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Investor
Conference

A photograph of a modern, multi-story office building with a glass facade, set against a clear blue sky. The building is the background for the entire slide.

Telefónica España
Leadership as the base for the future

Guillermo Ansaldo
Chairman and Chief Executive Officer

9 October 2009

Telefonica

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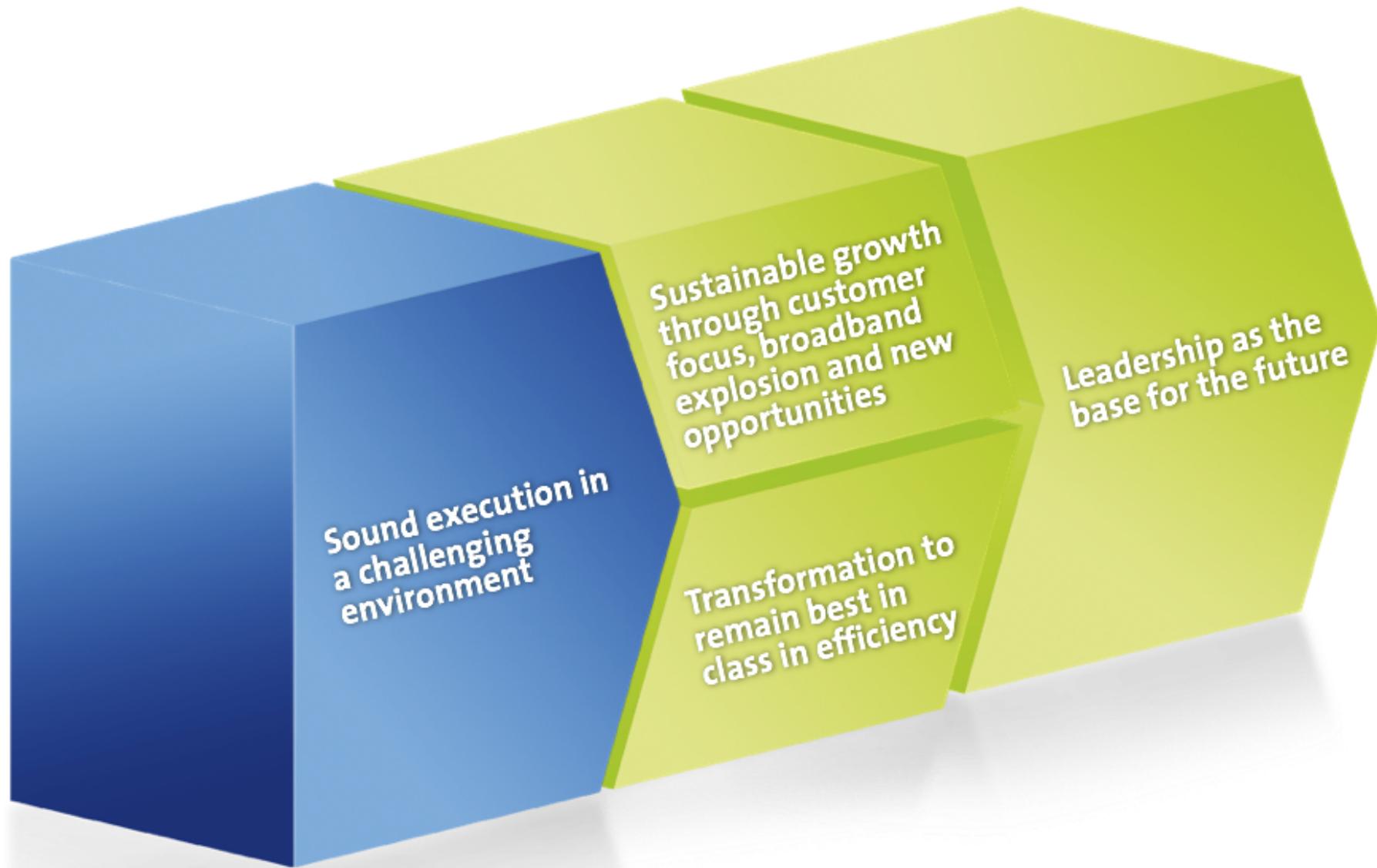
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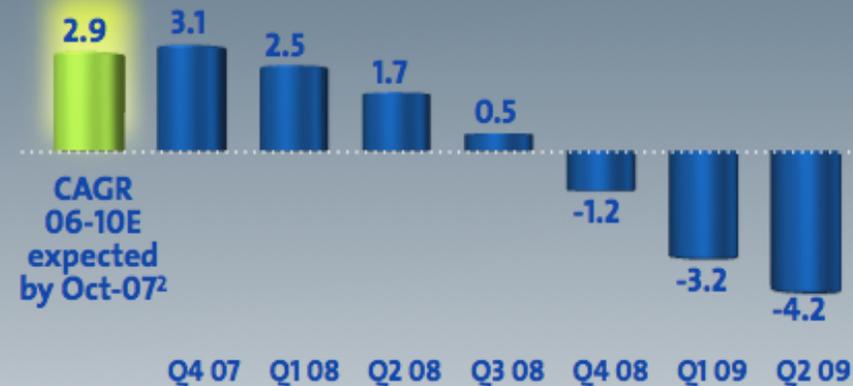
Content





A sharp macroeconomic deterioration along 2009...

