

The logo for the Telefonica Investor Conference, featuring a stylized white arrow pointing up and to the right, with the words "Investor Conference" written in white text along its path.

Investor
Conference

A photograph of a modern, multi-story building with a glass facade, viewed from a low angle looking up. The building is set against a clear blue sky. The image is overlaid with a dark blue gradient that contains the text and logos.

Telefónica Europe
Continued outperformance from a broader business

Matthew Key
Chairman and Chief Executive Officer

9 October 2009

Telefonica

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Content



In a fast changing environment we continue to outperform through the consistent driving of efficiencies and investing in the customer



Telefónica Europe share of net adds¹



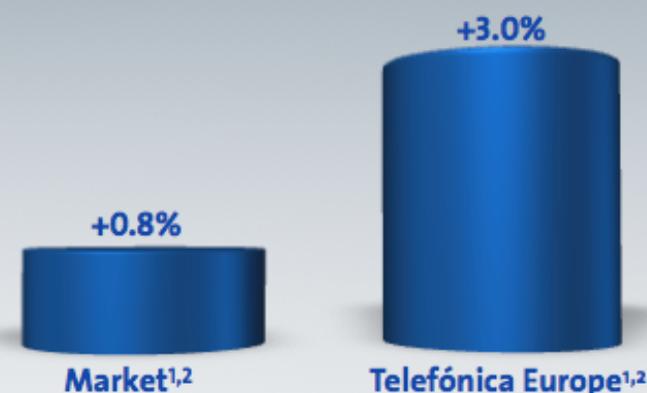
Telefónica Europe mobile service revenue market share^{1,2}



Telefónica Europe OIBDA margin evolution³



Mobile service revenue growth 2 years CAGR ending Jun-09



Source: Company reports, Telefónica Europe estimates

1. UK, Germany, Czech Republic and Ireland (does not include Slovakia)

2. Assuming constant exchange rates as of H1 06

3. At current exchange rates in each period



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Market

- **Growth in internet-related revenues and new businesses**
 - Operators will deepen their relationship with customers as they manage customer lifetime value
 - Internet access across platforms becomes mass market as customers move their lives online
 - A patchwork of networks and devices will develop to service customers' data needs (e.g. DLNA¹) creating new markets

- **Mature voice and text environment**
 - Increasing relevance of flat-top bundles in voice and data will mean voice and text usage continues to expand
 - Moving value from handset subsidy into the tariff
 - Business segment and roaming will rebound quickest post the downturn

- **In-market consolidation moves**
 - Economic downturn has accelerated natural patterns as smaller/weaker players potentially exit

Regulation

Mobile termination rates

Exposure², H1 09

$\frac{\text{Net MTR}}{\text{Revenues}} \sim 5\%$

Roaming

$\frac{\text{Net Roaming}}{\text{Revenues}} \sim 4\%$

Visibility

UK: Mar 2011 (4.25 p)
 GER: Nov 2010 (7.14 € c)
 CZ: Jul 2010 (1.96 CZK)
 IE: Mar 2013 (5.00 € c)

2012

Spectrum

- 2600 MHz auction
- 800 MHz availability
- 900 MHz refarming

1. Digital Living Network Alliance

2. For termination rates this is MTR revenues minus expenses over operating revenues, for roaming this combines inbound and outbound revenues and expenses over operating revenues. Figures calculated in euros at H1 09 FX



To succeed we will need to deliver...



