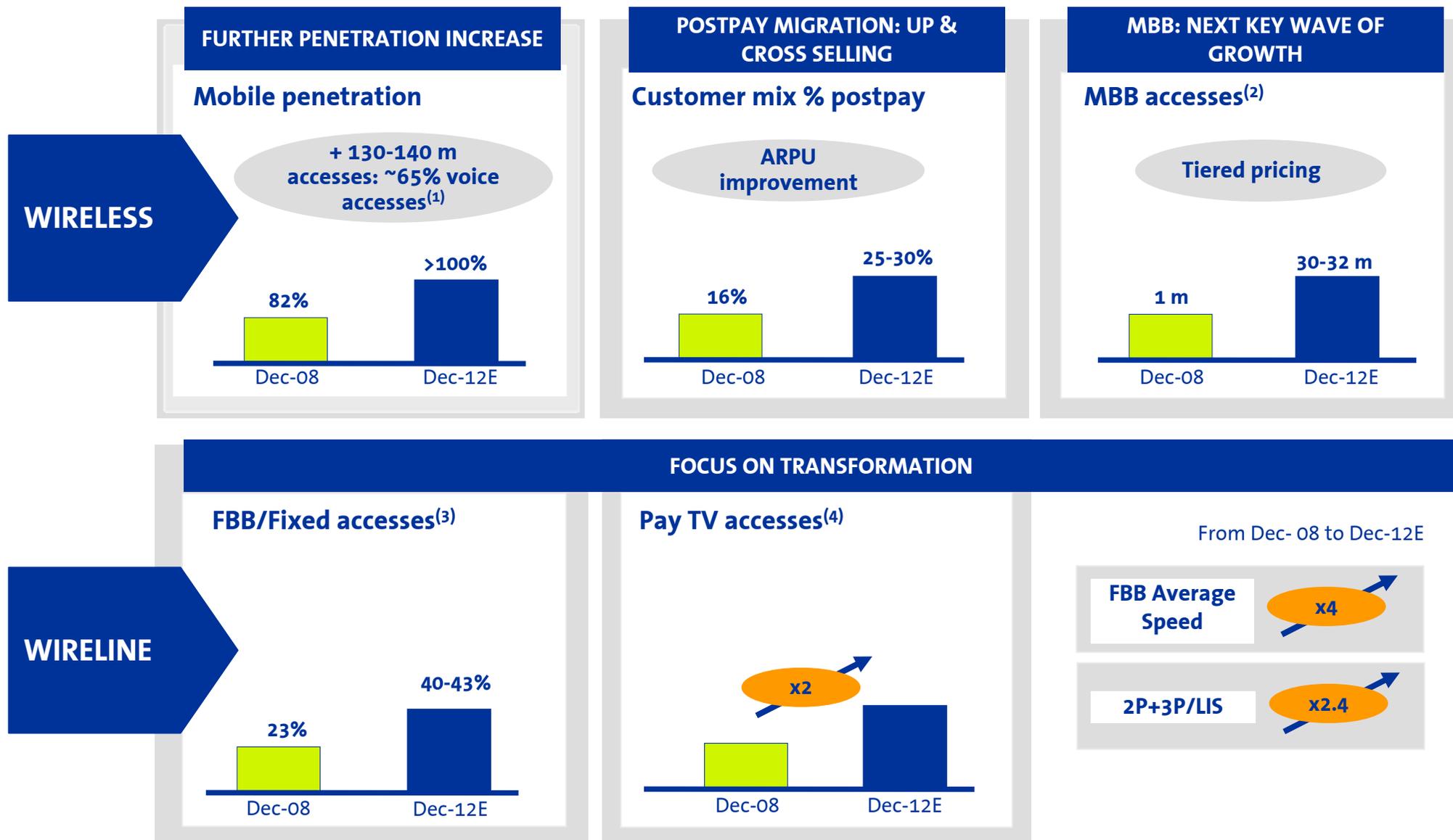
TELEFONICA S.A. Source: United Nations and International Monetary Fund.

Investor Relations (1) Minimum for the development of the middle class.

(2) Assumes constant exchange rates as of 2009.

Telefonica

4 What are the growth opportunities in the region?



TELEFONICA S.A.
 Investor Relations

- (1) Ex MBB Big Screen.
- (2) MBB Accesses: Including big and small screen.
- (3) Sao Paulo, Argentina, Chile, Colombia & Peru.
- (4) Sao Paulo, Chile, Colombia & Peru.