GDP (% y-o-y)¹



Private consumption (% y-o-y)¹



... with a consistent cash delivery

Q4 07 - Q2 09 OpCF

Rolling 12 months (€ in billions)



1. Source: Spanish Statistical Office (INE)
2. Consensus estimates CAGR 06-10E given in London Investor's Day





Defend customer base

Retail fixed broadband market share¹ (%)



Mobile accesses market share² (%)



Consolidate leadership in customer focus

- "Best value for money broadband provider 2009"³
- "Best telecom customer care in Spain 2008"⁴
- "Lowest consumer complaint rate among operators in Spain"⁵

Capture selective growth opportunities



IT revenues

Mobile connectivity revenues

Revenue growth H1 09 vs. H1 08

13.5%

53.6%

Build stronger customer oriented capabilities

Advancing commercial approach...



...and investing in customer oriented IT systems

1. Telefónica estimated Retail fixed broadband market share (%)
 2. Telefónica estimated Mobile accesses market share (%)
 3. Source: "Asociación de Internautas" 21/09/2009

4. Source: AIAREC 27/11/2008
 5. Source: "Ministerio de Industria". Data as of H1 09





We expect cyclical recovery...

- **Voice usage recovery**, particularly on mobile, in all segments
- Additional upside from penetration of **fixed broadband and Pay TV**
- Reduction of **fixed accesses loss**

... and structural opportunities in the market

- **Mobile broadband** both in Big and Small Screen
- **New services** around Cloud Computing, desktop management, e-Administration, e-Health...

New opportunities and challenges ahead

Very well positioned within a rational competitive environment



Unparalleled starting point: sustained leadership

- Competitive position maintained in the downturn
- Revenue market share above 54%²

Estimated access market share evolution (%)¹

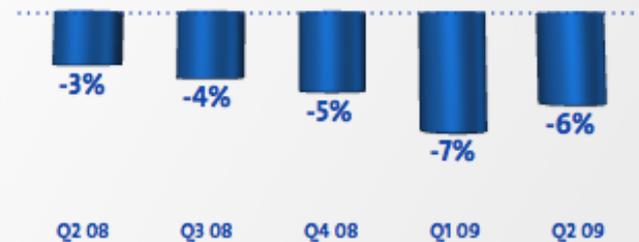


Rational behaviour in the downturn

Telefónica España mobile outgoing ARPM evolution (y-o-y)



Telefónica España retail BB connectivity ARPU evolution (y-o-y)



Rationality of main competitors with focus on value

- Consolidation: from many players to few stronger ones
- Strong convergent players focused on stimulating demand and continue capturing share of wallet
- Niche/local market players striving to gain scale / critical mass

1. Source: CMT

2. Source: CMT and Telefonica estimates. Data as of H1 09



We expect a more balanced regulation fostering new services and commercial flexibility



Areas already defined

- **Mobile Termination Rates (4 € c by October 2011):**
Integrated operator: less impact than pure mobile.
Net MTRs revenues / total Telefónica España revenues H1 09: <1%¹
- **Roaming**
Net roaming out&in revenues / total Telefónica España revenues H1 09: 1.7%²
- **Reduction on indirect access rates (€ 12.1 vs. € 13.3 European average)**³
- **ULL: lowest European monthly rate (€ 7.79 vs. € 9.0 European average)**⁴
- **TV tax fee starting in 2010 (Max. € 150 million)**⁵

Key issues ahead

- **Spectrum:**
 - Digital dividend
 - Refarming
 - New assignments
 - Technological neutrality
- **Next Generation Networks**

Regulatory framework similar to key European countries

1. **Net MTRs revenues** = MTRs revenues - MTRs expenses (including retail F2M and M2M, and wholesale)

2. **Net roaming out&in revenues** = Roaming out&in Revenues (voice & data) - Roaming out expenses over Telefónica España revenues