Critical success factors

Customer loyalty

Internet as key growth engine

New business streams

Agility



Key priorities for the European region

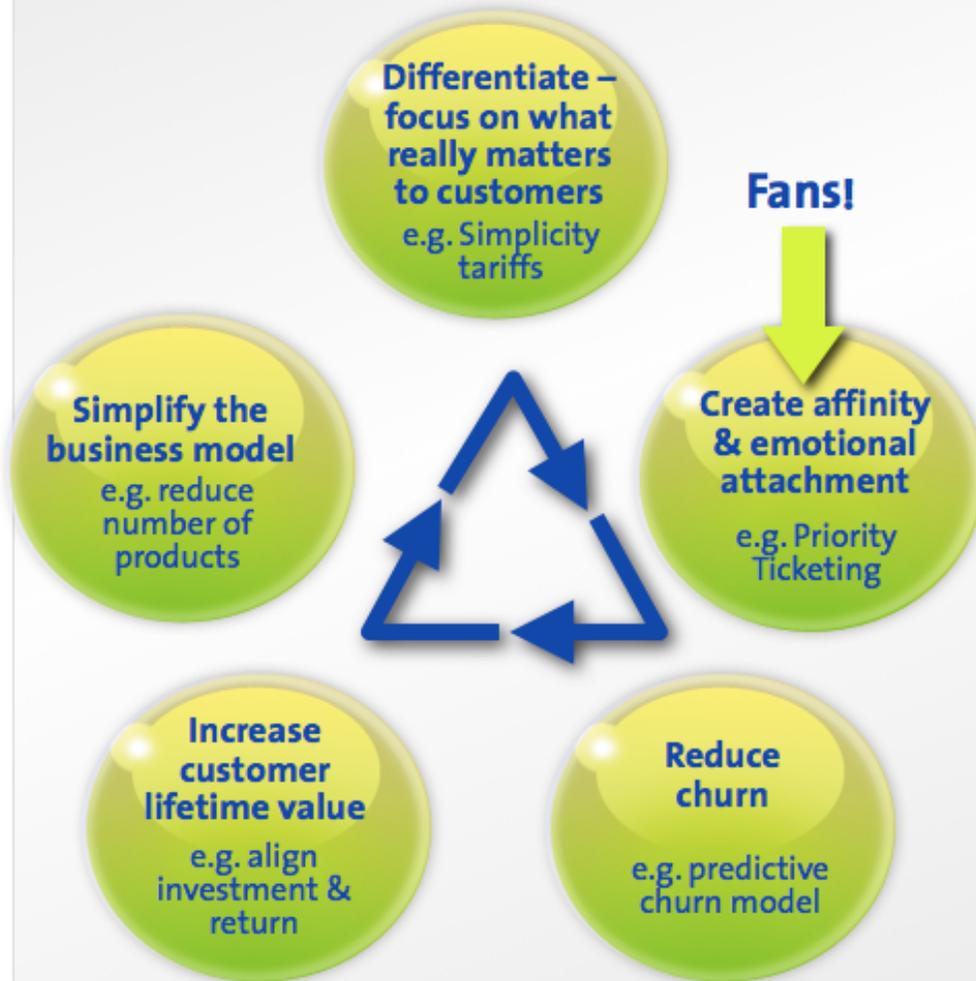
- Excelling at our traditional business through customer experience leadership
- Enabling customers to access the Internet however, whenever, and wherever they want
- Extending customer relationships into new areas
- Embracing customer behavioural changes to deliver to their needs and drive efficiency



Excelling at our traditional business through customer experience leadership



Customer experience leadership is the key to success... how will we deliver?



This is critical to us and even more so to our traditional business: growing in a mature market

T. Europe
CSI lead vs. market average¹



T. Europe
Contract churn evolution



Reducing contract churn by 0.1 p.p. creates ~€ 400 m OIBDA over 4 years²

T. Europe
Mobile service revenue market share^{2,3}



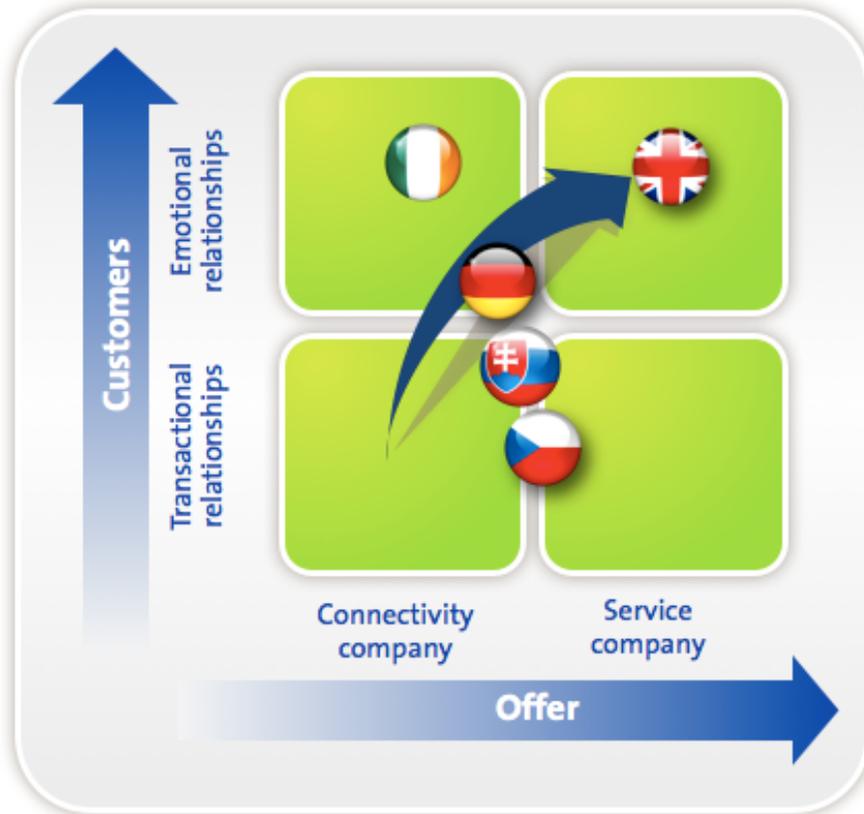
Driven by UK and Germany

1. Customer Satisfaction Index score – the Telefonica internal customer satisfaction metric, weighted average (across T. Europe footprint)
2. Assumes 2008 constant FX (average FX in 2008) and excludes changes in consolidation
3. UK, Germany, Czech Republic and Ireland