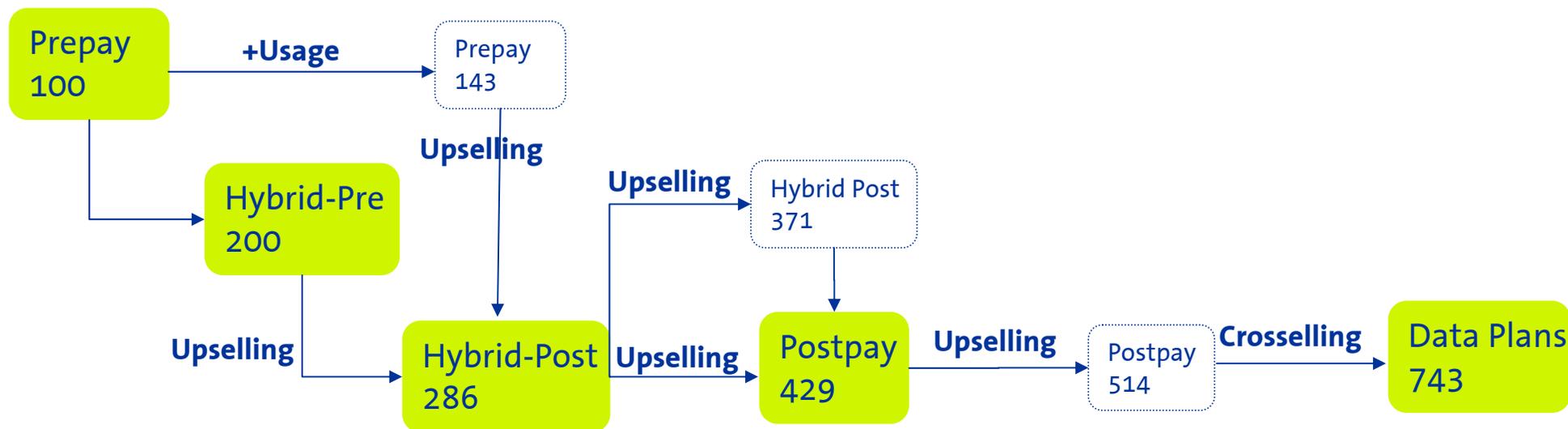
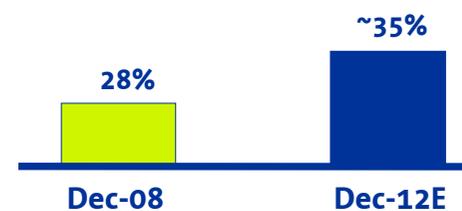
4 ARPU upside through up & cross selling in a more mature market

EXAMPLE (1)

Outgoing ARPU evolution in Chile, Jul-09 (Index)

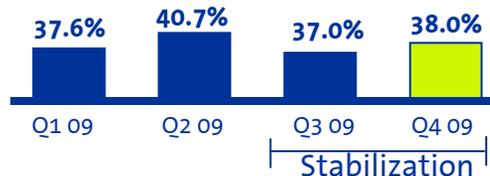
- 106% penetration
- Strong customer growth in the market
- Lowest churn in the region

Customer mix (% Postpay)



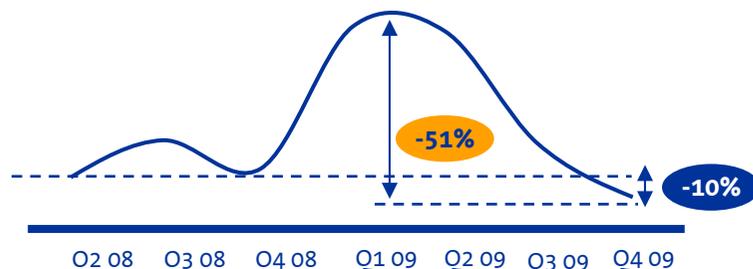
4 Quality improvements in Telesp starting to pay off

OIBDA margin (%)



Quality Anatel claims (y-o-y evolution)

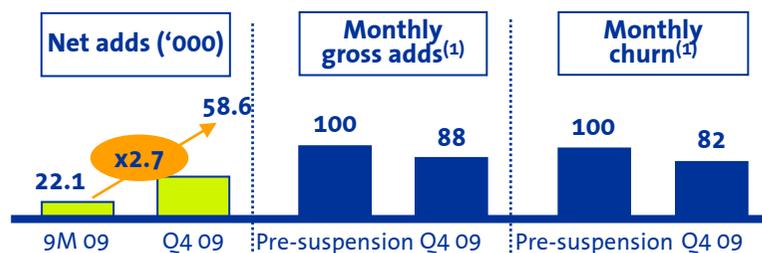
● Q4 09 - Q1 09
● Q4 09 - Q2 08



Line Losses (Dec-09; 000)