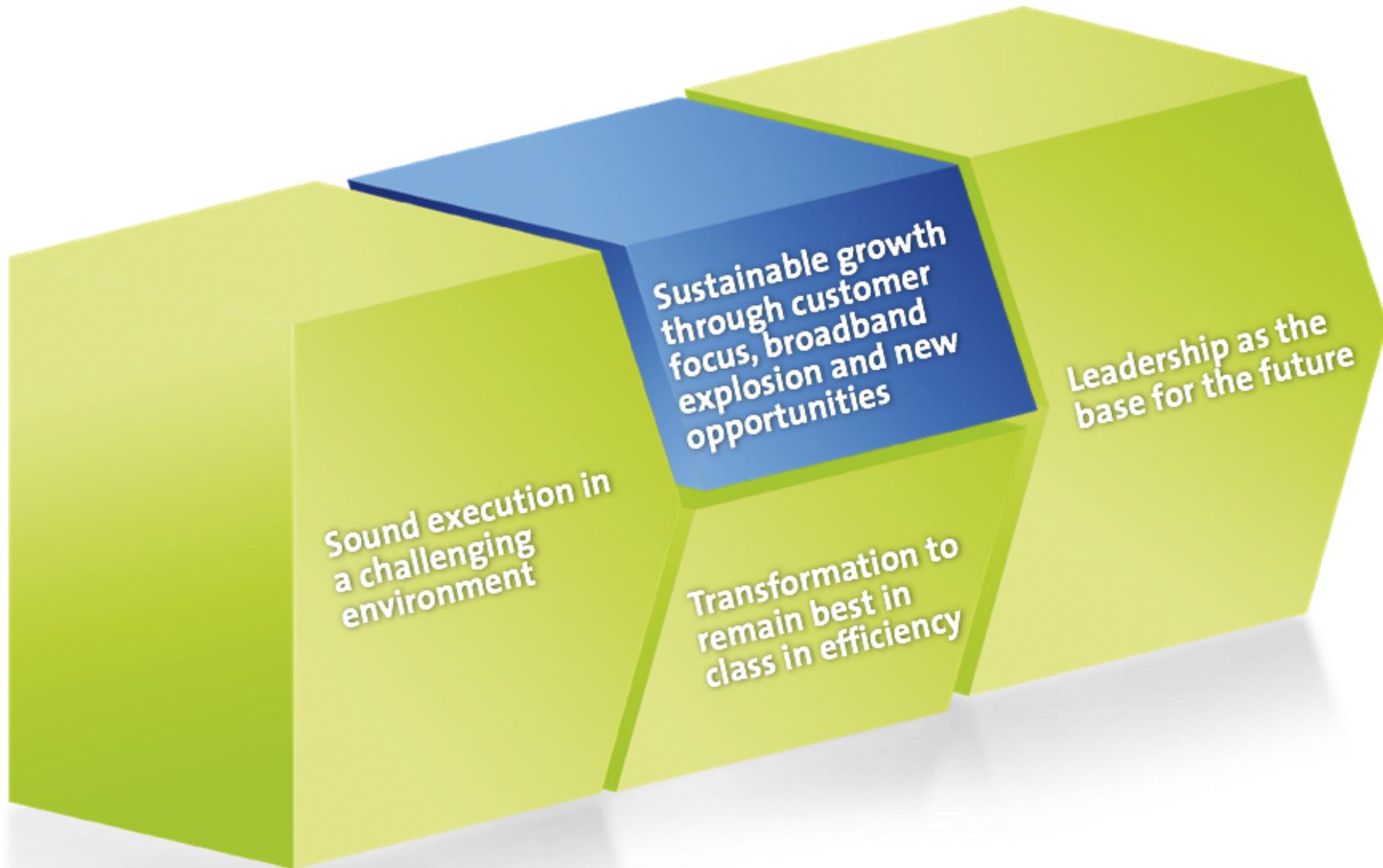
3. **Source** Telefonía: Regional ATM monthly rates. European average includes France, Portugal, The Netherlands and Italy

4. **Source** Telefonía: Includes Austria, Belgium, Germany, Sweden, UK, France, Denmark, Portugal, Greece, Italy and The Netherlands

5. **Estimation** based on 2008 reported retail revenues as of CMT



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Our focus on customer and innovation is based on three key levers



Foster CONVERGENCE

- Channels integration
- Fixed + Mobile + IT converged portfolio
- Full operational integration

Leverage Movistar REBRANDING

- Brand repositioning during 2010 focused on customer satisfaction

SIMPLER and ADAPTED offers

- Social content products & services
- Foster bundles and semi-flat tariffs
- Customer reference for simplicity

Customer
Satisfaction
Leadership



We will consolidate our leadership in the mobile market...



Sustaining market leadership...

- Best-in-class handsets portfolio
- Foster SIM-only offerings to capture the low cost market
- Lead the strong growth in M2M
- Focus on “customer value” (vs. “pure access share”)