Extending customer relationships into new areas where we can leverage our communications capabilities

Each country starts in a different place

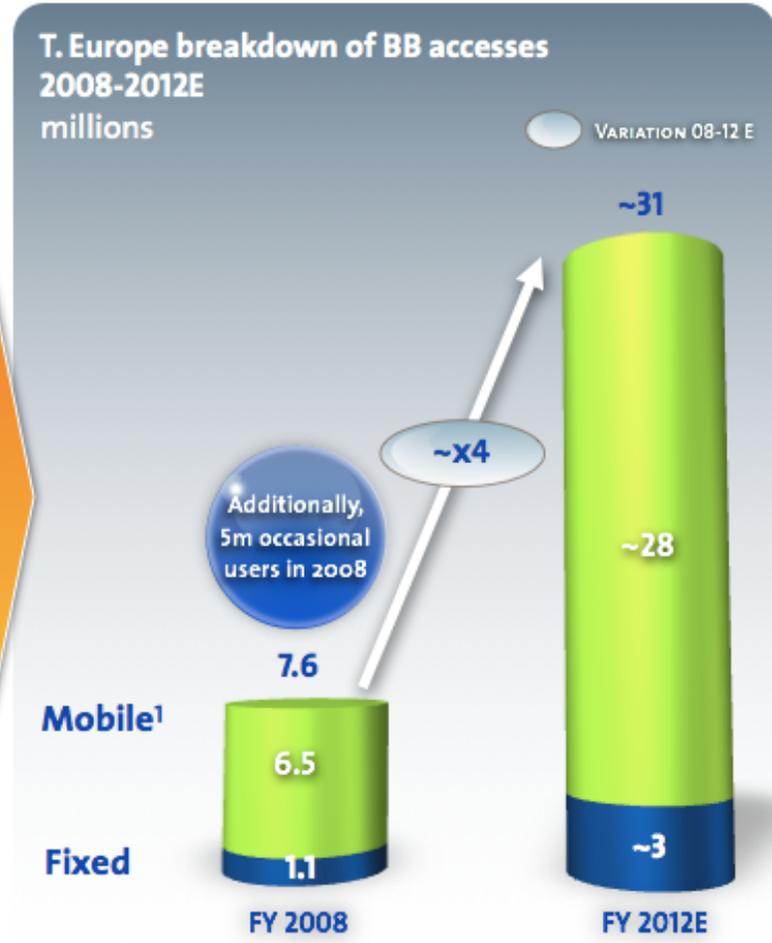


- Earning the right to enter new areas through customer experience leadership
- New areas will drive loyalty in the core business, provide new revenue and build new capabilities for the future
- Telefónica O2 UK will play a leading role in new business development
- Telefónica O2 Ireland to exploit market position by utilising capabilities from the UK
- GiffGaff: a new community web 2.0 online proposition leveraging crowdsourcing to be launched in November 2009 in the UK

Enabling our customers to access the Internet however, whenever and wherever they want in a period of strong growth



- 
Access to the best devices:
 - “Home of Smartphones”
 - Enabling big screen via dongles and embedded SIMs
 - Mass market smartphones < €150
- 
Seamless connectivity to best network available:
 - Providing access via DSL, 3G/HSPA, WiFi across the footprint
 - Unique advantage in Czech Republic, improved competitive position in Germany
- 
Attractive tariffs:
 - Simple targeted propositions with different schemes to address customer needs and ensure commercial viability
- 
Great customer experience:
 - Automatic selection of best network option, e.g. integration with home wifi network
 - Seamless interface across multiple platforms
 - Convergent propositions at the right pace in each market



Additionally, smartphones significantly expand the range and potential of business opportunities such as applications or location based services, and we have already started...

¹. MBB accesses: Including Big and Small Screen



Two real examples of leveraging technology and our customer relationship in the UK



Personalised media business

- Leveraging customer insight for customer and business partner benefits
- Now a reality – three examples:
 - Location and profile-based acquisition campaign for a high street chain: ~10% response rate
 - Industry-wide campaign for a major FMCG¹ company delivering end-to-end service: ~3% response rate
 - Campaign for a major high street retailer using customer self-selection from a targeted segment: ~5% response rate

O₂ Money

- Clear role for us between the customer and financial transactions using technology and customer insight
- 
 - Prepay card already in the market with over 70,000 customers in the first 7 weeks
- First significant step towards the mobile phone and the wallet getting together– making progress while industry and technology get ready