FBB



Stabilizing OIBDA margins sequentially:

- Despite transformation initiatives & more resources on quality

Improving quality standards:

- Enhanced processes & customer care
- Already bearing fruits on the commercial side

Better commercial performance:

- Q4 09, the best quarter in fixed line losses
- Better quality adds & higher CSI leads to lower churn
- Progressive resume of Speedy sales across distribution channels from September
- Recovery in BB net adds despite limited advertising

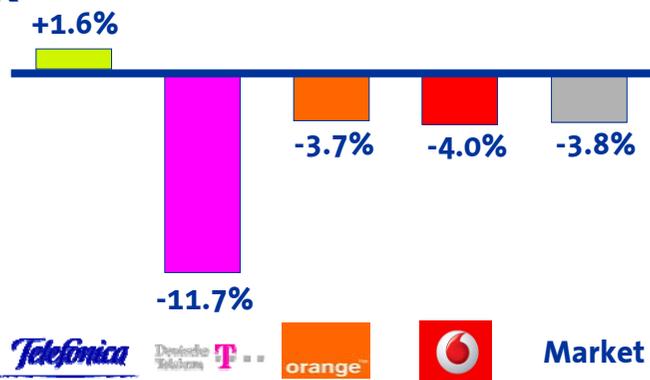
Index

- 1. Industry: Is there growth in the Telecoms sector?**
- 2. Telefónica Group:**
 - i. Will Telefónica maintain its differential growth profile?
 - ii. Is your dividend policy sustainable?
 - iii. What are your M&A ambitions?
- 3. T. España:**
 - i. Macroeconomic situation
 - ii. Revenue performance: is the worst over?
 - iii. Competitive environment: is there a price war in Spain?
 - iv. Commercial activity across businesses
 - v. Are you under investing?
- 4. T. Latam:**
 - i. Is the growth story in Latin America coming to its end?
 - ii. How is Telesp performing?
- 5. T. Europe:**
 - i. How are you going to deliver growth in UK and Germany?
- 6. Conclusions**

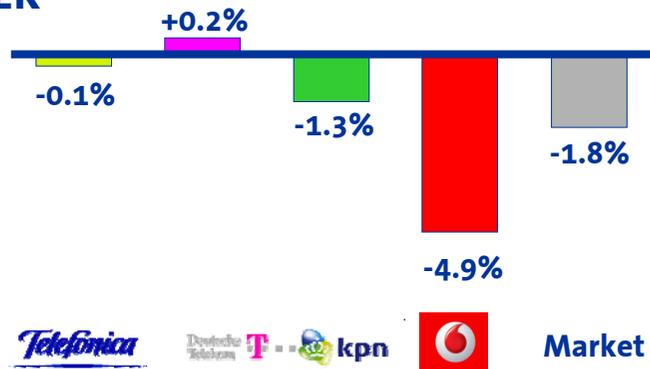
5 How are you going to deliver growth in UK and Germany?

Q4 09 Mobile Service Revenue Growth ⁽¹⁾ (y-o-y ; local currency)

UK



GER



- **Mobile internet driving growth**
 - “Home of Smartphones”: 28 m by 2012 E (x4 vs. 2008), positively impacting ARPU & churn
 - Acquisition of Jajah: leapfrog step in social communication capabilities
- **UK: customer focus consistency and operational leverage**
 - Keeping customer experience & contract churn leadership
 - Continued iPhone trading momentum, keeping biggest European customer base, ahead of the learning curve
 - Investing for capacity: 1,500 additional BSs in 2010 and improved network management (e.g. disconnecting abusers of fair use policy, encourage uptake on WiFi, apps/services to notify customers)
 - O2 OIBDA > combined TMO & Orange
- **Germany: challenger on P/S innovation and best-in-class network**
 - Quality and choice offer (“My Handy” & “O2o”)
 - Setting the market context as the disruptive player (O2o, O2 On)
 - Already solid #3 position in MBB
 - Acquisition of Hansenet: enhanced integrated approach; cross-selling potential and reduce churn

6 Conclusions

- **One of the best positioned players to take advantage of the growth industry**
- **Top quality performance in 2009 in a very challenging environment**
- **Clear priorities and positive outlook for 2010**
- **Lower risk investment case supported by recent events in Venezuela (FX)**
- **Very attractive medium term guidance reiterated**
- **Sector leading cash return. DPS targets confirmed**
- **Selective M&A policy maintained**

Telefonica