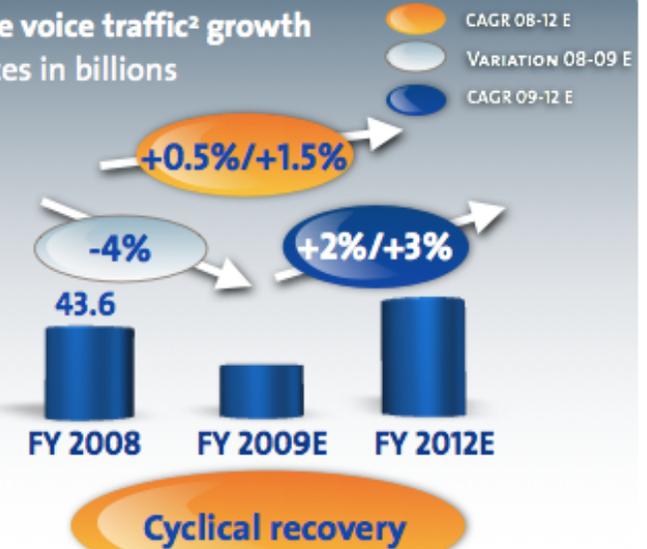
.... and stimulating consumption

- Traffic hit by recession to recover before 2012
- Mobile voice semi-flat rates and “no frills” offers to reduce churn
- F&M convergent bundles across the business segments

Mobile accesses¹
millions



Mobile voice traffic² growth
minutes in billions



1. Mobile accesses and market share including voice, MBB data-only cards and M2M access base. Prepay identification effect not included

2. Outgoing and Incoming





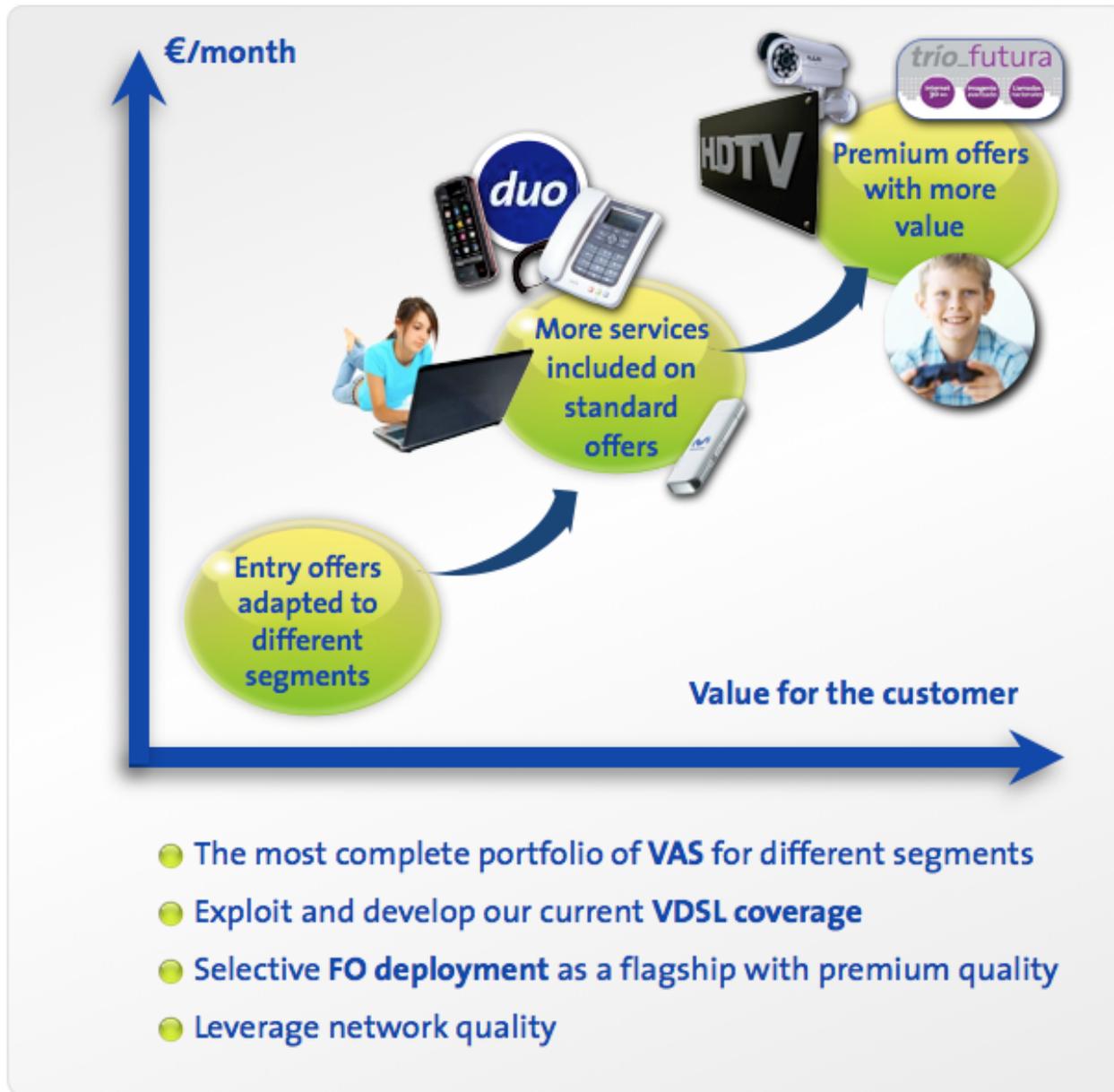
Segmented bundled offer and customer development



1. % of fixed lines with Broadband connectivity and/or Pay TV



We will continue leading and exploiting the fixed broadband growth...