Customer relationship
+
Network capability
+
Device capability



New revenue streams growing to over
€ 500 m by FY 2012E²
+ churn benefits

1. FMCG: Fast Moving Consumer Goods

2. Telefonica Europe revenues from ICT solutions, IPTV, Premium Content, Advertising & Media, Financial Services

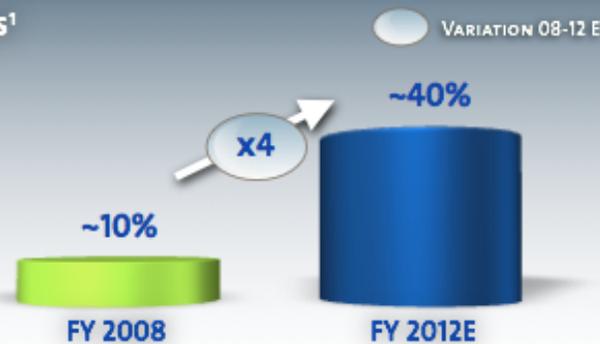


Embracing customer behavioural changes to deliver to their needs and drive efficiency (1/2)



- Efficiency improvement driven by a simpler business, networks & IT
- UK and Germany making the greatest impact in the improvement

Share of online transactions¹



Online at the core: sales, customer service, internal processes



MyO2:

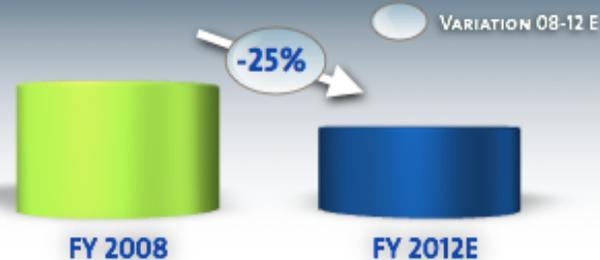
- iPhone app that allows customers to check their balance
- Launched on 15 Sept, top free application in the first two weeks
- Over 400 thousand downloads in the first three weeks

Price plan rationalisation (e.g. Ireland)



Making it easy for customers to deal with us: simplified P&S portfolio and customer interactions

Contract SAC²



Tariff reductions largely funded by reduction in handset subsidies

1. Share of online transactions: (Gross Adds Online + Customer Service Transactions Online) / (Total Gross Adds + Total Customer Service Transactions)

2. Per unit. Assumes 2008 constant FX (average FX in 2008)



Embracing customer behavioural changes to deliver to their needs and drive efficiency (2/2)



Non-commercial OpEx¹ per access

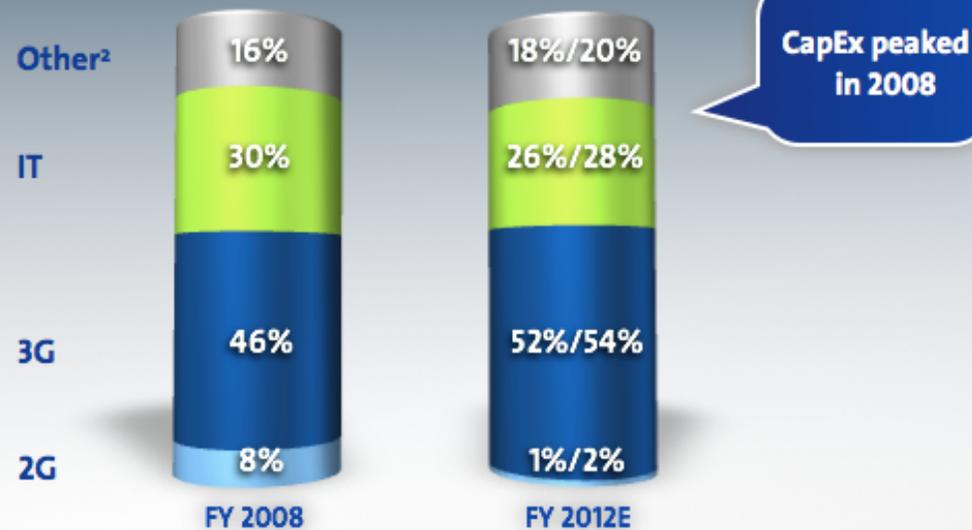
CAGR 08-12 E



Increased efficiency in areas that do not provide differentiation:

streamlining non commercial OpEx to be able to focus on areas that customer value the most

CapEx mix evolution



A different approach to infrastructure:

network sharing, shared services, EDCC³, platform simplification

Key network priorities:

- Quality and speed as data demand increases
- 3G coverage
- Upgrade to HSPA+
- Offload from wireless to wireline networks (WiFi/DSL)
- National roaming dependency in Germany ends in December 2009

Note: CapEx and OpEx figures assume 2008 constant FX (average FX in 2008) and excludes changes in consolidation. CapEx excludes spectrum licenses

1. Non-commercial OpEx: All other costs not included under Commercial OpEx + COGS

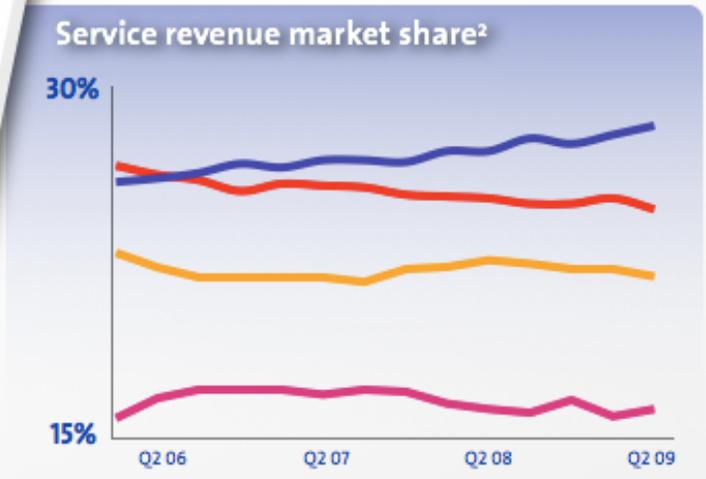
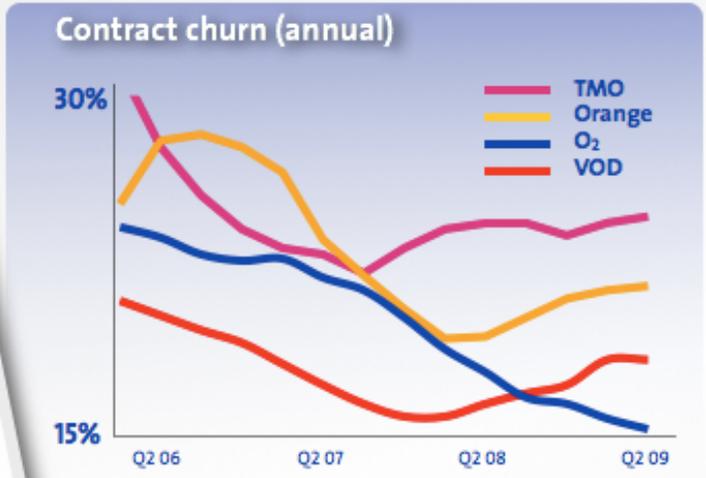
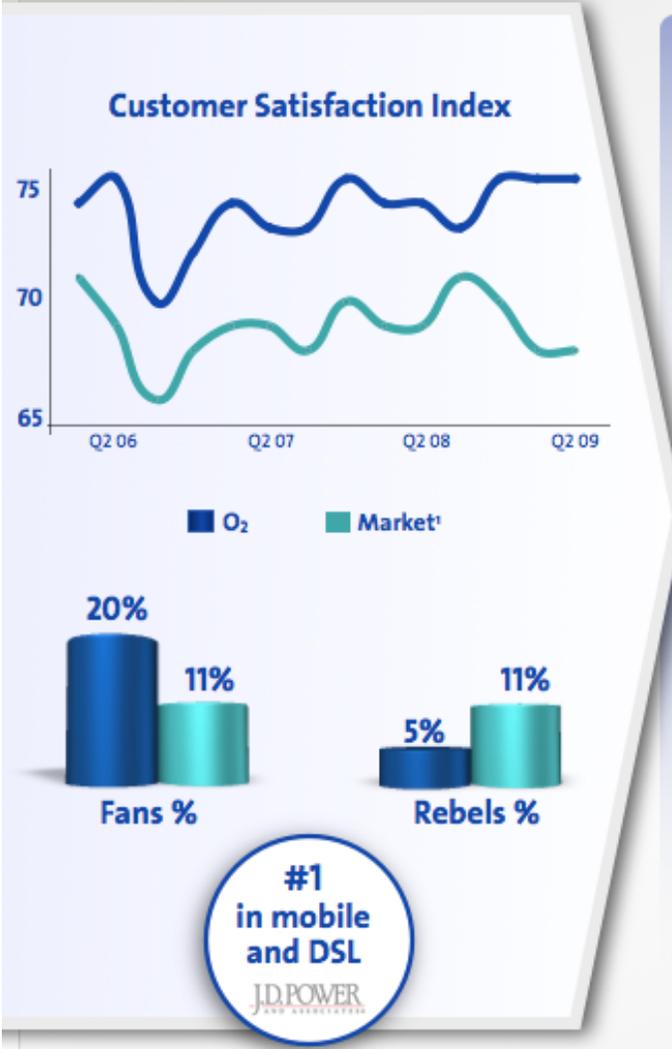
2. Other CapEx: Includes Fixed (DSL, IPTV, Fibre, and other Fixed) as well as Retail Property and Others