...while capturing the mobile broadband opportunity, leveraging our distinctive capabilities



Foster Big Screen complementarity

- Leverage FBB customer base market share to lead MBB
- In the residential market only 5% of the current MBB customers substitute the FBB¹
- Broad portfolio (prices) to different customers needs (speed, traffic cap...)

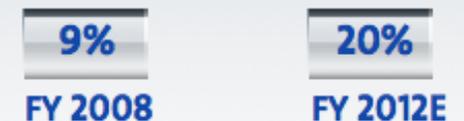
Develop Small Screen through our commercial capabilities

- Foster top-tier handsets and emerging devices (netbooks,...) adoption through innovative actions (handset insurance and financing)
- Bundles (voice&data) and semi-flat tariffs to increase mobile connectivity perceived value
- Reinforce our channels (stores, online,...) to boost sales: product demonstrations

Mobile Broadband accesses² millions



% non-P2P SMS Data ARPU/Total ARPU



Outstanding leadership

1. Data as of Q1 09. Source: Telefonica
2. MBB including: Big and Small Screen

We will develop new growth opportunities



Pay TV offer development

- Improving our content offer: both in standard definition and high definition
- Leverage distinctive IPTV functionalities



Capture ICT growth

- Increase our market share in **desktop management**
- Become a key player in the **outsourcing** market
- Enhance our service portfolio in the **security** market for all segments



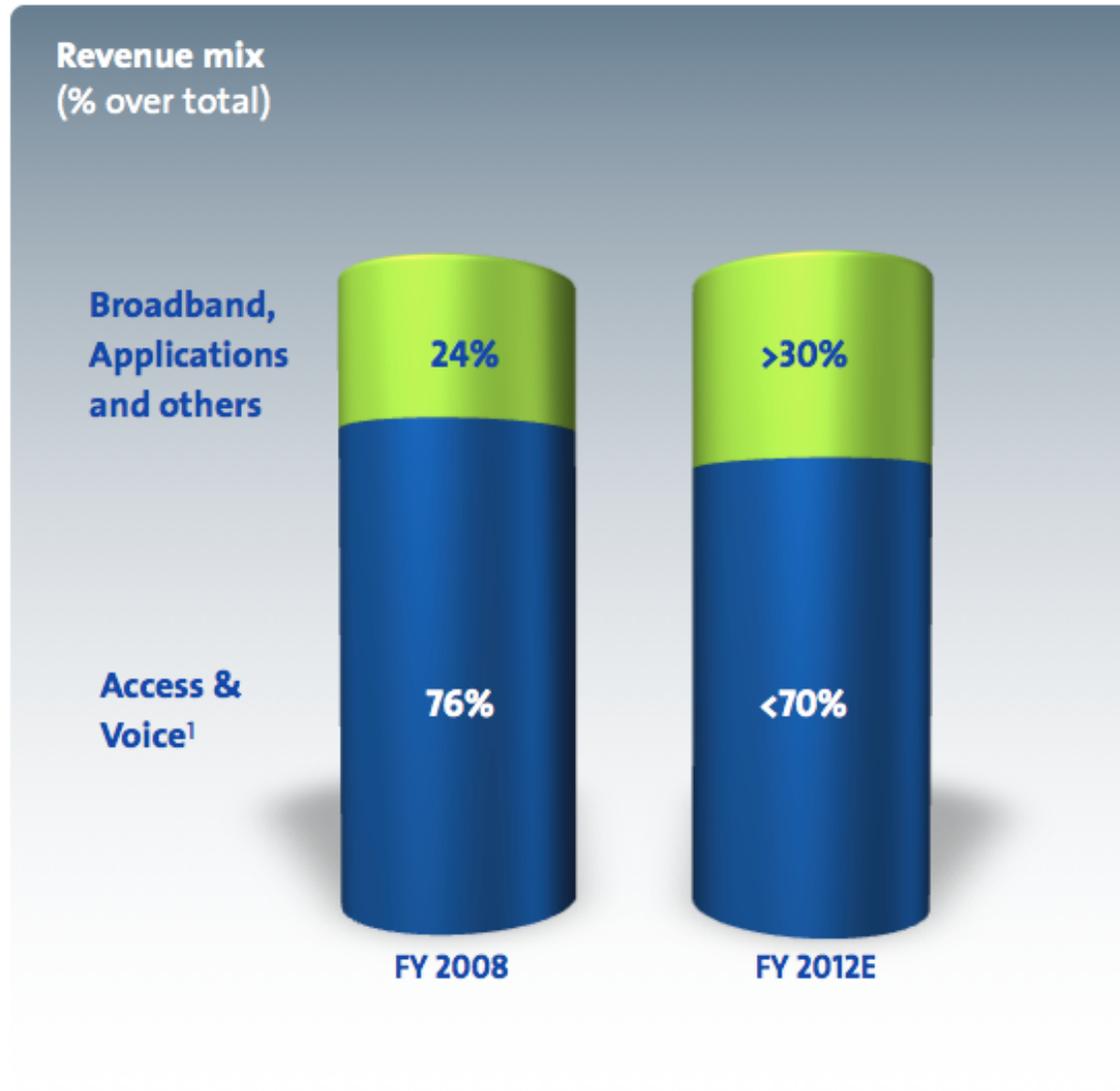
New revenue sources

- Capture other opportunities leveraging our existing capabilities: **e-Health**, mobile marketing, financial services, **services from the Cloud** (Software as a Service, virtualization,...)