3. European Data Center Consolidation



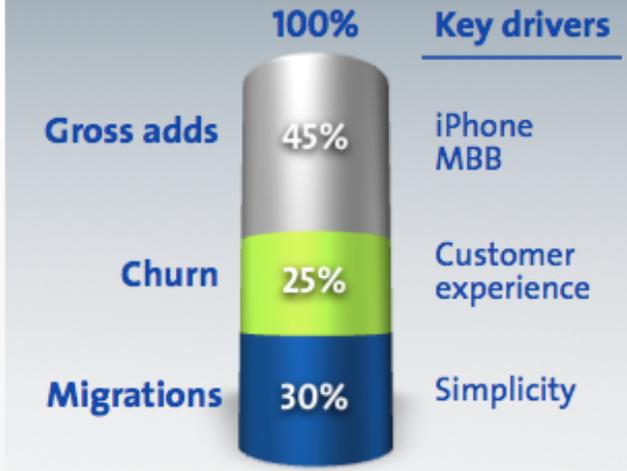
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Telefónica O2 UK: Customer centricity & consistency at the heart of our success



iPhone important but not a dominant factor in last two years performance

Breakdown of contract net adds growth H1 07/H1 09



T. O2 UK outperformance precedes iPhone
 iPhone will remain part of our formula
 Palm Pre launch on 16 Oct.

Source: For CSI: Internal customer survey. "Fans" are customers scoring 9 or 10 out of 10 across a range of key questions. "Rebels" are customers scoring 1 to 5 out of 10. Fans & Rebels data corresponds to Q2 09. For Churn and Revenue Share: Company data

1. Competitors weighted average (market excluding T. O2 UK)
 2. Includes only top 4 competitors



Telefónica O2 UK

Focus on outperformance



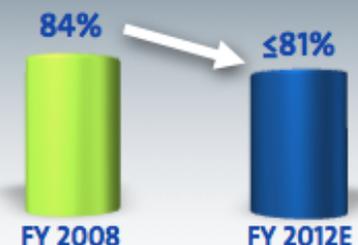
- **More loyal customers: increase our market leadership in churn:**
 - Customer insight led approach
 - Balanced portfolio
- **Exploit market consolidation:**
 - The outcome is a positive for T. O2 UK
 - We will watch closely to exploit the opportunities that may appear through merger process
- **Converged fixed & mobile sales into the business segment**
- **Efficiency improvement, predominantly via online transformation and complexity reduction across the organization**
- **Tesco Mobile continues to play an important role: clear segment and channel differentiation**



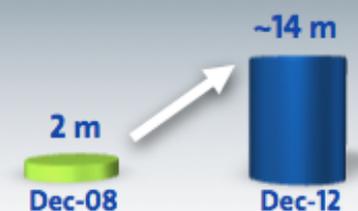
Contract churn evolution



Efficiency ratio¹



MBB² access base



Share of fixed+mobile sales in business segment



¹ Efficiency ratio: (Operating Expenses + CapEx-Internal Expenses capitalised in fixed assets) / Revenue. CapEx excludes spectrum licenses

² MBB accesses: Including Big and Small Screen

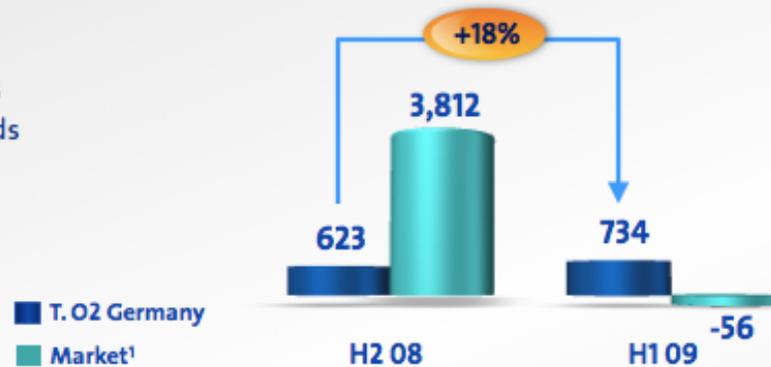


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Challenger position to increase market share

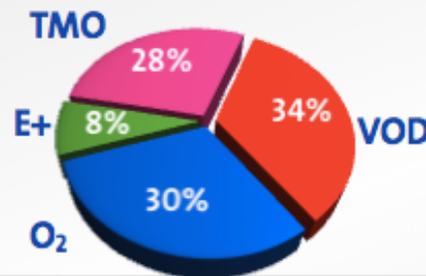


Net adds
in thousands



Clear market challenger (e.g. O₂o no contract duration, no fixed fee, simple pricing and bill cap) in a market where most of the gross adds are churners (proportion of market gross adds driven by churn is expected to grow from 75% in 2008 to ~90% in 2012E²)

Market share of consumer big screen MBB gross adds, H1 09



Capitalise strong market position in mobile BB. Data network quality is a comparative strength. Network perception to be addressed

Share of contract customers with more than one O₂ product

x2 between 2008-2012E

Leverage integrated fixed and mobile infrastructure by cross-selling in a market in which the top two players are integrated operators and fixed mobile substitution is below European average

Financial traction already being shown



Significant efficiency

- Traction shown in 26.7% year-on-year OIBDA increase in H1 09
- Company moves from cash negative in H1 08 to positive in H1 09
- Foundations built in 2006-2009, exploitation 2009-2012E
- No major technology replacement cycle

Source: Company estimates

1. Includes top 4 players only

2. Estimate based on an "active basis – 90 days" view on the market

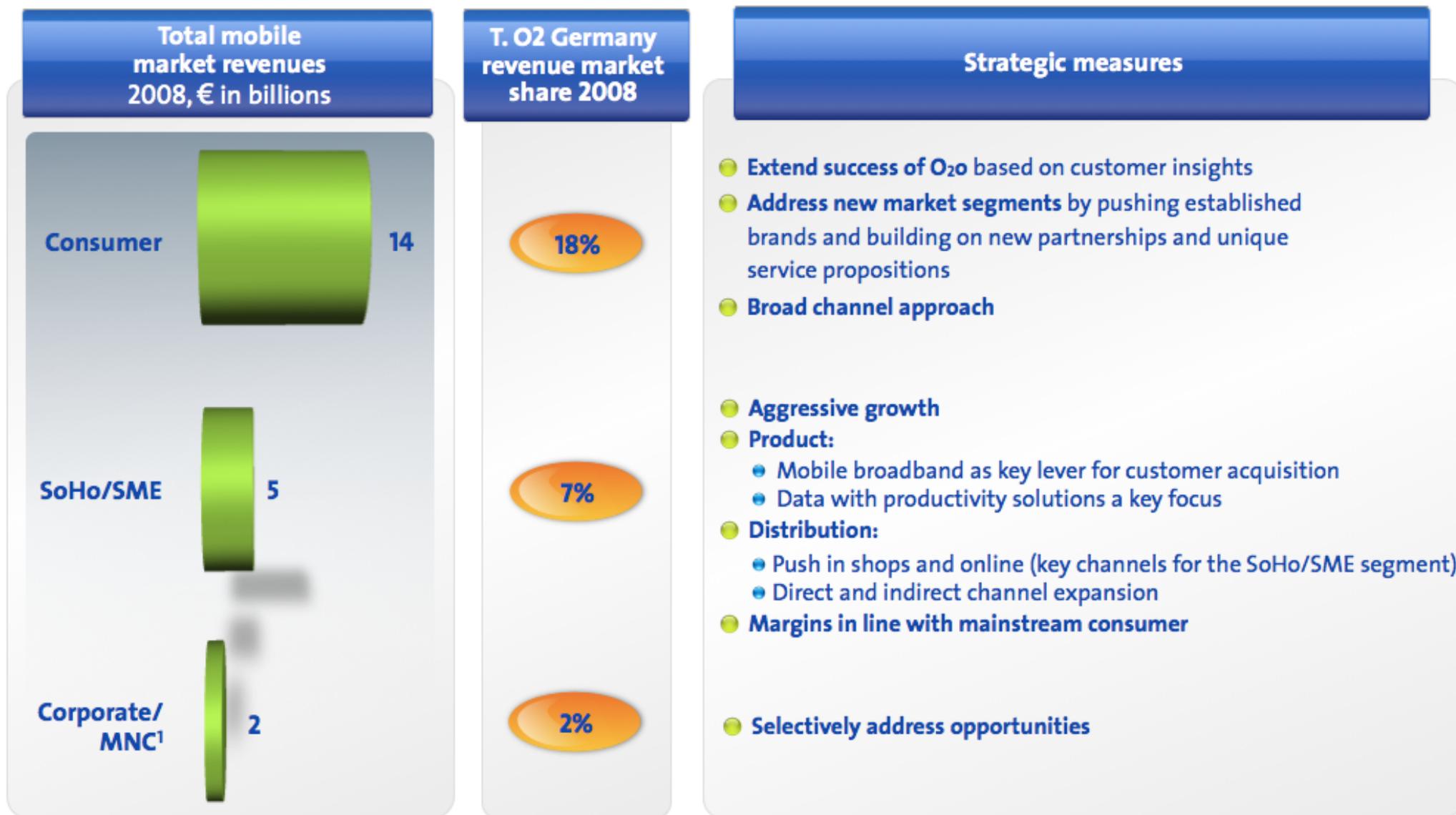
3. Efficiency ratio: (Operating Expenses + CapEx-Internal Expenses capitalised in fixed assets) / Revenue. CapEx excludes spectrum licenses



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Telefónica O2 Germany

Strategic approach tailored to each segment of the mobile market



Source: Analysys-Mason, Company Information

1. MNC: Multinational Company





Integrated operator = unique proposition

- Disproportionate impact of downturn on the business due to the weight of corporate and public sector in the revenue mix
- Mobile contract: Neon proposition (flat rate tariffs for F&M), #1 in the last three quarters
- O₂ Home: From voice centric to broadband centric approach
- Slowing fixed line losses and growing "O₂ connected households"¹ by ~8% from Dec-09E to Dec-12E
- Developing presence in e-Health space through existing Government business