1. Includes desktops, hosting, security and other applications (all segments)
 2. Includes e-Health, Financial Services, Cloud Services and mobile marketing



In summary, we will sustain market leadership while significantly diversifying our revenue mix

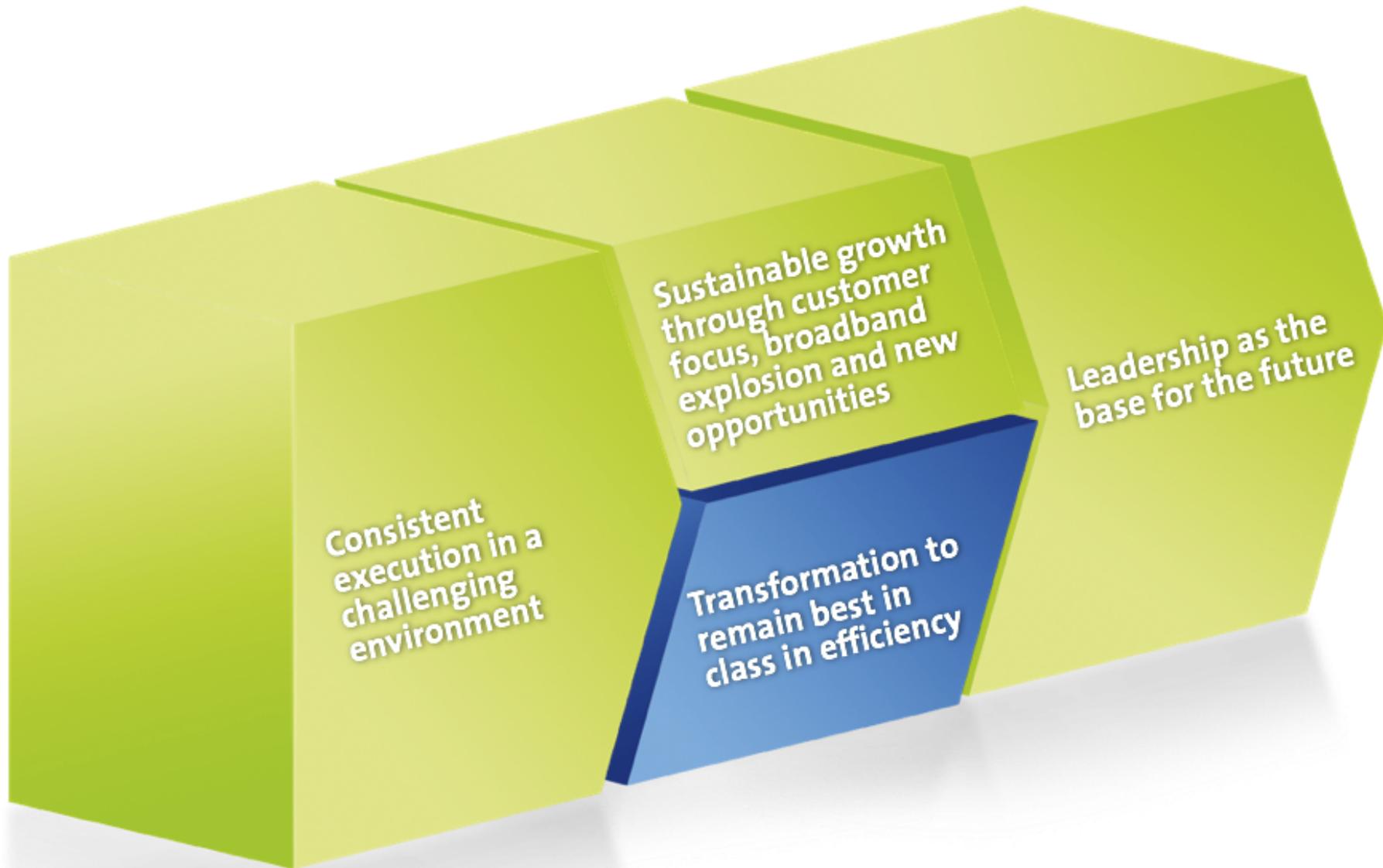


Focus on customer satisfaction will allow us to sustain our competitive leadership

- Reinvent our traditional core business
- Capture the broadband explosion
- Generate and accelerate the opportunities from new businesses

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

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We have a track record on tight management of OpEx & CapEx...