3G network = advantage

- T. O2 Czech Republic currently the only operator with 3G coverage in the main cities
- 12 to 18 months lead over competition

Slovakia = aggressive growth with low cost

- O2 Fer – mobile proposition focusing on price and simplicity
- Improving regulatory environment accelerates opportunity for growth
- Leveraging Czech Republic operation to allow low cost model

FBB market share of net adds



Proportion of fixed+mobile customers (Czech Republic)



Customer base in Slovakia in thousands



¹ "O₂ connected households" = those households with fixed broadband and/or fixed voice and/or IPTV service from T. O2 Czech Republic

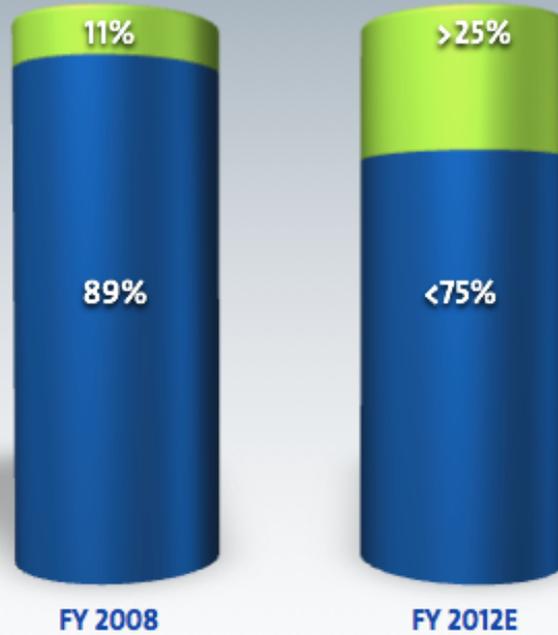
A portfolio approach to growth



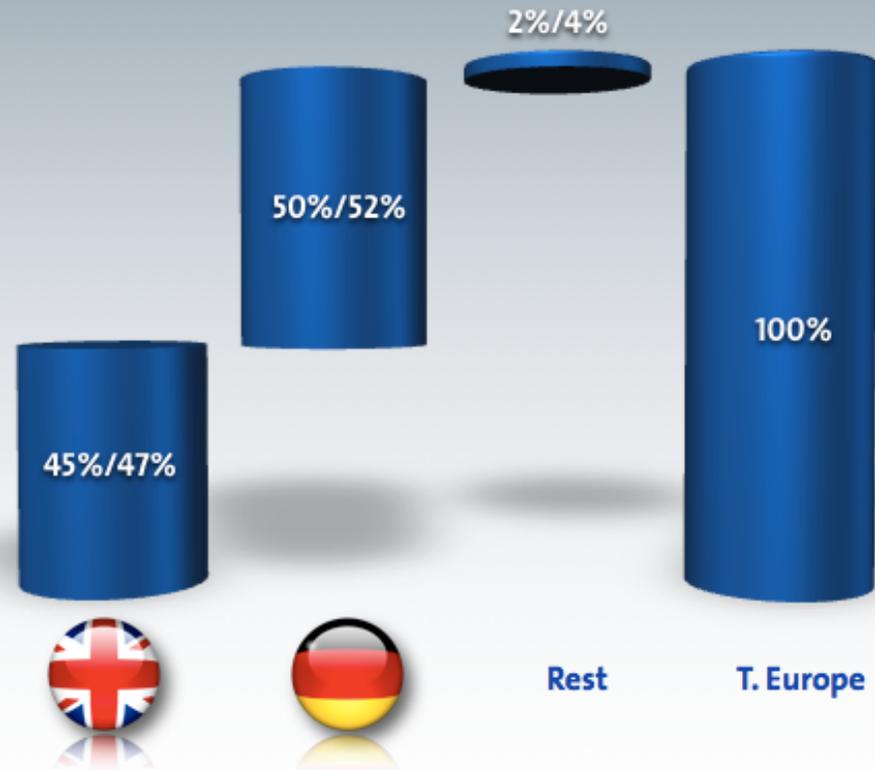
Revenue mix¹

Broadband, applications and other

Access & Voice²



Contribution to Telefónica Europe OIBDA growth 2008-2012E¹



1. Assumes 2008 constant FX (average FX in 2008) and excludes changes in consolidation

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





- **We have demonstrated clear outperformance driven by modus operandi: investing in the customer and driving efficiency**

- **Broadening the business:**

 - Less reliance on the UK**

 - Less reliance on voice and text**

- **At a country level:**

 - UK: Continued market outperformance in share of core and extending into new business areas**

 - GER: Clear upside from current position having built the foundations, business & data as catalysts**

 - CZ: Consolidating market position with cash flow growth
Expand broadband share and multiple product households**

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