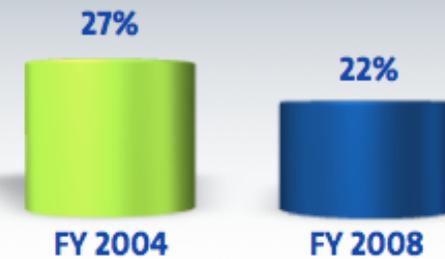
We are a reference in efficiency

- We have been the first to “do our homework” and restructure ourselves
- ~30% reduction in Telefónica España workforce 2002-2009

Wireline domestic employees per 1,000 inhabitants¹ thousands



- We have a leaner OpEx structure...
Telefónica España Personnel costs / OpEx²



- ...and some positive cash flow effects on the coming years

Cash payments from former workforce restructuring programs, € in billions



1. Source: Merrill Lynch 4 September 2009. Data as of Jun-09

2. Data for Telefónica España. OpEx considered for this calculation are revenues - OIBDA excluding workforce restructuring provisions



... and new projects bringing more efficiency for the coming years



Efficiency in operations

- Activity reduction through:
 - Provisioning and customer care automation
 - Integration of wireline and wireless networks
 - Remote management of CPEs¹
- Outsourcing optimization: devote own resources in high value activities

Efficiency in systems and processes

- Legacy IT OpEx savings to shift resources to transformation projects
- 40% portfolio reduction
- End to End processes optimization including outsourced companies

Online company

- New operating model towards the "Online Telefónica"

Share of online transactions²



Non-commercial OpEx / access³

CAGR 08-12 E

-1%/-3%



More resources for customer focus

1. Customer Premises Equipment

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

3. Non-Commercial OpEx: Network & Operations, IT, Admin. & Support, Bad debt, Taxes and non-recurrent results



We will continue transforming our network to enable growth...

Wireless access

- Deployment focused on **capturing the opportunity**:
 - Coverage increase
 - Capacity & speed increase where required

Wireline access

- Maximize **copper capabilities**
- Progressive **fiber deployment**: acquiring experience to be prepared for demand growth
- Maintain as **best quality offer**

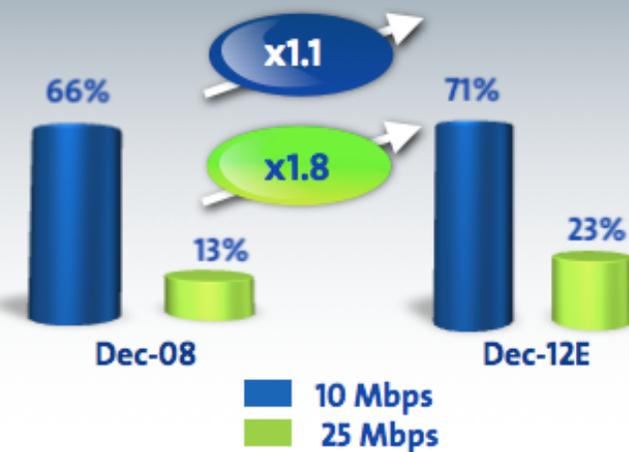
Backbone

- On track **backbone transformation** to support data traffic explosion

3G coverage over population



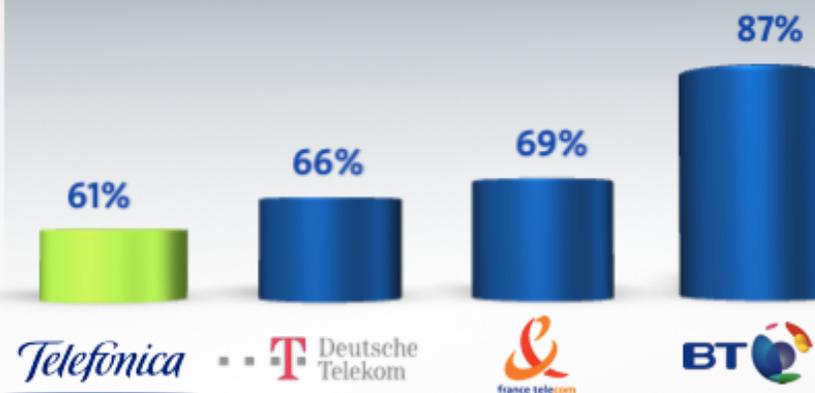
Local loop coverage by speed





The best starting point

2008 Domestic business
(OpEx + CapEx)/ Revenues¹



- Ahead of our peers
- Superior evolution in the last 4 years
- Well established efficiency culture

Best in class in
efficiency in FY 2012E

More OpEx efficiency to foster customer focus

- Successful track record
- New projects on track to generate new efficiencies in all processes and areas

~55% OpEx² resources for
customer focus in FY 2012E

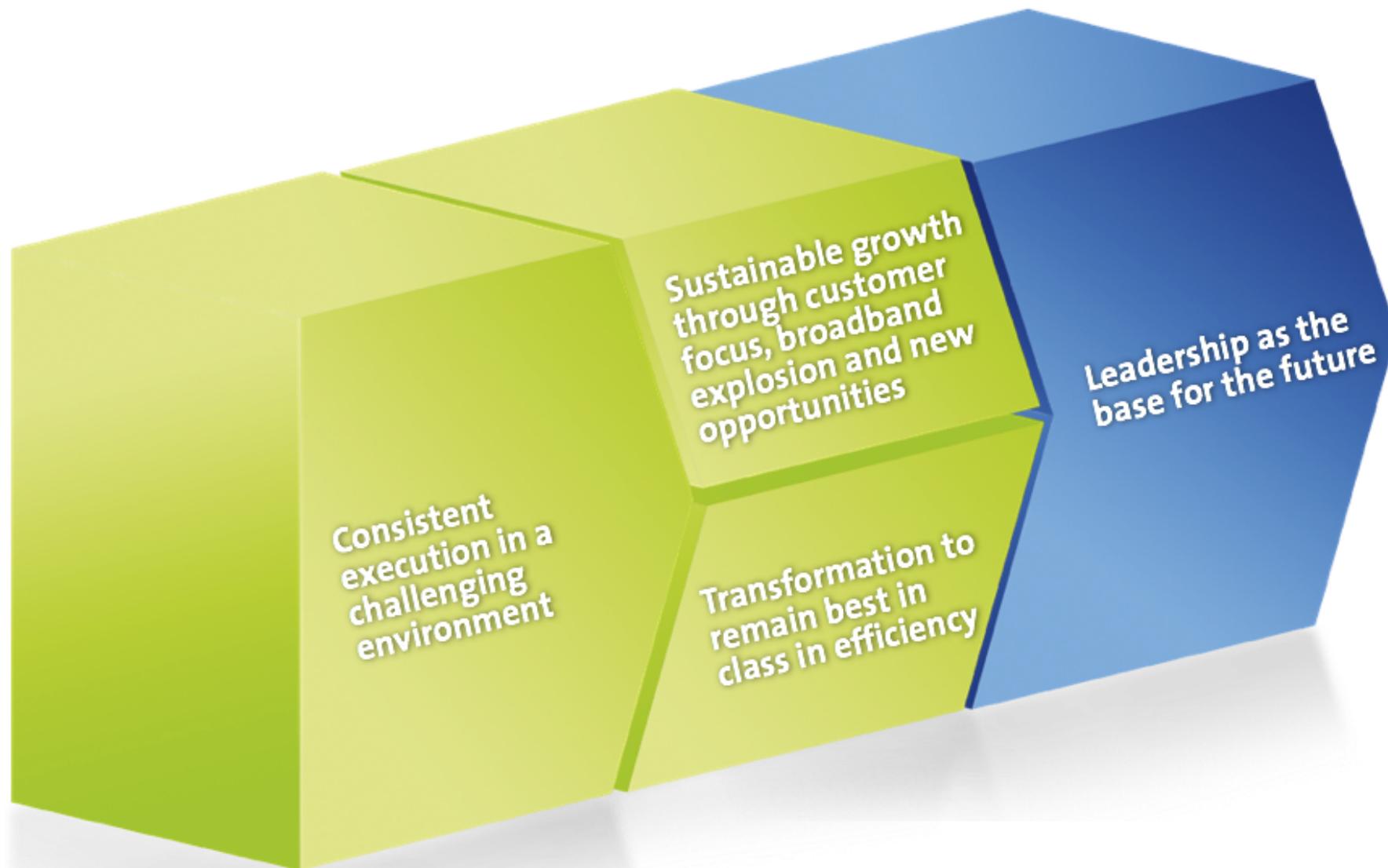
CapEx savings will enable more transformation

- Economic environment is enabling supplies price reductions
- Network integration
- Group scale

>70% CapEx resources for
growth and
transformation in FY 2012E

¹ Source: Morgan Stanley Research estimates
² OpEx considered for this calculation are revenues - OIBDA

Content



In summary: Our leadership is the base for the future



Context

- Market recovery start by 2011 and new opportunities ahead
- Rationality of competitive environment
- Stable regulatory environment

Our strategy

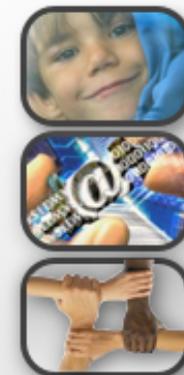
Protect market share to capture recovery

Diversify revenue mix

Efficiency: devote resources to capture new growth opportunities

Our goal: Telefónica España in 2012

-  #1 brand in customer satisfaction
- Outstanding low levels of churn
- Multiaccess broadband leader
- International benchmark in efficiency



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